

2018
Annual Report

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FOR MORE INFORMATION ABOUT PEGATRON

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

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

TABLE OF CONTENTS

1.	Letter to Shareholders	1
2.	Company Profile.....	4
2.1	Date of Incorporation.....	4
2.2	Company Milestones.....	4
3.	Corporate Governance	6
3.1	Organization Structure.....	6
3.2	Board of Directors and Management Team	9
3.3	Implementation of Corporate Governance	32
3.4	Information Regarding CPA Fees.....	58
3.5	Information on Change of CPA.....	59
3.6	Management Team Who Had Worked for the Independent Auditor	59
3.7	Status of Net Change in Shareholding and Shares Pledged.....	59
3.8	The Relation of the Top Ten Shareholders	62
3.9	Long-Term Investment Ownership.....	62
4.	Capital and Shares	63
4.1	Capital and Shares.....	63
4.2	Issuance of Corporate Bond.....	69
4.3	Preferred Shares	69
4.4	Issuance of Global Depository Receipts	70
4.5	Employee Stock Option	71
4.6	Employee Restricted Stocks.....	71
4.7	New Shares Issuance in Connection with Mergers and Acquisitions.....	75
4.8	Financing Plan and Implementation	75
5.	Overview of Business Operation.....	76
5.1	Business Activities.....	76
5.2	Market and Sales Overview.....	83
5.3	Status of Employees.....	90
5.4	Expenditure on Environmental Protection	90
5.5	Employee Relations.....	91
5.6	Important Contracts.....	93
6.	Financial Information	94
6.1	Five-Year Financial Summary.....	94
6.2	Five-Year Financial Analysis.....	98
6.3	Audit Committee's Review Report.....	102
6.4	Consolidated Financial Statements	103
6.5	Non-Consolidated Financial Statements.....	103
6.6	Financial Difficulties.....	103

7. Review of Financial Position, Management Performance and Risk Management.	104
7.1 Analysis of Financial Status.....	104
7.2 Analysis of Operating Results.....	105
7.3 Analysis of Cash Flow.....	106
7.4 Major Capital Expenditure.....	106
7.5 Investment Policy.....	106
7.6 Analysis of Risk Management.....	106
7.7 Other Major Risks.....	110
8. Other Special Notes	111
8.1 Affiliated Companies.....	111
8.2 Private Placement Securities.....	116
8.3 The Shares of the Company Held or Disposed of by the Subsidiaries.....	116
8.4 Special Notes.....	116
8.5 Events with Significant Impacts	116

1. Letter to Shareholders

Dear Shareholders,

2018 was a year full of challenges and turbulence. Trade tension between China and the US has negatively impacted global economic and political scene, brought multiple risks to the financial markets worldwide and expedited the shift of manufacturing footprint for enterprises. Except the US market, growth of other major economies and emerging markets are slowing down, while complicated Brexit negotiations, increasing volatility in oil price, continuous geopolitical conflict in certain region, etc. have also deepened the concerns over the prospect of global political and economic activities. As the ongoing trade dispute is likely to weaken consumer demands and leading economic indicators are also suggesting the slowdown of demand, both factors are attributing to the likelihood of economic downturn in the year ahead. For the year 2018, apart from maintaining current customer and product portfolios, Pegatron also successfully penetrated into new business opportunities and reported the highest revenue. However, profit declined on a year-over-year basis due to intensifying industry competition.

Financial Performance

The consolidated revenue of 2018 reached NT\$1,340 billion, increased by 12.2% from NT\$1,193 billion in 2017 with growth margin of 3.0%. Profit attributable to owners of the parent company was NT\$11.1 billion, declined by NT\$3.6 billion from NT\$14.7 billion in the previous year and EPS was NT\$4.25 in 2018. Benefitted from broader customer base and new product category, Pegatron reported record sales in 2018. However, with increasing industry competition, raising labor cost, etc. profitability declined on a year-over-year basis. Driven by better customer base and product scope in Consumer Electronics as well as new product launch in Communication, both segments contributed the most to the overall topline growth. In 2018, Communication segment has the highest revenue contribution, followed by Consumer Electronics and Computing segments.

Technical Capability and Operating Highlights

As Internet of Things (IoT) is maturing and demand for high speed connectivity devices is accelerating, commercial launch of 5G technology is gradually in sight. Characterized by high speed transmission, enhanced broadband and low latency, not only does 5G technology enable data speed improvement, expedite the infrastructure of optical fiber network, stimulate the demand for high resolution visual network and cloud data transmission services, but also provide a platform for integration between AI and hardware innovation, such as smart speaker, AR glasses and VR devices that equipped with face recognition and cloud searching capabilities. Pegatron has in-depth experiences in system assembly for IoT and network infrastructure related devices over the past few years. Along with the development of 5G

technology, Pegatron deploys strategically in areas such as mobile devices, network communication, smart home devices, Artificial Intelligence and Internet of Things (AIOT), auto electronics, Internet of Vehicles, etc. By leveraging our core competence in the three major product segments, we will continue to dedicate resources in the development and design of IoT, AI and 5G related products to fully demonstrate Pegatron's capabilities in software and hardware integration. In terms of operation, Pegatron will consistently refine its technical capabilities, improve overall utilization, enhance vertical integration in order to provide higher value added services to customers and further extend customer base and business scope.

Awards and Social Responsibility

Sustainability is one of the key business strategies of Pegatron and we are committed to incorporating the philosophy of sustainability into daily business operations and implementing in the management system. Each year, we publish CSR report to address the concerns, issues and expectations of stakeholders. In addition, as one of the major players in global technology supply chain, Pegatron proactively responds to the Sustainability Development Goals (SDGs) set by United Nations, and further developed Pegatron's own SDGs as its goals in the following three dimensions: boosting the growth of economy (Growth), maintaining the equality of society (Equality) and benefiting the environment towards mutualism (Mutualism).

Pegatron supports gender equality at workplace and work closely with our partners to promote labor rights in the industry value chain. As a corporate citizen and a member of the RBA (Responsible Business Alliance), we actively participate in the initiatives held by the RBA with our partners in the supply chain and endeavor to uphold its value. We also encourage our suppliers to join RBA Validated Audit Process (VAP) to evaluate their compliance and performance on sustainability through external audits by the independent 3rd parties. Pegatron was ranked the top 20% of listed companies in "The Fourth Corporate Governance Evaluation" held by Taiwan Stock Exchange. While we are working hard on improving business performance, we will at the same time continue to elevate labor standards and reinforce environmental protection.

Outlook

Looking forward to 2019, Pegatron will leverage its core competence and focus on development of three major product segments and its applications. We expect Computing segment to resume its growth momentum driven by extensive product category and new product launch. Given multiple consumer electronic devices and versatile applications available in the market including IoT devices, game consoles, smart home devices, auto electronics, etc., growth in Consumer Electronic segment is expected to continue mainly by upgrading product quality, maximizing product quantity and expanding product category. Pegatron's competitive edge persists in Communication segment despite maturing business

environment, and the market is expected to be stable since more effort made in implementing efficiency and cost control measures. While trade dispute between China and the US is under negotiation, we will closely monitor its development and at the same time continue to enhance our global manufacturing footprint based on customers' demand, reinforce vertical integration, maximize value added services to customers and ultimately improve profitability and generate higher return to our shareholders.

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

Chairman T.H. Tung



President and CEO S.J. Liao



2. Company Profile

2.1 Date of Incorporation: June 27th, 2007

2.2 Company Milestones

June 2007	<ul style="list-style-type: none">● Pegatron Corporation (“the Company”) was incorporated with a paid-in capital of NT\$1 million.
Nov 2007	<ul style="list-style-type: none">● Increased paid-in capital to NT\$50 million by capital injection
Jan 2008	<ul style="list-style-type: none">● Increased paid-in capital to NT\$16,050 million by issuing 1,600,000,000 shares to inherit the DMS (design and manufacturing services) unit from Asustek Computer Inc (“Asustek”).
Apr 2008	<ul style="list-style-type: none">● Merged 100% owned subsidiary, Asusalpa Computer Inc., in order to streamline corporate resources.
Jun 2008	<ul style="list-style-type: none">● Became the member of EICC (Electronic Industry Code of Conduct)● Increased paid-in capital to NT\$18,846 million by issuing 279,628,141 shares in exchange for 100% ownership of Unihan Corporation with Asustek. After the share exchange, Unihan became the Company’s wholly owned subsidiary.
Dec 2008	<ul style="list-style-type: none">● The Company was awarded the world’s first Energy using Product (EuP) certificate by DNV (DET NORSKE VERITAS).
Feb 2009	<ul style="list-style-type: none">● Acquired Top Quark Limited for US\$6.04 million in order to provide more comprehensive services of communication products to customers.
Apr 2009	<ul style="list-style-type: none">● Completed the world’s first Product Category Rule for Notebook PC products, which can be served as the key reference for Environmental Product Declaration (EPD) as officially announced on the website of Global TYPE III Environmental Product Declaration Network (GEDnet).
Jul 2009	<ul style="list-style-type: none">● Acquired 100% shareholding of Powtek (Shanghai) Co., Ltd so as to conduct business in mainland China and expand the market share in China.
Oct 2009	<ul style="list-style-type: none">● Assisted key customers received the world’s first TYPE III Environmental Product Declaration for N51V series Notebook PC awarded by Environment and Development Foundation (EDF).● Assisted key customers received the world first Carbon Footprint Certificate for N51V series Notebook PC awarded by DNV (DET NORSKE VERITAS).
Nov 2009	<ul style="list-style-type: none">● Increased NT\$4,014 million through capitalization of profits and the paid-in capital amounted to NT\$22,861 million.
Dec 2009	<ul style="list-style-type: none">● In order to streamline organization structure and reduce management cost, a key subsidiary, Protek (Shanghai) Limited, merged with another key subsidiary, North Tec Asia (Shanghai) Limited, and the former one is the surviving company.● In order to expand business, a key subsidiary, Maintek Computer (Suzhou) Co., Ltd, increased capital of US\$34 million.● Assisted customers achieving key environmental certifications such as EPEAT, EU Flower and Taiwan Green Market. For more than 55 products.
Jan 2010	<ul style="list-style-type: none">● The Company’s Board of Directors, acting on behalf of the Company’s AGM pursuant to the Company Law, approved the merger with Pegatron International. Upon the completion of the merger, the Company is the surviving company.
Mar 2010	<ul style="list-style-type: none">● The Company’s application for being a public company was approved.
Jun 2010	<ul style="list-style-type: none">● Approved the merger with Pegatron International by issuing 2,286,064 thousands shares after cancelling 2,286,054 thousands shares previously issued by Pegatron International. The paid-in capital amounted to NT\$22,861 million.● The Company was officially listed on the Taiwan Stock Exchange.
Aug 2010	<ul style="list-style-type: none">● The Company issued GDRs on Luxemburg Stock Exchange
Sep 2010	<ul style="list-style-type: none">● DNV (DET NORSKE VERITA) awarded the Company with A+ certification

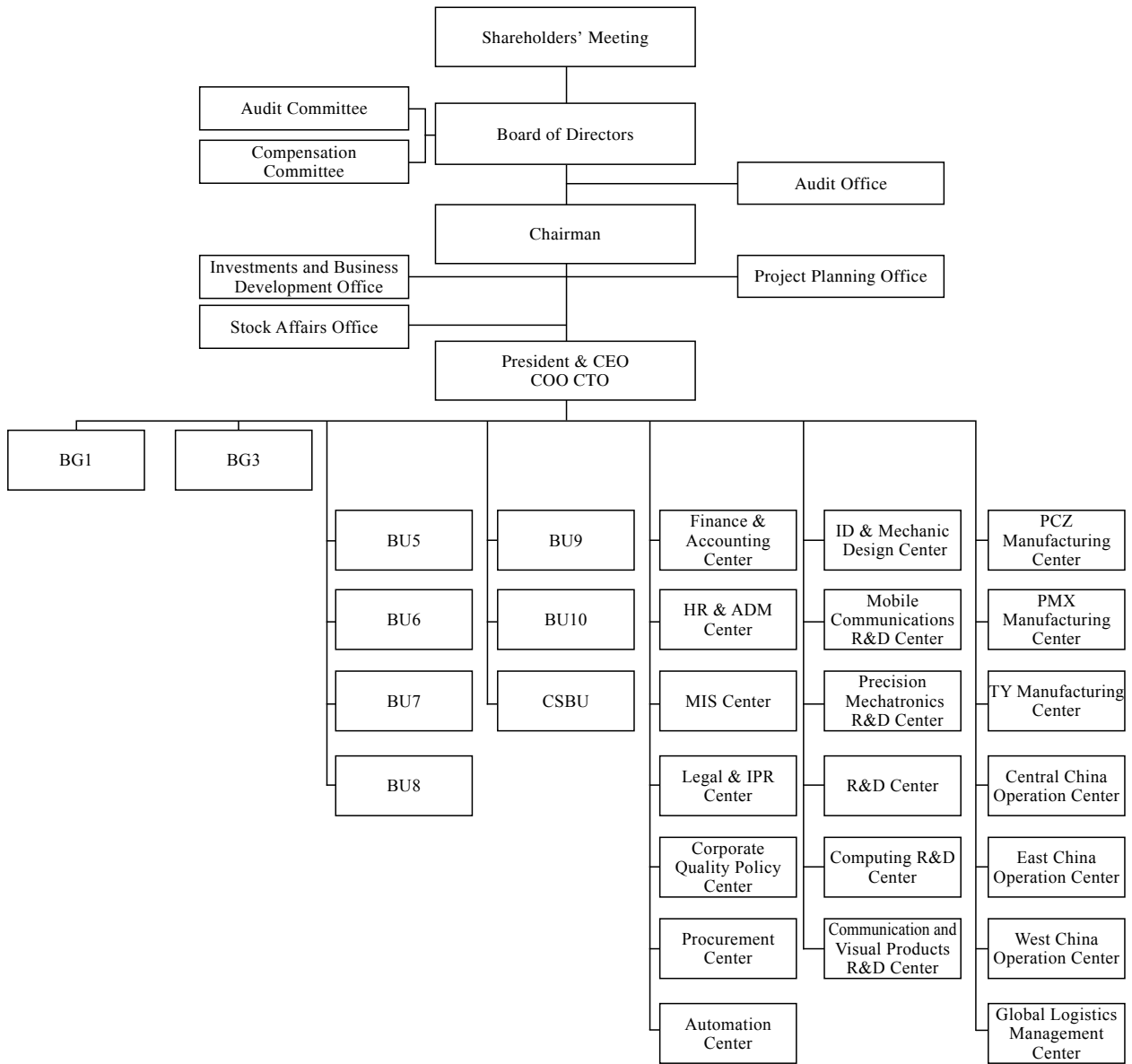
	<p>for the 2009 CSR Report based on Global Reporting Initiative G3 format.</p> <ul style="list-style-type: none"> • The Company received ISO 14064-1 Greenhouse Gases Inventory Verification.
Nov 2010	<ul style="list-style-type: none"> • The Company's Board of Directors approved the cancellation of 29,697,000 shares of treasury stock. Subsequently, the paid-in capital reduced to NT\$22,563,669 thousand dollars. Assisted key customers received the world first PAS 2050 and ISO 14067-1 Carbon Footprint Certificate awarded by DNV (DET NORSKE VERITA).
Nov 2011	<ul style="list-style-type: none"> • The Company was awarded for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey organized by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine.
Feb 2012	<ul style="list-style-type: none"> • The Company issued the Euro Convertible Bonds of US\$300 million on Singapore Stock Exchange.
Oct 2012	<ul style="list-style-type: none"> • The Company, being the first of its peers in the DMS (design, manufacturing & service) industry, was awarded the 2011 National Sustainable Development Award by National Council for Sustainable Development, Executive Yuan.
Jan 2013	<ul style="list-style-type: none"> • Issuance of 33,938,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$22,903 million. • The Company's subsidiary "Casetek Holdings Limited" listed on Taiwan Stock Exchange.
Oct 2013	<ul style="list-style-type: none"> • Issuance of 6,062,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$23,161 million.
Dec 2013	<ul style="list-style-type: none"> • The Company was awarded the 2013 Industrial Sustainable Excellence Award – Enterprise Class by Industrial Development Bureau, Ministry of Economic Affairs. • Merged 100% owned subsidiary, Unihan Corporation, in order to consolidate corporate resources, reduce operation cost and enhance operation efficiency.
Feb 2015	<ul style="list-style-type: none"> • The Company's Euro Convertible Bonds of US\$300 million were fully converted to 232,406,616 shares.
Sep 2015	<ul style="list-style-type: none"> • Issuance of 39,678,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$26,033 million.
May 2016	<ul style="list-style-type: none"> • The Company's board of Directors approved the cancellation of 26,410,000 shares of treasury stock. Subsequently, the paid-in capital reduced to 25,760,683 thousand dollars.
July 2017	<ul style="list-style-type: none"> • Issuance of 37,808,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$26,125 million.
July 2017	<ul style="list-style-type: none"> • The Company issued the 1st unsecured corporate bonds of NT\$7 billion.
Oct 2017	<ul style="list-style-type: none"> • Issuance of 2,192,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$26,145 million.
Jan 2018	<ul style="list-style-type: none"> • The Company issued the 2nd unsecured corporate bonds of NT\$8 billion.
Jan 2018	<ul style="list-style-type: none"> • Pegatron was named by Thomson Reuters 2018 Top 100 Global Technology Leaders.
May 2018	<ul style="list-style-type: none"> • Pegatron was named by Commonwealth Magazine 2018 Top 2 Taiwan manufacturer in Top 2000 survey.

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 02/28/2019



3.1.2 Department Functions

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

Department	Main Responsibilities
HR & ADM Center	Corporate human resource administration, construction and maintenance, labor safety and health planning and execution
Finance & Accounting Center	Corporate finance, accounting and tax planning and execution
Legal & IPR Center	Corporate legal affairs, legal counseling, litigation, patents, licensing and other intellectual property management
MIS Center	Internal & external network system planning, integration and design
Business Group 1	Design, manufacturing and services of computing and consumer electronics
Business Group 3	Design, manufacturing and services of handheld devices and related accessories
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 6	Design, manufacturing and services of communication and visual products
Business Unit 7	Design, manufacturing and services of game console products and tablets PCs
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 9	Design, manufacturing and services of metal casings and mold for products
Business Unit 10	Design, manufacturing and services of industrial PCs and server products

As of 02/28/2019

3.2 Board of Directors and Management Team
3.2.1 Introduction of Board of Directors

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Chairman T.H. Tung	R.O.C	Male	05/18/2010	3	06/21/2016	92,817,309	3.57	94,417,309	3.61	6,074,490	0.23	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary PH.D in Engineering, National Taipei University of Technology Vice Chairman of Asustek Computer Inc. ("Asus")	Chairman and Group CEO of Pegatron Corp. Director of Kinsus Interconnect Technology Corp. Director of Astro Incorporation Director of AzureWave Technologies, Inc. Chairman of Pegavision Corp. Chairman of Kinsus Investmebt Co., Ltd. Chairman of Lumens Digital Optics Inc. Chairman of Asus Investment Co., Ltd. Chairman of Asuspower Investment Co., Ltd. Chairman of Ri-Kuan Metal Corporation Director of FuYang Technology Corp. Director of Casetek Holdings Limited (Cayman) Director of Magnificent Brightness Ltd. Director of Casetek Holdings Ltd. Director of Protek Global Holdings Ltd. Director of AMA Holdings Ltd. Director of Grand Upright Technology Limited Director of Aslink Precision Co., Ltd Chairman of Eslite Foundation for culture and Arts Director of The Alliance Cultural Foundation Director of Hanguang Education Foundation President of Taipei Computer Association Supervisor of National Performing Arts Center Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Lung Yingtai Cultural Foundation Director of ANDREW T.HUANG Medical Education Promotion Fund Director of Fair Winds Foundation Director of Bridge Across the Strait Foundation President of Cross-Strait Association for Advancing Culture Creative Vice President of Monte Jode Science & Technology Association

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Deputy Chairman Jason Cheng	R.O.C	Male	05/18/2010	3	06/21/2016	4,178,773	0.16	4,439,773	0.17	13,120	0.00	-	-	Master degree in Electrical Engineering, University of Southern California President and CEO of Pegatron Corp. Deputy General Manager of Asus	Deputy Chairman and Deputy Group CEO of Pegatron Corp. Chairman of AzureWave Technologies, Inc. Chairman of Casetek Holdings limited(CAYMAN) Chairman of FuYang Technology Corp. Director of Asus Investment Ltd. Director of Asuspover Investment Ltd. Director of Asustek Investment Ltd. Director of RI-KUAN METAL Corp. Director of Pegatron Czech s.r.o. Director of Pegatron USA Director of Alcor Micro Corp.
Director C.I. Chia	R.O.C	Male	05/18/2010	3	06/21/2016	200,186	0.01	200,186	0.01	-	-	-	-	BBA, National Taiwan University MBA, University of Wisconsin-Madison Vice President, Citibank, N.A. Taipei Branch President, Individual Financial Services Group, Bank SinoPac LL.B., National Taiwan University LL.M., University of British Columbia LL.M., Harvard Law School S.J.D., Harvard Law School Vice Chairman & Secretary-general of Straits Exchange Foundation (SEF) President of The Red Cross Society of The Republic of China Ph.D of Business Management, National Chengchi University Political Deputy Minister, the Ministry of Finance, R.O.C. Chairman of Bank of Taiwan Executive Secretary of National Development Fund, Executive Yuan President of China Development Industrial Bank Associate Professor of MBA at National Chengchi University	Director of Yangtze Associates Independent Director of Ardentec Corporation Supervisor of Airiti Inc.
Director C.V. Chen	R.O.C	Male	05/18/2010	3	06/21/2016	-	-	-	-	-	-	-	-	Senior Partner of Lee and Li Attorneys-At-Law Adjunct Professor of Law at National Chengchi University Adjunct Professor of Law at Soochow University Director of Lee and Li Foundation Director of Asia Cement Corporation Chairman of Cheng Hsin Medical Foundation	
Director T.K. Yang	R.O.C	Male	06/21/2016	3	06/21/2016	-	-	-	-	-	-	-	-	Chairman of Yangtze Associates Director and President of Huiyang Private Equity Fund Co., Ltd. Director of Asustek Computer Inc. Independent Director of DBS BANK Director of TTY Biopharm Company Limited Director of Taiwan Stock Exchange Director of CHIEN KUO Construction Co., LTD. Director of Airiti Inc.	

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

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

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Independent Director C.S. Yen	R.O.C.	Male	05/18/2010	3	06/21/2016	-	-	-	-	-	-	-	-	Independent Director of Shinkong Insurance Co., Ltd. Chairman of The Alliance Cultural Foundation Chairman of Junyi School for Innovative Learning Chairman of Anthroposophy Education Foundation Director of NSFG Foundation Director of C. C. Social Welfare Foundation Director of Dwen An Social Welfare Foundation Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Andrew T. Huang Medical Education Promotion Foundation Director of Lung Yingtai Cultural Foundation Director of Long Yen Foundation Director of T.T. Chao Cultural & Educational Foundation Director of Wistro Foundation Director of Eslite Foundation for Culture and Arts Director of Kang Wen Culture & Education Foundation Director of USI Education Foundation Director of WT Education Foundation Director of Kehua Culture & Education Foundation Director of Advantech Foundation	Provincial Keelung Senior High School Group President of Landis Hotels and Resorts Country Manager of American Express Inc. Taiwan General Manager of the Grand Hotel Chairman of Taiwan Visitors Association Pacific Asia Travel Association (PATA) Young Presidents' Organization (YPO) Asia Conference. Chairman for Asia Pacific region of The Leading Hotels of The World

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Director S.C. Ting (Note 2)	R.O.C	Male	06/21/2016	3	06/21/2016	-	-	-	-	-	-	-	-	PH.D. in International Politics, The Fletcher School of Law and Diplomacy M.A.L.D, The Fletcher School of Law and Diplomacy, Tufts University B.A. in Political Science, National Taiwan University Legislator, The Legislative Yuan, Republic of China Associate Professor, Graduate School of Political Science, National Taiwan University Visiting Scholar, Fairbank Center, Harvard University Visiting Scholar, Hoover Institution, Stanford University Deputy Executive Director, Central Policy Committee, KMT	Director of Cheng Hsin General Hospital Director of Chinese Blood Donation Association Chairman of Bridge Across the Strait Foundation

Note 1: Current shareholding included the employee restricted stocks, which are under the custody of the Trust.

Note 2: Mr. S.C. Ting resigned from his position effective May 23, 2018. The current shareholding is updated as of May 23, 2018, while current positions are updated as of February 28, 2018.

Major Shareholders of the Institutional Shareholders

As of 02/28/2019

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

Major Shareholders of the Major Shareholders that are Juridical Persons

As of 02/28/2019

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

3.2.2 Professional Qualifications and Independence Analysis of the Board Directors

As of 02/28/2019

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

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

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

Note 2: Mr. S.C.Ting resigned from his position effective May 23, 2018. The aforementioned information is updated as of February 28, 2018.

3.2.3 Diversity of Board Members

Diversified Item		Gender	Business management	Technology	Accounting & Commerce	Law	Crisis management	Industry knowledge	International market view	Leadership	Operation judgment
Name											
T.H. Tung		Male	V	V	V		V	V	V	V	V
Jason Cheng		Male	V	V	V		V	V	V	V	V
C.I. Chia		Male	V	V	V		V	V	V	V	V
C.V. Chen		Male	V		V	V	V	V	V	V	V
T.K. Yang		Male	V	V	V		V	V	V	V	V
S. Chi		Male	V		V		V	V	V	V	V
S.J. Liao		Male	V	V	V		V	V	V	V	V
C.B. Chang		Male	V	V	V		V	V	V	V	V
C.P. Hwang		Male	V	V	V		V	V	V	V	V
C.S. Yen		Male	V		V		V	V	V	V	V
S.C. Ting (Note 1)		Male	V			V	V	V	V	V	V

Note 1: Mr. S.C. Ting resigned from his position effective May 23, 2018. The aforementioned information is updated as of February 28, 2018.

3.2.4 Board of Directors Training Record

Title	Name	Date	Institute	Course	Period (hours)
Chairman	T.H. Tung	08/02/2018	The Taiwan Corporate Governance Association	How to do well on business secret protection and fraud prevention to strengthen corporate governance	3
		09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
Deputy Chairman	Jason Cheng	08/02/2018	The Taiwan Corporate Governance Association	How to do well on business secret protection and fraud prevention to strengthen corporate governance	3
		09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
Director	C.I. Chia	09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
		11/01/2018	The Taiwan Corporate Governance Association	Anti-tax avoidance policies and measures	3
Director	C.V. Chen	09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
		11/08/2018	The Taiwan Corporate Governance Association	The trend and analysis of the latest amendment to Company Act	3
Director	T.K. Yang	07/24/2018	The Taiwan Corporate Governance Association	Development trend and important norms of Money Laundry Control Act and Counter-Terrorism Financing Act	3
		08/20/2018	The Taiwan Corporate Governance Association	Taiwan's financial industry and market development trends	2.5
		09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
Director	HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
		11/08/2018	The Taiwan Corporate Governance Association	The trend and analysis of the latest amendment to Company Act	3

Title	Name	Date	Institution	Course	Period (hours)
Director	DAI-HE Investment Co., Ltd. Rep. : S. Chi	09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
		11/08/2018	The Taiwan Corporate Governance Association	The trend and analysis of the latest amendment to Company Act	3
Independent Director	C.B. Chang	08/16/2018	The Taiwan Corporate Governance Association	Risk Management and Corporate Social Responsibility	3
		09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
Independent Director	C.P. Hwang	09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
		10/29/2018	The Taiwan Corporate Governance Association	An analysis of the latest amendment to Company Act	3
Independent Director	C.S. Yen	09/18/2018	The Taiwan Corporate Governance Association	Discussion on the influence of Money Laundering Control Act on Enterprises	3
		11/08/2018	The Taiwan Corporate Governance Association	The trend and analysis of the latest amendment to Company Act	3

3.2.5 Introduction of the Management Team

As of 02/28/2019

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Group CEO T.H. Tung	R.O.C.	Male	01/01/2008	94,417,309	3.61	6,074,490	0.23	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary Ph.D in Engineering, National Taipei University of Technology Vice Chairman of Asus	Refer to Introduction of Board of Directors
Deputy Group CEO Jason Cheng	R.O.C.	Male	01/01/2008	4,439,773	0.17	13,120	0.00	-	-	Master degree in Electrical Engineering, University of Southern California President and CEO of Pegatron Corp. Deputy General Manager of Asus	Refer to Introduction of Board of Directors
Senior Vice President Hsu-Tien Tung	R.O.C.	Male	08/01/2008	240,000	0.01	-	-	-	-	Bachelor degree in Electrical Engineering National Taiwan University Associate Vice President of Asus	Chairman of Top Quark Ltd. Director of Digitek (Chongqing) Ltd. Chairman of Asrock Incorporation
President and CEO S.J. Liao	R.O.C.	Male	11/02/2012	2,108,856	0.08	93	0.00	-	-	Bachelor degree in Industrial and Business Management, Tatung Institute of Technology Chief Operating Officer of Pegatron Corp. Senior Vice President of Unihan Corp.	Refer to Introduction of Board of Directors
Chief Operating Officer and Senior Vice President Te-Tzu Yao	R.O.C.	Female	08/01/2008	1,329,109	0.05	-	-	-	-	M.S. Psychology, National Taiwan University MBA in International Management, Thunderbird, The American Graduate School of International Management Chief Staff, CEO Office, Asus Vice President of Material Management, Wistron Corp General Auditor, Chief Logistic Officer, AVP of Global Operation, Acer Inc.	Director of AzureWave Technologies Inc. President of FuYang Technology Inc. Director of FuYang Flex Holding Ltd.

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Vice President Kuo-Yen Teng	R.O.C.	Male	08/01/2008	410,309	0.02	407,000	0.02	-	-	College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asus	None
Vice President Tsung-Jen Ku Lai	R.O.C.	Male	08/01/2008	871,278	0.03	6,991	0.00	-	-	Bachelor degree in Industrial Engineering Tungshai University Associate Vice President of Asus	Director of Pegatron Technology Service Inc. Director of Pegatron Service Singapore Pte. Ltd. Director of Pegatron Service Korea Llc. Chairman of AMA Precision Inc. Director of Pegatron Service Australia Pty. Ltd.
Vice President En-Bair Chang	R.O.C.	Male	02/01/2008	631,213	0.02	-	-	-	-	Master degree in Industrial Design Pratt Institute Associate Vice President of Asus	Director of Kaedar Trading Ltd. Director of Kaedar Holdings Ltd. Chairman of Silek Holdings Ltd.
Vice President Shih-Chi Hsu	R.O.C.	Male	08/01/2008	264,967	0.01	-	-	-	-	Bachelor degree in Mechanical Engineering National Taiwan Institute of Technology Associate Vice President of Asus	President of Pegaglobe (Kunshan) Co., Ltd.
Vice President Ming-Tung Hsu	R.O.C.	Male	08/01/2008	420,624	0.02	8,219	0.00	-	-	College degree in Industrial Engineering National Taipei Institute of Technology Associate Vice President of Asus	Representative of FuYang Electronics (Suzhou) Corporation
Vice President Kuang-Chih Cheng	R.O.C.	Male	08/01/2008	157,946	0.01	324	0.00	-	-	Master degree in Computer Science and Information Engineering Tamkang University Associate Vice President of Asus	None
Vice President Tian-Bao Chang	R.O.C.	Male	08/01/2008	853,101	0.03	-	-	-	-	College degree in Transportation Management Chungyu Institute of Technology Senior Manager of Asus	Director of Protek (Shanghai) Ltd. Director of Powtek (Shanghai) Co., Ltd. Director of Runtop (Shanghai) Co., Ltd. Director of Core-Tek (Shanghai) Ltd. President of Digatek (Chongqing) Ltd. President of KAI CHUAN Electronics (Chongqing) Co.,Ltd. Director and President of Chongqing Zuanshuo Trading Co., Ltd
Vice President Chih-Hsiung Chen	R.O.C.	Male	07/01/2010	978,609	0.04	-	-	-	-	Master in Electrical Engineering Tufts University Vice President of Asus	None

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Senior Vice President of RD & Engineering Pei-Chin Wang	R.O.C.	Male	10/03/2011	387,949	0.01	-	-	-	-	Master degree in Electrical Engineering, National Taiwan University Vice President of Asus	None
Chief Financial Officer Chiu-Tan Lin	R.O.C.	Male	02/01/2008	330,000	0.01	-	-	-	-	Master degree in Business Administration Tungshai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of Digtitek (Chongqing) Ltd. Supervisor of Speedtech Corp. Ltd Chairman of Pegatron Technology Service Inc. Director of Pegatron Czech s.r.o.
Vice President Hsi-Wen Lee	R.O.C.	Male	08/01/2012	340,390	0.01	-	-	-	-	Master degree in Mechanical Engineering, National Taiwan University Senior Manager of Asus	None
Chief Technology Officer and Senior Vice President Chung Yu Huang	R.O.C.	Male	11/02/2012	1,155,630	0.04	-	-	-	-	Ph. D. Electrical Engineering, University of Southern California Master degree in Electrical Engineering, University of Southern California Bachelor, Electrical Engineering, National Taiwan University Associate Vice President of Asus	None
Vice President Chen-Yu Feng	R.O.C.	Male	08/01/2014	745,795	0.03	30,000	0.00	-	-	Master degree in Computer Science, National Chiao Tung University Associate Vice President of Unihan Corp. Senior Director of Asus	Director of Pegatron USA
Vice President Shaing-Shaung Wu	R.O.C.	Female	07/01/2014	580,000	0.02	-	-	-	-	Master degree in Business Administration, University of St. Thomas Vice Chairman of OFCO Industrial Corp.	Director of Kinsus Interconnect Technology Corp. Director of Kinsus Investment Co., Ltd. Director of Asus Investment Ltd. Director of Asustek Investment Ltd. Supervisor of FuYang Technology, Inc. Director of EsLite Corporation.

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Vice President Ting-Pang Huang (Note 2)	R.O.C	Male	08/01/2018	420,000	0.02					Bachelor degree in Industrial Management Science, National Taiwan University of Science and Technology Deputy Director of Asus	None
Vice President Shyh-Heh Hwang (Note 3)	R.O.C	Male	08/01/2018	140,000	0.01					MBA in International Management, Thunderbird, The American Graduate School of International Management Master degree in Computer Science, Florida Institute of Technology Associate Vice President of Asus Senior Special Assistant of Wistron Corp. Chief Operating Officer of Wistron NeWeb Corp	None

Note 1: Current shareholding included the employee restricted stocks, which are under the custody of the Trust.

Note 2: Mr. Ting-Pang Huang new position effective August 1, 2018.

Note 3: Mr. Shyh-Heh Hwang new position effective August 1, 2018.

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

3.2.6.1 Remuneration Paid to Directors

Unit: NT\$ thousands

Title/ Name	Remuneration				Compensation Earned by a Director Who is an Employee of Pegatron or its Consolidated Entities				Total remuneration (A+B+C+D+E+F+G) as a % of net income		Compensation paid to directors from non-consolidated affiliates					
	Base Compensation(A)		Severance Pay and Pensions(B)		Compensation to Directors(C) (Note)		Allowances(D)		Total remuneration (A+B+C+D) as a % of net income			Employee Compensation (G)				
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities						
Chairman T.H. Tung																
Deputy Chairman Jason Cheng																
Director C.I. Chia																
Director C.V. Chen	0	1,061	0	0	80,050	83,572	0	83	0.72%	148,380	156,641	0	2.19%	2.31%	0	
Director T.K. Yang																
Director DAI-HE Investment Co., Ltd. Rep: S. Chi																

Note 1: The amount stated above is on pro forma basis and not the actual remuneration paid to directors.

Note 2: Mr. S.C. Ting resigned from his position effective May 23, 2018.

Title/ Name	Remuneration										Compensation Eamed by a Director Who is an Employee of Pegatron or its Consolidated Entities				Total remuneration (A+B+C+D+E+F+G) as a % of net income		Compensation paid to directors from non-consolidated affiliates				
	Base Compensation(A)		Severance Pay and Pensions(B)		Compensation to Directors(C) (Note)		Allowances(D)		Total remuneration (A+B+C+D) as a % of net income		Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Employee Compensation (G)						
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	Cash	Stock		From Pegatron	From all consolidated entities		
Director HONG-YE Investment Co., Ltd. Rep. S.J. Liao																					
Independent Director C.B. Chang	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	
Independent Director C. P. Hwang	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	
Independent Director C.S. Yen																					
Director S.C. Ting (Note 2)																					

In addition to the above information, do directors provide any consultancy service to all consolidated entities and what is its remuneration in the most recent year: 0

Bracket	Name of Directors					
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)			
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report
Below NT\$ 2,000,000	S.J. Liao	S.J. Liao	-	-	-	-
NT\$2,000,000(Included) ~ NT\$5,000,000(Excluded)	S.C. Ting	S.C. Ting	S.C. Ting	S.C. Ting	S.C. Ting	S.C. Ting
NT\$5,000,000 (Included)~ NT\$10,000,000(Excluded)	Jason Cheng C.I. Chia C.V. Chen T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.P. Hwang C.S. Yen	Jason Cheng C.I. Chia C.V. Chen T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.P. Hwang C.S. Yen	C.I. Chia C.V. Chen T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.P. Hwang C.S. Yen	C.I. Chia C.V. Chen T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.P. Hwang C.S. Yen	C.I. Chia C.V. Chen T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.P. Hwang C.S. Yen	C.I. Chia C.V. Chen T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.P. Hwang C.S. Yen
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	-	-	-	-	-	-
NT\$15,000,000 (Included)~ NT\$30,000,000(Excluded)	T.H. Tung	T.H. Tung	T.H. Tung	T.H. Tung	T.H. Tung	T.H. Tung
NT\$30,000,000 (Included)~ NT\$50,000,000(Excluded)	-	-	-	-	-	-
NT\$50,000,000(Included) ~ NT\$100,000,000(Excluded)	-	-	Jason Cheng S.J. Liao	Jason Cheng S.J. Liao	T.H. Tung Jason Cheng S.J. Liao	T.H. Tung Jason Cheng S.J. Liao
Over NT\$100,000,000	-	-	-	-	-	-
Total	12	12	12	12	12	12

3.2.6.2 Compensation Paid to President and Vice President

Unit: NT\$ thousands

Title/Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)			Total remuneration (A+B+C+D) as a % of net income		Compensation paid to directors from non-consolidated affiliates
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	Cash	Stock	From Pegatron	From all consolidated entities	
Group CEO T.H. Tung												
Deputy Group CEO Jason Cheng												
Senior Vice President Hsu-Tien Tung												
President and CEO S.J. Liao												
Chief Operating Officer and Senior Vice President Te-Tzu Yao												
Vice President Tsung-Jen Ku Lai	92,384	99,309	0	0	337,612	344,982	60,125	0	61,189	0	4.41%	240
Vice President Kuo-Yen Teng												
Vice President En-Bair Chang												
Vice President Shih-Chi Hsu												
Vice President Kuang-Chih Cheng												
Vice President Tian-Bao Chang												

Title/Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Total remuneration (A+B+C+D) as a % of net income		Compensation paid to directors from non-consolidated affiliates			
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	Cash	Stock	From Pegatron	Cash	Stock		From all consolidated entities		
Vice President Ming-Tung Hsu																
Vice President Chih-Hsiung Chen																
Senior Vice President of RD & Engineering Pei-Chin Wang																
Chief Technology Officer and Senior Vice President Chung Yu Huang																
Vice President Hsi-Wen Lee	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above
Vice President Shaing-Shaing Wu																
Vice President Chen-Yu Feng																
Vice President Ting-Pang Huang (Note 1)																
Vice President Shyh-Heh Hwang (Note 2)																

Note1: Mr. Ting-Pang Huang new position effective August 1, 2018.

Note2: Mr. Shyh-Heh Hwang new position effective August 1, 2018.

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

3.2.6.3 Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total	Ratio of Total Amount to Net Income (%)
Group CEO	T.H. Tung	0	63,380	63,380	0.57%
Deputy Group CEO	Jason Cheng				
Senior Vice President	Hsu-Tien Tung				
President and CEO	S.J. Liao				
Vice President	Chen-Yu Feng				
Vice President	Ming-Tung Hsu				
Vice President	Kuang-Chih Cheng				
Vice President	Kuo-Yen Teng				
Vice President	Tsung-Jen Ku Lai				
Chief Operating Officer and Senior Vice President	Te-Tzu Yao				
Vice President	Shih-Chi Hsu				
Vice President	En-Bair Chang				
Vice President	Tian-Bao Chang				
Vice President	Chih-Hsiung Chen				
Vice President	Shaing-Shaing Wu				
Senior Vice President of RD & Engineering	Pei-Chin Wang				
Chief Financial Officer	Chiu-Tan Lin				
Chief Technology Officer and Senior Vice President	Chung Yu Huang				
Vice President	Hsi-Wen Lee				
Vice President	Ting-Pang Huang (Note 1)				
Vice President	Shyh-Heh Hwang (Note 2)				

Note1: Mr. Ting-Pang Huang new position effective August 1, 2018.

Note2: Mr. Shyh-Heh Hwang new position effective August 1, 2018.

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

Total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, presidents and vice presidents of the Company are as follows:

Net Income of year 2017: NT\$14,682,988 thousand dollars

Net Income of year 2018: NT\$11,114,866 thousand dollars

NT\$ thousands: %

Year	Total remuneration paid to directors, presidents and vice presidents		Ratio of total remuneration paid to directors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2017	506,449	524,483	3.45%	3.57%
2018	570,171	589,927	5.13%	5.31%

The ratio of remuneration paid to directors, presidents and vice presidents of the Company and the companies in the consolidated financial statements in the last two years to the net income was 3.45% and 3.57% in 2017 and 5.13% and 5.31% in 2018, respectively.

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

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

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

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 6 (A) meetings of the Board of Directors were held in 2018. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks
Chairman	T.H. Tung	6	0	100.0%	Renewal of office
Director	Jason Cheng	6	0	100.0%	Renewal of office
Director	C.I. Chia	6	0	100.0%	Renewal of office
Director	C.V. Chen	6	0	100.0%	Renewal of office
Director	T.K. Yang	6	0	100.0%	New office assumed
Director	S.C Ting	3	0	100.0%	Resigned in May, 2018
Director	DAI-HE Investment Co., Ltd. Rep. : S. Chi	4	1	66.7%	New office assumed
Director	HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	6	0	100.0%	New office assumed
Independent Director	C.S. Yen	6	0	100.0%	Renewal of office
Independent Director	C.B. Chang	6	0	100.0%	Renewal of office
Independent Director	C.P. Hwang	6	0	100.0%	New office assumed

Pegatron's 4th session of Board of Directors was elected at 2016 Annual General Shareholders' Meeting. Tenure of the session is from 21st June, 2016 to 20th June, 2019.

Remarks:

- For resolution of agendas referring to Article 14-3 of Securities and Exchange Act, please refer to the Major resolutions of Board of Directors. There were no resolutions objected by independent directors in writing, on record or subject to qualified opinion in 2018.
- There were no recusals of directors due to conflict of interest in 2018.
- Measures taken to strengthen the functionality of the Board:
The Board complies with the "Rules Governing the Conduct of Board Meetings" which has been established according to statutory regulations. Chief Internal Audit and Chief Financial Officer also report to the Board regarding the status of internal audit and finance and relevant reports are provided to the directors for their reference.

3.3.2 Audit Committee

A total of 5 (A) meetings of the audit committee were held in 2018. The independent directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks	
Independent Director	C.B. Chang	5	0	100%	Renewal of office	Pegatron's 4 th session of Board of Directors was elected in 2016 Annual General Shareholders' Meeting. The Audit Committee comprises three Independent Directors of new session.
Independent Director	C.S. Yen	5	0	100%	Renewal of office	
Independent Director	C.P. Hwang	5	0	100%	New office assumed	

Remarks:

- For resolution of agendas referring to Article 14-5 of Securities and Exchange Act, please refer to the note below. There are no agendas which were not approved by the Audit Committee but otherwise resolved by two thirds or more of all directors in 2018.
- There were no recusals of independent directors due to conflicts of interests in 2018.
- Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2018:
Members of Audit Committee hold the meeting with internal auditors and independent auditors periodically, reviewing business and financial results, internal audit plan and findings.
The head of Internal auditors attended every Audit Committee and presented the findings of all audit reports in the quarterly meetings of Audit Committee.
Independent auditors presented their findings on Company's financial result of the 2nd and 4th quarter in the meeting. All materials are recorded with meeting minutes.

Note: Resolution for agendas referring to in Article 14-5 of Securities and Exchange Act

Date	Agenda (Referring to Article 14-5 of Securities and Exchange Act)	Disagreements from Independent Directors	Responses to disagreements	Resolution Circumstance
01.30.2018	Pegatron group invests in Casetek Holdings Limited within NTD\$6,000,000,000	No	No	Approved
03.15.2018	1. Business report and financial statements of year 2017 2. Earnings distribution of year 2017 3. Pegatron's Internal Control System Statement of year 2017	No	No	Approved
08.09.2018	The 2nd quarter 2018 consolidated financial report	No	No	Approved
11.08.2018	1. The total compensation for external auditor in year 2018 2. The plan of internal auditing in year 2019	No	No	Approved

3.3.3 Status of Compensation Committee:

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

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

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

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

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

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

A total of 4 (A) meetings of the Compensation Committee were held in 2018. The status of attendance is as follows:

Title	Position	Name	Attendance in person (B)	By Proxy	Attendance rate (%) (B/A)	Remarks
Chairman	Independent Director	C.B. Chang	4	0	100%	Period of the post of the 3 rd session of Compensation Committee will be the same as that of the 4 th session of the Board of Directors.
Member	Independent Director	C.S. Yen	4	0	100%	
Member	Independent Director	C.P. Hwang	4	0	100%	

Other Information to be disclosed:

1. If Board of Directors did not adopt or revise the proposal made by the Compensation Committee, please specify the date, session, agendas and resolutions of the Board of Directors meeting and how the Company handled the proposal made by the Compensation Committee (If amount of the compensation approved by the Board of Directors is higher than that proposed by the Compensation Committee, please specify the reasons and differences in proposals.)
None.
2. If any members of the Compensation Committee were against or reserved their opinions towards the resolutions, please specify the date, session, agendas, opinions of all members and how the opinions were handled.
None.
3. According to the Article 6 of Pegatron Remuneration Committee Charter, the committee's duties are: (1) Establishing and periodically reviewing the performance evaluation for directors, supervisors and managerial officers, and the policies, systems, standards and structures for their compensation. (2) Periodically assessing and setting the compensation for directors, supervisors and managerial officers.

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

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

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
3. Structure of Board of Directors and its responsibility (1) If the Board consisted of members from diverse background?	V		None
(2) If the Company established any other functional committee in addition to Compensation Committee, Audit Committee as required by law?	V		The Company established Compensation Committee and Audit Committee and its policies and procedures. Apart from the above mentioned committees, the Company has not established any other functional committee.
(3) If the Company established methods and procedures to assess the performance of the Board and conduct assessment on annual basis?	V		The Company's Compensation Committee takes all factors such as participation in the operation of the Company, etc. into consideration when conducting evaluation on each Board member. The evaluation is usually carried out in the second half of each year.

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(4) If Board Directors compensation structure were based on their performance?	V		None
(5) If the Company assess the independence of CPA periodically?	V		According to Article 26 of the Articles of Incorporation, at most 7% of the profit shall be allocated as directors' remuneration. The reasonable remuneration is given after all factors such as overall operation performance and participation in the operation of the Company are taken into consideration. The Company's Compensation Committee evaluates the rationality of relevant remuneration policy periodically. Each March, the Company evaluates the independence of CPA based on KPMG's Statement of Independence and items stated in Article 46 & 47 of Certified Public Accountant Act. (Note)
(6) If at minimum one independent director attended every board meeting?	V		The company held six Board meetings in 2018 and at least one independent director attended every board meeting. Please refer to "Implementation of Board of Directors".
4. If the Company established a unit or assigned a personnel to handle corporate governance related issues? If the Company assigned corporate governance	V		None Stock Affairs Office, Audit Office, Legal & IPR center and Finance & Accounting Center are assigned to handle corporate governance related matters and the main responsibilities are as follows: 1. Planning the meeting schedules and agendas of the board of directors annually. Informing all directors 7 days before the meeting is convened and provided them sufficient meeting information to understand the content of the relevant proposals. 2. Arranging the Shareholders' Meeting every year and uploading the notice, handbook and minutes of the meeting to MOPS in accordance with the laws and

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			<p>regulations. Handling amendment registration after the revision of Company's Corporate Articles of Incorporation and the election of directors.</p> <p>3. Arranging professional training courses for directors every year and providing them the latest developments of laws and regulations relating to the operation of the company in order to assist them with legal compliance.</p> <p>4. Affairs relating to investor relations.</p>	
5. If the Company established communication channel with stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc) and disclosed key corporate social responsibility issues frequently enquired by stakeholders on the designated area of corporate website?	V		The Company set up Honest_Box@pegatroncorp.com on the designated area of the corporate website for communication with stakeholders. Designated personnel and contact information are available to handle all enquiries and respond to any key issues raised by stakeholders. Please refer to the Company's CSR report and corporate website for Issues of Concern and Communication Channel of stakeholders.	None
6. If the Company engaged professional transfer agent to host annual general shareholders' meeting?	V		The Company engaged Registrar & Transfer Agency Department of KGI Securities Co. Ltd. to host annual general shareholders' meeting.	None
7 Information Disclosure (1) If the Company set up a corporate website to disclose information regarding the Company's finance, business and corporate governance?	V		To ensure transparency of information, the Company set up Investor Relations section on the corporate website and disclose information regarding finance, business and corporate governance.	None
(2) If the Company adopted any other information disclosure channels (e.g., maintaining an English-language website, appointing designated	V		In addition to the role of spokesperson, the Company also has designated departments to collect and disclose information. Information disclosed on the corporate	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?			website is presented in both Chinese and English, while quarter result and webcast of investor conference are available on the corporate website as soon as applicable.	
8. If the Company had other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		<p>1. Employee rights and wellness are stated in internal policies as required by relevant laws and regulations. Please refer to the "Employee Relations" of this annual report for employee rights and employee wellness.</p> <p>2. The Company maintains good relationship with customers and suppliers and fulfills its duties as a responsible corporate citizen.</p> <p>3. Internal control, auditing and self-evaluation procedures are in place.</p> <p>4. The Company also purchases insurance coverage for its directors. The amount and scope of insurance coverage are reported to the Board of Directors and are available on MOPS.</p> <p>5. In 2018, the directors have completed the training courses in accordance with Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies. Please refer to "Board of Directors Training Record".</p>	None
9. If the Company had a structure in place to manage risks associated with information security, established information security policy and its implementation plan?	V		<p>1. Established an information security management organization to identify and control information security risks to protect information assets from various security threats.</p> <p>2. According to the information security policy and in accordance with this policy to set out the implementation of the various work rules and procedure to ensure the following benefits.</p>	None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
10. Any improvement made in accordance with the result of the most recent corporate governance evaluation conducted by TWSE? Any measures to be taken on the outstanding items?	V		<p>a. Protect the confidentiality, integrity and availability of information assets.</p> <p>b. Implement compliance with relevant laws and regulations on information security.</p> <p>c. Establish disaster recovery and system backup mechanisms to ensure the business continuity.</p> <p>d. Strengthening employee information security awareness.</p> <p>e. Build information security control equipment and real-time detection mechanism to prevent hacker and virus damage.</p> <p>f. Establish a real-time notification system to provide immediate response measures in the event of a security incident.</p> <p>3. To ensure the effectiveness of information security management system, the Company regularly conducts internal audits every year.</p> <p>The Company reported to the Board of Directors in January 2019 regarding the result of self-evaluation and the feasibility of its improvement plans to rectify non-compliance items under the commercial practices.</p>

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

Article 46 of Certified Public Accountant Act—

A CPA may not engage in the following conduct:

1. Permit others to practice under his or her name.
2. Practice under the name of another CPA.
3. Accept employment from a non-CPA to perform CPA services.
4. Take advantage of one's position as a CPA to engage in improper industrial or commercial competition.
5. Perform practice related to matters in connection with which one is an interested party.
6. Use the title of CPA to act as a guarantor in matters beyond the scope of CPA services.
7. Purchase real or personal property under his or her management as a CPA.
8. Solicit, agree to accept, or accept unlawful benefit or compensation.
9. Solicit business by improper means.

10. Advertise for promotional purposes not related to commencement of business, office relocation, merger, accepting client engagements, or introduction of the CPA firm.
11. Disclose confidential information obtained in the performance of professional services without the permission of the appointing agency, client, or audited entity.
12. Engage in other conduct that could tarnish the reputation of CPAs, as specified by the competent authority.

Article 47 of Certified Public Accountant Act—

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

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

3.3.5 Implementation of Corporate Social Responsibility

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>1. Exercising Corporate Governance (1) If the Company place any corporate governance structure to establish and review corporate social responsibility (“CSR”) policy or its system?</p>	V	<p>PureCSR management system has been established to oversee the Company’s corporate social responsibility. Based on the management system, our CSR related issues can be monitored and addressed. The Company not only sets up CSR objectives and targets, but also performs internal & external audits. After each audit, proposals containing corrective and preventive actions are reviewed by the management to ensure compliance and adequacy of management system. PureCSR Policy is as follows:</p> <ol style="list-style-type: none"> 1. Abide by all environmental protection, labor, safety and health laws. 2. Conserve natural resources, and actively prevent pollution. 3. Reduce environmental impact and safety risks. 4. Fulfill customer requirements and become a green enterprise. 5. Enable company-wide promotion of corporate social responsibility. 6. Encourage full participation from employees and conduct continuous improvement. <p>The policy and the corresponding directives have been disclosed on the Company’s intranet and corporate website. http://www.pegatroncorp.com/csr/view/id/1</p> <p>We organize several CSR task forces to implement the policies and achieve targets that we previously set up, including conflict minerals investigation program, supplier</p>	None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(2) The implementation and effectiveness of CSR policy?	V		<p>CSR management and audit program. Description of programs and its progress are as follows:</p> <p>(1) Conflict Minerals Program: The investigation of conflict minerals in supply chain was initiated since 2012. We require direct suppliers to disclose the source of minerals sources used in the products which were supplied to us. In 2018, we completed the investigation of 1,823 suppliers and the overall response rate is about 96%.</p> <p>(2) Supplier CSR Management and Audit Program: New suppliers are required to comply with the code of Conduct of the Business Responsibility Alliance (RBA). For major suppliers, CSR self-assessment is also required. There are more than 2,000 suppliers signed the "Pegatron Supplier Code of Conduct Agreement". In 2018, 156 suppliers completed self-assessment questionnaire, and 37 suppliers accepted and passed the on-site audits conducted by Pegatron.</p>
(3) If the Company conducted CSR related trainings?	V		<p>CSR trainings are conducted in accordance with internal management procedures and legal requirements. There are lectures and on-line trainings, including the trainings on occupational safety & health, business ethics, RBA code of conduct, CSR internal audit and the introduction of CSR management system. The concepts and obligations of corporate social responsibility are promoted via intranet, internal announcements and daily meetings, and CSR training material is also combined into the new employee orientation.</p>

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(4) If the Company set up a unit exclusively or concurrently to execute CSR policies and if the Board appointed member(s) of management team to supervise and report its implementation status to the Board periodically?	V		None
(5) If the Company adopted appropriate remuneration policies, integrated employee performance appraisal with CSR policies, and established a clear and effective incentive and discipline system	V		<p>The CEO appointed by the Company's board of directors is the chairman of the PureCSR Steering Committee. The committee is consisted of the representatives from CQPC, HR&ADM, Procurement, Customer Service, Finance, Legal Affairs Office, Audit Office, Stock Affairs Office, all BU/FU and regional CSR teams. The members identify their stakeholders based on their responsibilities and respond to stakeholders' concerns in their daily works. The CSR team has been set to manage the CSR related issues and coordinate the cross-department issues via bi-weekly PureCSR Steering Committee meetings, so as to reach CSR goals and programs. CSR implementation status is periodically reported to the CEO and significant CSR practices and performance will be reported to the Company's board of directors yearly.</p> <p>Compensation paid to workers complies with all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits. Adjustment will be made with reference to the country economic index and industrial salary level. Regulations concerning employee evaluation, performance appraisal, incentive and discipline system are fully disclosed internally and full time employees are required to participate in the performance appraisal periodically.</p>

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>2. Fostering a Sustainable Environment (1) If the Company endeavored to utilize resources more efficiently and utilized renewable materials which have a lower impact on the environment?</p>	V		<p>From product design, use of green materials, manufacturing to waste material management, reducing environmental impacts has always been one of our guiding principles. We apply the principle to the research, development and manufacturing of consumer electronics with an effort to reduce environmental impacts. The Company complies with customers' product specifications and quality requirements for the use of renewable materials.</p>
<p>(2) If the Company established proper environmental or energy management system based on the characteristics of the industry where the Company belongs to?</p>	V		<p>An international environmental management system, ISO 14001, is in place and certified by the third parties periodically. Dedicated unit is set to implement the relevant requirements of ISO 14001. The certificates have been publicly disclosed on the company's official website.</p>
<p>(3) If the Company monitored the impact of climate change on the Company's business operations, checked greenhouse gas inventory and established corporate strategies on energy conservation and reduction on carbon and greenhouse gas emission?</p>	V		<p>The risks of global climate change are addressed and the impacts on the business operations are evaluated. The Company actively takes steps to reduce the emissions of greenhouse gas (GHG) by performing GHG inventory, and conducts internal and external verification every year. The target is to reduce greenhouse gas emissions by 21% and electricity consumption by 24% in year 2020 per million revenue compared to that of year 2009 so as to show our commitment to energy saving and carbon reduction. The Company has been engaged in the Carbon Disclosure Project (CDP) since 2009 to assess the risks and opportunities of our daily operations for climate change.</p>

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>3. Preserving Public Welfare (1) If the Company followed relevant labor laws, and internationally recognized human rights principal, and established appropriate management policies and procedures?</p>	V		None
<p>(2) If the Company established grievance channel for employees and handled complaints appropriately?</p>	V		<p>As a corporate citizen and one of Responsible Business Alliance (RBA) (formerly, the EICC) members, the Company complies with RBA Code of Conduct, including international human rights, labor standards, environmental & safety laws, ethics and confidentiality requirements. The internal CSR management system and audit process are implemented to ensure compliance. PureCSR policy has been built accordingly and the corresponding objectives were also implemented. Description of programs and the progress are as follows: (1) We participate in the initiatives held by the RBA with the partners in the supply chain and encourage them to join RBA Validated Audit Process (VAP), so as to promote the compliance in supply chain on labor rights. (2) We drive the supply chain toward conducting due diligence on mineral sourcing to avoid unethical procurement on minerals, as well as to protect the labor rights in supply chain.</p> <p>One of the employee communication channels, i-PEGA BOX, is available and dedicated personnel are assigned to handle the case and follow up the progress. Opinion boxes and other grievance mechanism are also in place at our global plants to effectively solve employees' problems.</p>

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(3) If the Company provided safe and healthy working environment to employees and conducted relevant training on safety and health management to employees periodically?	V		<p>An international occupational safety and health management system, OHSAS 18001, is in place and certified by the third parties periodically. The certificates have been publicly disclosed on the company's corporate website. A safe and healthy work environment has been established through the implementation of risk assessments, workplace improvement, daily inspections and audits. We are committed to reduce the safety and health hazards of employees and take measures such as conducting health checkups, arranging qualified first-aid personnel, establishing infirmaries and hiring nursing staffs engaged in labor health services. Safety and health trainings are regularly implemented to prevent occupational hazards. The implementation of relevant activities such as risk assessments, medical checkups, audits and safety & health trainings are carried out according to the annual plan. The achievement rate of the plan was up to 100% in 2018.</p>	None
(4) If the Company established a periodical communication mechanism to employees and notified employees of significant changes that may impact the Company's operation in a proper manner?	V		<p>We have set up multiple communication channels including i-PEGA BOX and employee hotlines. Opinion mailboxes and grievance mechanism are also in place in our global plants to effectively solve employees' problems. Employees can choose different channels depending on their needs. In order to ensure our employees knowing the company's operating status and directions, "CEO cafe", an easy party host by our CEO, S.J. Liao, is held regularly every year. This will help our</p>	

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(5) If the Company provided career planning, relevant training and skill development for employees?	V		employees to have in-depth understandings of the company's decision making processes. In order to meet the strategy of talent nurturing and to build up a learning environment, Pegatron Group introduced "Individual Development Plan (IDP)" to help all employees to set their self-development plans according to the corporate and personal targets, and to implement the plan to become mature in their occupational field. Through IDP, supervisors can support corresponding resources and assistances in profession or work skills according to the employees' needs. Moreover, employees can set their own targets and develop skills by participating multidimensional learning activities.
(6) If the Company established any policy to adequately reflect company's operational result on their employees' compensation?	V		The Articles of Incorporation states the principle of accrued employee compensation.
(7) If the Company established any consumer protection measures with regard to the process of research and development, procurement, production, operations and services and its grievance channels?	V		The Company is dedicated in design, manufacturing and service (DMS), and does not have direct contact with consumers. Customer complaints are handled properly in accordance with the requirements of quality, green product, and CSR management systems.
(8) If the Company followed relevant laws and regulations and international guidelines on	V		The Company is dedicated in design, manufacturing and service (DMS), and does not have direct contact with

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
marketing and labeling of products and services?			consumers. For the labeling and marketing, the Company follows legal and customers' requirements.
(9) Prior to engaging commercial dealings, if the Company assessed whether the supplier had track record o negative impact on the environment and society?	V		The Company is a member of RBA and follows its code of conduct. In addition, we promote RBA to our supply chain to ensure our suppliers are responsible for their environment and work place safety. Prior to engaging in a commercial dealing, the Company makes assessment on the suppliers' environmental and social performance, and avoids engaging with a supplier which violates its corporate social responsibility policy. All suppliers are required to sign Pegatron's Supplier Code of Conduct, which includes environmental, health and safety, labor and ethical standards to commit that their operations are in accordance with our CSR policy. Besides, we have also conducted CSR audits and advocate CSR related contents, including environmental protection and international human rights into supplier self-evaluation checklist to ensure their operations meet our requirements.
(10) If the contracts with major suppliers stipulated a clause that allowed the Company to terminate or rescind the contract at any time shall the suppliers violate CSR policies and cause significant impact to the environment and society?	V		Compliance with CSR regulations and RBA Code of Conduct are included in the contracts with suppliers. If suppliers violate CSR regulations leading to penalty by authority or causing any significant impact to the environment or society, they have to accept the Company's CSR audits and provide their improvement reports within deadlines. The Company may terminate or rescind the contracts if suppliers fail in the Company's CSR audits ultimately.

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
4. Enhancing Information Disclosure If the Company disclosed CSR report and other relevant information on its corporate website and Market Observation Post System?	V	CSR report is published on annual basis with the chapters of corporate governance, social, economic and environmental performances. It is disclosed on corporate website and Market Observation Post System by the request from the Authority. (http://pegatroncorp.com/csr/view/id5)	None
5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for Listed Companies"? "The Second Edition of Corporate Social Responsibility Best-Practice Principles" has been amended and approved by Board of Directors in 2018. We also posted it on corporate website and MOPS. The implementation status is consistent with the principle. (http://www.pegatroncorp.com/investorsRelation/eng/internalpolicies.php)			
6. Other material information that helps to understand the operation of corporate social responsibility: There is a specific CSR section on the corporate website including CSR policy, targets and management procedures. (http://www.pegatroncorp.com)			
7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: The 2018 CSR report of the Company is edited based on core option of GRI Standards and will be verified by the 3rd party BSI Taiwan with the international verification standard of AA 1000 (2008) type 1 and moderate level of assurance. The verification statement will be attached in the CSR report after it is completed.			

3.3.6 Implementation of Ethical Corporate Management Best Practice Principles:

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>1. Ethical Corporate Management Policy</p> <p>(1) If the Company clearly specified ethical corporate management and process in its internal policies and external document? If the Board of Directors and the management team committed to enforce such policies rigorously and thoroughly?.</p> <p>(2) If the Company established any measures to prevent unethical conduct and clearly prescribed the specific ethical management practice including operational procedures, guiding principles, penalties and grievance channels? Please describe the status of execution.</p> <p>(3) If the Company adopted any preventive measures against business activities specified in the second paragraph of Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSE Listed Companies or in other business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct?</p>	V		None
<p>2. Implementation of Ethical Corporate Management</p> <p>(1) If the Company checked whether the respective counterparty holds any record of unethical misconduct and if the contract terms required the compliance of</p>	V		None

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
ethical corporate management policy?			None
(2) If the Company set up a unit, under the direct supervision of the Board of Directors, to handle the implementation of ethical corporate management and reported to the Board of Directors periodically?	V		The Company values the great significance of integrity and ethical business conduct. Therefore HR&ADM Center, Legal & IPR Center, Audit Office, Stock Affairs Office and relevant departments have been assigned to establish Ethical Corporate Management Policy and its prevention system, which requires the procurement center and all other employees follow ethical policies under any business engagement. Any significant violations and findings will be reported to the Board of Directors annually.
(3) If the Company established a policy on prevention of conflict of interests, provided appropriate reporting channel and executed rigorously and thoroughly?.	V		The Company established measures to prevent conflict of interests and an appropriate reporting channel is provided to report any potential risks of conflict of interest.
(4) If the Company established an effective accounting system and internal control system and if internal auditing department or external accounting firm conducted periodic auditing?	V		The Company established an accounting system and internal control system to evaluate business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct. Internal Audit would plan its annual audit scope based on the assessment of risks and report to the Board of Directors.
(5) If the Company organized training and awareness programs on ethical corporate management to internal and external parties?	V		The Company presents Ethical Corporate Management during new employee orientation. In 2018, 793 employees attended the course and around 200 hours spent on hosting

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

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
5. If the Company established any guideline of ethical business conduct in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation?		Summary	
6. If any other information that helped to understand the operation of ethical business conduct and its implementation. (ie. Declarations, trainings and conventions held with vender to promote ethical business conduct)?			

3.3.7 Corporate Governance Guideline and Regulations:

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

3.3.8 Other Important Information Regarding Corporate Governance: None.

3.3.9 Internal Control System:

- Declaration of internal control: Please refer to page 56.

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

Pegatron Corporation
Statement of Internal Control System

Date: March 14, 2019

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2018:

1. Pegatron is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to effectiveness and efficiency of operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency and regulatory compliance of financial reporting and compliance with of applicable laws, regulations and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Pegatron contains self-monitoring mechanism and Pegatron takes corrective actions whenever a deficiency is identified.
3. Pegatron evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five constituent elements of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring activities. Each component further contains several items. Please refer to the Regulations for details.
4. Pegatron has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the self-assessment mentioned in the preceding paragraph, Pegatron believes that, as of December 31, 2018, its internal control system (including its supervision and management of subsidiaries), as well as understanding the degree of achievement of its objectives concerning operational effectiveness and efficiency, reliability, timeliness, transparency and regulatory compliance of financial reporting, and compliance with the applicable laws, regulations and bylaws, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be integral part of Pegatron's Annual Report for the year 2018 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 14, 2019 with zero of ten attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

T.H. Tung
Chairman

S.J. Liao
President and Chief Executive Officer

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

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

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

Pegatron's 2018 Annual General Shareholder Meeting was held in Taipei on June 21, 2018. At the meeting, shareholders presented in person or by proxy approved the following agendas:

- (1) The 2017 Business Report and Financial Statements
- (2) The proposal of 2017 Earning Distribution

Implementation status : Ex-dividend record date was on August 5, 2018. Cash dividend date was distributed on August 24, 2018 and cash dividends per share was NT\$4.00166594.

3.3.11.2 Major Resolutions of Board Meetings

Date	Major resolutions	Disagreements from Independent Director	Responses to disagreements
01.30.2018	<ul style="list-style-type: none"> ● Approved Pegatron group to invest in Casetek Holdings Limited within the limit of NTD\$6 billion ● Approved to release the prohibition on Deputy Group CEO, Mr. Jason Cheng, in competitive business 	None	None
03.15.2018	<ul style="list-style-type: none"> ● Approved the appropriated remuneration of employees and directors in 2017 ● Approved 2017 business report and financial statements ● Approved earnings distribution of year 2017 ● Approved the evaluation report for the independence of external Auditor ● Approved the scheduling of 2018 Annual Shareholders' Meeting ● Approved Pegatron's Internal Control System Statement of 2017 	None	None
05.10.2018	<ul style="list-style-type: none"> ● Approved the 1st quarter 2018 consolidated financial report 	None	None
08.09.2018	<ul style="list-style-type: none"> ● Approved the 2nd quarter 2018 consolidated financial report ● Approved the amendments to Pegatron's "Corporate Social Responsibility Practice Principles" 	None	None
11.08.2018	<ul style="list-style-type: none"> ● Approved the 3rd quarter 2018 consolidated financial report ● Approved the total compensation for external auditor in year 2018 ● Approved the amendments to Pegatron's "Accounting System" ● Approved the plan of internal auditing in year 2019 	None	None

Date	Major resolutions	Disagreements from Independent Director	Responses to disagreements
14.03.2019	<ul style="list-style-type: none"> ● Approved the appropriated remuneration of employees and directors in 2018 ● Approved 2018 business report and financial statements ● Approved earnings distribution of year 2018 ● Approved to issue corporate bond under the limit of NT\$15,000 millions ● Approved the amendment to the “Regulations Governing the Acquisition and Disposal of Assets” ● Approved the amendment to the Company’s Article of Incorporation ● Approved to hold the election for the fifth session of Boards of Directors (including independent directors) of the Company ● Approved the list of nominated candidates for Boards of Directors (including independent directors) ● Approved the proposal for releasing the prohibition on directors from participating in competitive business ● Approved the evaluation report for the independence of external Auditor ● Approved the scheduling of 2019 Annual Shareholders’ Meeting ● Approved Pegatron’s Internal Control System Statement of 2018 ● Approved the amendment to the Company’s internal control system and internal audit implementation rules 	None	None

3.3.12 Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors in 2018 and to the date of the annual report: None.

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

3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Kuo-Yang Tseng	Chi-Lung Yu	Jan 1, 2018 ~ Dec 31, 2018	

Unit: NT\$ thousands

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

Service Items included in the CPA fees

Unit: NT\$ thousands

CPA Firm	CPA	Fees	Non-Auditing Fees					Auditing Period	Note
			System Design	Industrial and commercial registration	HR	Others	Total		
KPMG	Kuo-Yang Tseng	9,910	0	138	0	2,890	3,028	2018/1/1~2018/12/31	Non-auditing services include R&D investment tax credit, master file, CBC report and tax consultant.
	Chi-Lung Yu								

3.5 Information on Change of CPA: None

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

None.

3.7 Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Department Heads and Shareholders of 10% Shareholding or More: None

3.7.1 Information on Net Change in Shareholding

Unit: Share

Title	2018		01/01/2019-02/28/2019	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	-	-	1,000,000	-
Deputy Chairman and Deputy Group CEO Jason Cheng	-	-	-	-
Director C.I. Chia	-	-	-	-
Director C.V. Chen	-	-	-	-
Director S.C. Ting (Note 2)	-	-	-	-
Director T.K. Yang	-	-	-	-
Director HAI-HE Investment Co., Ltd Rep: S. Chi	-	-	-	-
Director S. Chi	-	-	-	-
Director HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	-	-	-	-
Director, President and CEO S.J. Liao	(165,000)	-	-	-
Independent Director C.B. Chang	-	-	-	-
Independent Director C.P. Hwang	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	-	-	-	-
Senior Vice President Hsu-Tien Tung	(212,000)	-	-	-
Chief Operating Officer and Senior Vice President Te-Tzu Yao	(20,000)	-	-	-
Vice President Kuo-Yen Teng	(43,000)	-	-	-
Vice President Tsung-Jen Ku Lai	-	-	-	-
Vice President En-Bair Chang	-	-	-	-
Vice President Shih-Chi Hsu	(48,000)	-	(20,000)	-
Vice President Kuang-Chih Cheng	(75,000)	-	(7,000)	-
Vice President Tian-Bao Chang	-	-	-	-

Title	2018		01/01/2019-02/28/2019	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President Ming-Tung Hsu	-	-	-	-
Vice President Chih-Hsiung Chen	-	-	-	-
Chief Financial Officer Chiu-Tan Lin	(140,000)	-	-	-
Senior Vice President of RD & Engineering Pei-Chin Wang	(600,000)	-	-	-
Chief Technology Officer and Senior Vice President Chung Yu Huang	-	-	-	-
Vice President Hsi-Wen Lee	-	-	-	-
Vice President Shaing-Shaing Wu	-	-	-	-
Vice President Chen-Yu Feng	(9,000)	-	-	-
Vice President Ting-Pang Huang (Note 3)	-	-	-	-
Vice President Shyh-Heh Hwang (Note 4)	-	-	-	-

Note 1: Holding Increase (Decrease) included the employee restricted stocks, which are under the custody of the Trust.

Note 2: Mr. S.C.Ting resigned from his position effective May 23, 2018. Holding Increase (Decrease) of 2018 is from 01/01/2018 to his resignation Date.

Note 3: Mr. Ting-Pang Huang new position effective August 1, 2018. Holding Increase (Decrease) of 2018 is from the on-board date to 12/31/2018.

Note 4: Mr. Shyh-Heh Hwang new position effective August 1, 2018. Holding Increase (Decrease) of 2018 is from the on-board date to 12/31/2018.

3.7.2 Information of Shares Transferred: None.

3.7.3 Information of Equity Pledged: None.

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

As of 08/05/2018

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks %
	Shares	%	Shares	%	Shares	%	Name	Relation	
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.17	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
T.H. Tung	92,937,309	3.56	6,074,490	0.23	-	-	-	-	-
Jonney Shih	67,032,290	2.57	-	-	-	-	Asustek Computer Inc.	Chairman	-
Ted Hsu	56,353,713	2.16	-	-	-	-	-	-	-
Silchester International Investors International Value Equity Trust	53,073,000	2.03	-	-	-	-	-	-	-
GDR-Pegatron Corporation	42,780,565	1.64	-	-	-	-	-	-	-
Cathay United Bank in Custody for Expert Union Limited Investment account	38,505,000	1.47	-	-	-	-	-	-	-
NAN SHAN Life Insurance Co., Ltd	34,074,000	1.30	-	-	-	-	-	-	-
CTBC Bank in Custody for Pegatron Corporation	31,887,400	1.22	-	-	-	-	-	-	-
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	30,045,093	1.15	-	-	-	-	-	-	-

3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2018

Long-Term Investment	Ownership by Pegatron (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Asustek Investment Co., Ltd.	951,278	100.00	-	0	951,278	100.00
Asuspower Investment Co., Ltd.	932,845	100.00	-	0	932,845	100.00
Asus Investment Co., Ltd.	979,255	100.00	-	0	979,255	100.00
AMA Precision Inc.	33,500	100.00	-	0	33,500	100.00
Pegatron USA, Inc.	50	100.00	-	0	50	100.00
Pegatron Holland Holding B.V.	-	100.00	-	0	-	100.00
Pegatron Holding Ltd.	961,906	100.00	-	0	961,906	100.00
Unihan Holding Ltd.	199,110	100.00	-	0	199,110	100.00
AzureWave Technologies, Inc.	35,750	23.72	13,697	9.09	49,447	32.81
Casetek Holdings Limited (Cayman)	4,809	1.14	245,017	58.27	249,826	59.41
Pegatron Service Australia Pty, Ltd.	1,374	100.00	-	0	1,374	100.00

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

As of 03/15/2019

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,611,879,856	388,120,144	3,000,000,000	Listed

4.1.2 Share Capital

As of 03/15/2019

Month/ Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares (1,000)	Amount (NT\$1,000)	Shares (1,000)	Amount (NT\$1,000)	Sources of Capital	Capital Increased by Assets Other than Cash	Date of Approval and Document No.
03/2018	10	3,000,000	30,000,000	2,613,896	26,138,964	Cancelling employee restricted stocks of NT\$1,942 thousand	-	Note 1
05/2018	10	3,000,000	30,000,000	2,613,218	26,132,178	Cancelling employee restricted stocks of NT\$6,786 thousand	-	Note 2
08/2018	10	3,000,000	30,000,000	2,612,746	26,127,465	Cancelling employee restricted stocks of NT\$4,713 thousand	-	Note 3
12/2018	10	3,000,000	30,000,000	2,612,377	26,123,773	Cancelling employee restricted stocks of NT\$3,692 thousand	-	Note 4
03/2019	10	3,000,000	30,000,000	2,611,880	26,118,799	Cancelling employee restricted stocks of NT\$4,974 thousand	-	Note 5

Note 1: 03/08/2018 Jin So Son Tzi No. 10701024350

Note 2: 05/30/2018 Jin So Son Tzi No. 10701059230

Note 3: 08/31/2018 Jin So Son Tzi No. 10701111210

Note 4: 12/04/2018 Jin So Son Tzi No. 10701148650

Note 5: 03/05/2019 Jin So Son Tzi No. 10801021850

4.1.3 Information for Shelf Registration: None

4.1.4 Composition of Shareholders

As of 08/05/2018; Units: share

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	4	23	366	131,589	1,059	133,041
Shareholding (shares)	9	135,110,622	617,997,354	765,133,296	1,094,976,470	2,613,217,751
Percentage	0	5.17	23.66	29.26	41.91	100.00

4.1.5 Shareholding Distribution Status

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

As of 08/05/2018

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	56,883	15,650,978	0.60
1,000 ~ 5,000	60,594	125,185,579	4.79
5,001 ~ 10,000	7,991	61,769,364	2.36
10,001 ~ 15,000	2,456	31,093,221	1.19
15,001 ~ 20,000	1,507	27,758,595	1.06
20,001 ~ 30,000	1,205	30,341,758	1.16
30,001 ~ 50,000	881	35,109,742	1.35
50,001 ~ 100,000	632	44,836,318	1.72
100,001 ~ 200,000	294	41,211,131	1.58
200,001 ~ 400,000	200	56,415,163	2.16
400,001 ~ 600,000	75	37,656,794	1.44
600,001 ~ 800,000	54	37,285,599	1.43
800,001 ~ 1,000,000	34	30,670,252	1.17
over 1,000,001	235	2,038,233,257	77.99
Total	133,041	2,613,217,751	100.00

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

4.1.6 List of Major Shareholder

As of 08/05/2018

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.17
T.H.Tung	92,937,309	3.56
Jonney Shih	67,032,290	2.57
Ted Hsu	56,353,713	2.16
Silchester International Investors International Value Equity Trust	53,073,000	2.03
GDR-Pegatron Corporation	42,780,565	1.64
Cathay United Bank in Custody for Expert Union Limited Investment account	38,505,000	1.47
NAN SHAN Life Insurance Co., Ltd	34,074,000	1.30
CTBC Bank in Custody for Pegatron Corporation	31,887,400	1.22
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	30,045,093	1.15

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

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

Item	2017	2018	01/01/2019- 03/15/2019
Market Price per Share (Note 1)			
Highest Market Price	100.00	81.90	55.60
Lowest Market Price	67.52	48.20	46.75
Average Market Price	84.97	64.90	50.90
Net Worth per Share (Note 2)			
Before Distribution	55.84	57.43	-
After Distribution	51.84	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,592,882	2,612,769	-
Diluted Earnings Per Share (Note 3)	5.66	4.25	-
Dividends per Share			
Cash Dividends	4.00	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 5)	15.01	15.27	-
Price / Dividend Ratio (Note 6)	21.24	Undistributed	-
Cash Dividend Yield Rate (Note 7)	4.71%	Undistributed	-

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

calculated based on the trading amount and volume.

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

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

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

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

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

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

4.1.8 Dividend Policy and Execution Status

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

The dividend policy in the Company's Articles of Incorporation is stated as below:

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

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

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

4.1.8.2 Proposed Dividend Distribution

The Board approved the proposal for 2018 dividend distribution at its meeting on March 14, 2019. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual General Shareholders' Meeting on June 21, 2019.

Unit: NT\$

Items	Amount	
	Subtotal	Total
Beginning Retained Earnings		20,043,780,081
Add: Effects of Retrospective Application		1,031,638,108
Beginning Retained Earnings after Adjustment		21,075,418,189
Add: Other Comprehensive Income for the Period		2,569,884
Special Reserve Reverse		946,335,549
Net Profit After Tax		11,114,865,583
Minus: Issuance of Restricted Stock for Employees		(43,616,992)
Distributable Net Profit		33,095,572,213
Minus: 10% Legal Reserve		(1,111,486,558)
Minus: Cash Dividend		(9,141,579,496)
Unappropriated Retained Earnings		22,842,506,159

4.1.9 Impact to 2018 Business Performance and EPS resulting from Stock Dividend Distribution:

Not Applicable.

4.1.10 Compensation to Employees and Remuneration to Directors:

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

In Company' Articles of Incorporation provides that:

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

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

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

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

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

4.1.10.3 Remuneration distribution to employees in 2018 resolved by the Board of Directors

a. Proposed remuneration to employees and remuneration to directors.

	Amount (NT\$)
Remuneration to Employees	896,000,000
Remuneration to Directors	89,000,000

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

No stock based remuneration was distributed in 2018.

4.1.10.4 Distribution of remuneration to employees and remuneration to directors in 2017 resolved by the Annual Shareholders Meeting on Jun. 21, 2018.

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

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2017 income statements. There is no difference between the amounts approved in the shareholders' meeting and those of the estimation recognized in the financial statements.

4.1.11 Buyback of Common Stock: None.

4.2 Issuance of Corporate Bond:

As of 03/15/2019 ; Unit: NT\$

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

4.3 Preferred Shares (with stock option): None.

4.4 Issuance of Global Depository Receipts:

As of 03/15/2019

Item	Date of Issuance	August 9, 2010	
Date of issuance (Process)		08/09/2010	
Location and Issuance and Trade		Luxemburg Stock Exchange	
Total Amount		Non applicable	
Unit Price (in NT\$ per GDS)		NT\$37.70	
Total Issuance		12,163,804	
Source of Common Stock Registration		One GDS stands to five common share of Pegatron	
Total Marketable Security Shares Recognized		Stands for 60,819,020 common shares of Pegatron	
Rights and Obligations of GDR Holders		Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)	
Trustee		Non applicable	
GDR Institute		Citibank N.A.	
Depository Institute		Citibank Taiwan Limited	
Outstanding GDSs (as of December 31, 2018)		1,594,139 GDSs	
Issuance and Expense Amortization throughout the Issuance Period		Annual listing fees and accountant fees were borne by Pegatron	
GDR Agreement and Depository Agreement		See Deposit Agreement and Custody Agreement for Details	
Market Price per unit (US\$)	2018	Max.	US\$13.70
		Min.	US\$8.05
		Average	US\$10.75
	As of March 15, 2019	Max.	US\$8.90
		Min.	US\$7.70
		Average	US\$8.26

4.5 Employee Stock Option: None.

4.6 Employee Restricted Stocks

4.6.1 Issuance of Employee Restricted Stocks

As of 02/28/2019

Type of Restricted Shares	First Grant of 2016	Second Grant of 2016
Approval Date by the Authority	2016/12/19	
Grant Date	2017/07/11	2017/10/19
Number of Employee Restricted Stock Granted	37,808,000	2,192,000
Price of Issuance	NT\$10	
Percentage of Employee Restricted Stocks to Outstanding Common Shares	1.45%	0.08%
Conditions for Exercise of Employee Restricted Stocks	<p>Company Performance Criteria :</p> <ol style="list-style-type: none"> a. Earnings Per Share (“EPS”) : On the date RSAs are scheduled to be vested, the average EPS based on the financial statements of recent three years is higher than those of the peer group. b. Return On Equity(“ROE”) : On the date RSAs are scheduled to be vested, the average ROE based on the financial statements of recent three years is higher than those of the peer group. c. The Peer group set forth in the two preceding paragraphs includes HON HAI Precision Industry Co., Ltd., Quanta Computer Inc., Compal Electronics Inc., Wistron Corp. and Inventec Corporation. d. EPS set forth in the first paragraph refers to the basic earnings per share of the consolidated statements of comprehensive income of the consolidated financial statements audited by CPA. ROE set forth in the second paragraph refers to the comprehensive income divided by average shareholder’s equity, based on the consolidated financial statements or non-consolidated financial statements audited by CPA. When ROE calculated is higher than either one of the two performance criteria, RSAs will be vested. <p>Employee Performance Criteria :</p> <ol style="list-style-type: none"> a. Upon the first anniversary of receiving the restricted stocks, employees can exercise 20% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. b. Upon the second anniversary of receiving the restricted stocks, employees can exercise 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. 	

Type of Restricted Shares	First Grant of 2016	Second Grant of 2016
	c. Upon the third anniversary of receiving the restricted stocks, employees can exercise the remaining 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.	
Limitations to the Rights of Employee Restricted Stocks	a. Before fulfilling the vesting conditions, the restricted shares under the custody shall not be sold, pledged, transferred, and gave as gifts to others or any other means of disposal. b. Voting rights: To be conducted by the Trust in accordance with the relevant laws and regulations.	
Custody of Employee Restricted Stocks	A total of 28,588,400 shares delivered to the Trust	A total of 1,753,600 shares delivered to the Trust
Procedures for Non-Compliance of the Conditions	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.	
Number of Employee Restricted Stocks Bought Back	1,899,931 (Note 1)	0 (Note 1)
Number of Employee Restricted Stocks Free from Custody	7,319,669	438,400
Number of Employee Restricted Stocks under Custody	28,588,400	1,753,600
Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)	1.09%	0.07%
Impact on Shareholders' Equity	<p>A. Potential expense: The number of restricted stocks proposed at 2016 Annual General Shareholders' Meeting is 40,000,000 shares at NT\$10 as issuance price. The Company shall evaluate the fair value of the stocks on the issuance date and accrue relevant cost over the issuance period. The potential expense incurred is estimated at NT\$2,195,923 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount was NT\$725,512 thousands and NT\$945,724 thousands in 2017 and 2018. The annually expensed amount is estimated at NT\$431,100 thousands and NT\$93,587 in 2019 and 2020 respectively.</p> <p>B. Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity: Potential dilution of EPS based on the existing outstanding ordinary shares of 2,611,638,656 shares, is estimated at NT\$0.28, NT\$0.36, NT\$0.17 and NT\$0.04 in 2017, 2018, 2019 and 2020 respectively. Since the potential impact to EPS is limited, we do not expect any material impact to shareholders' equity.</p>	

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

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

As of 02/28/2019; Unit: Shares, %, NT\$

Position	Title	Name	Number of Employee Restricted Shares	Number of Employee Restricted Stocks to Outstanding Common Shares	Free from the Trust			Under the Trust				
					Number of Employee Restricted Stocks Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks to Outstanding Common Shares (%)	Number of Employee Restricted Stocks under Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)
Management Team	Group CEO	T.H. Tung	8,070,000	0.31	1,614,000	10	16,140,000	0.06	6,456,000	10	64,560,000	0.25
	Deputy Group CEO	Jason Cheng										
	President and CEO	S.J. Liao										
	Chief Financial Officer	Chiu-Tan Lin										
	Senior Vice President	Hsu-Tien Tung										
	Chief Operating Officer and Senior Vice President	Te-Tzu Yao										
	Vice President	Kuo-Yen Teng										
	Vice President	Tsung-Jen Ku Lai										
	Vice President	En-Bair Chang										
	Vice President	Shih-Chi Hsu										
	Vice President	Kuang-Chih Cheng										
	Vice President	Tian-Bao Chang										
	Vice President	Ming-Tung Hsu										
	Vice President	Chih-Hsiung Chen										
	Senior Vice President of RD & Engineering	Pei-Chin Wang										
	Vice President	Hsi-Wen Lee										
Chief Technology Officer and Senior Vice President	Chung Yu Huang											
Vice President	Shaing-Shaing Wu											
Vice President	Chen-Yu Feng											
Vice President	Ting-Pang Huang (Note 1)											
Vice President	Shyh-Heh Hwang (Note 2)											

Position	Title	Name	Number of Employee Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free from the Trust				Under the Trust			
					Number of Employee Restricted Stocks Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks Free from Custody to Outstanding Common Shares (%)	Number of Employee Restricted Stocks under Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)
Employee	Associate Vice President	Yu-Heng Lu	4,240,000	0.16	848,000	10	8,480,000	0.03	3,392,000	10	33,920,000	0.13
	Associate Vice President	Wei-Pang Lee										
	Associate Vice President	Yi-Hsin Lee										
	Associate Vice President	Yi-Yung Wu										
	Associate Vice President	Ching-Ru Wu										
	Special Assistant	Yean-Jen Shue										
	Associate Vice President	Hsiang-Chieh Huang										
	Associate Vice President	Shing-Jung Kuo										
	Associate Vice President	Chieh-Tsung Chen										
	Associate Vice President	Hsin-Cheng Chen										
	Senior Director	Chi-Liang Chen										
	Associate Vice President	Li-Ling Chao										
	Associate Vice President	I-Sheng Tsai										
Associate Vice President	Hsiu-Yu Pan											
Associate Vice President	Ju-Hui Hsieh (Noted 3)											

Note 1: Mr. Ting-Pang Huang new position effective August 1, 2018.

Note 2: Mr. Shyh-Heh Hwang new position effective August 1, 2018.

Note 3: Ms. Ju-Hui Hsieh new position effective April 1, 2018

Note 4: Employees who granted the same number of options are being listed.

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

Not Applicable.

4.8 Financing Plan and Implementation

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

5. Overview of Business Operation

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Operating Scope

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

5.1.1.2 Breakdown of Sales by Major Products

Unit: NT\$ thousands; %

Year Major Product	2017		2018	
	Amount	%	Amount	%
3C Products	1,115,096,661	93.41	1,258,850,322	93.94
Other	78,711,854	6.59	81,151,709	6.06
Total	1,193,808,515	100.00	1,340,002,031	100.00

5.1.1.3 Product Lines

Computing Product

- a. Notebook PCs
- b. DeskTop PCs
- c. Motherboards
- d. VGA Cards

Communication Product

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

Consumer Electronics Product

- a. Tablets
- b. Game consoles
- c. Automotive electronics
- d. Smart home devices

5.1.1.4 Product (Service) Development

- a. Developing “consumer” systems (desktop / AIO / laptop / 2-in-1) designs using Intel Coffee Lake / Whisky Lake / Comet Lake / Gemini Lake platforms for different operation systems, while meeting market demands for customization, deep plowing products, and diversified product lines such as esports.
- b. Developing “commercial” systems (desktop / AIO / laptop) designs using Intel Coffee Lake / Whisky Lake / Comet Lake platforms.
- c. Developing a new generation of high-performance, high-speed enterprise gateways that include DOCSIS 3.1 compliant high-speed cable modems, built-in 8x1G Ethernet, 8xHD VoIP, USB 3.0, Power over Ethernet (PoE), and integrated 802.11ac Wave 2 dual-band (2.4G/5G) wireless networks.
- d. Continue developing big data storage and deep learning computing platforms to provide real-time data collection, data processing, data management, deep learning model training, online deployment, model performance tracking related toolset and services; to speed up development of artificial intelligence related applications.
- e. Developing Speaker Identification Technology to apply in Smart Assistant products that provide multi-user account switching to enhance user experiences. We also integrate multi-model input interfaces into Messenger Chatbot to provide different control methods to enhance user experiences..
- f. Developing face detection and face recognition by deep learning. Accuracy reaching 99.99% and being top #1 in the world for MegaFace data set. Applied techniques to SmartAlbum, AR Glasses, Robot, Door Bells, and IP Cameras.
- g. Developing AI edge neural networks and optimizing execution to double the speed of world’s top #1 Google Mobilenet and apply to detection object in SmartAlbum, AR glasses, Robot, Door Bells, and IP cameras products.
- h. Developing AI one shot learning neural networks, this technology only needs one training sample, it reduces cost 1000 times compared with traditional deep learning technology; can apply to AR Glasses, Smart Album, and Robot products.
- i. Developing text detection and recognition by AI deep learning technologies, accuracy reaching 99%; can apply to AR Glasses, Smart Album, and Robot products.
- j. Developing gesture and face ID for driver fatigue detection by AI deep learning; applies in automotive products.
- k. Developing real-time speech translation and speaker isolation by AI deep learning technology; can apply to consumer accessory products.
- l. Developing Android ruggedized LTE tablets using Qualcomm SD660 platforms, while meeting market demands for North-America LTE carrier TA, and vertical

customization.

- m. Developing 25G/50G/100G switches, and phase in ONIE and SONiC open platforms.
- n. Developing a new type of AR controller, integrating single-handed human interfacing, (including outline, buttons, and UI), which also possesses smart phone features in order to meet expectations for Consumer and Commercial markets.
- o. Developing high-speed LTE Telematics box with built-in E-call, B-call, remote vehicle access (diagnosis and control), WiFi hotspot services by 4G, V2X (802.11p), WiFi (802.11ac), and RTK-GPS technologies.
- p. Developing next generation of IVI with Renesas Rcar Gen-3 with the latest Android Automotive OS and connecting smart phone with automotive devices including Apple WiFi CarPlay, Google Android Auto, Miracast, Map, POI sharing, etc.
- q. Studying the bonding technology of car panel/cluster and curved glass, including flat panel to curved glass, and curved panel to curved glass. The study and application will improve the immersive (feeling) and increase the depth of field. A wider view will make the internal environment of the vehicle friendlier to drivers. In addition, the study and improvement of the bonding structure will also better meet car crash safety requirements.
- r. Developed a series of high-performance 802.11ax WiFi gateways and extenders. Every model in this series can be randomly combined to support and extend multiple nodes in a WiFi mesh network system using a mobile app. It can provide high performing user experience for multiple clients in a large range.

5.1.2 Industry Overview

5.1.2.1 Progress and Development of the Industry

a. Computing Industry

According to IDC, total PC volume (including notebook PCs, desktop PCs and work stations) declined by merely 1% YoY in 2018, mainly due to improving macro-economic condition, increasing investment from public and commercial sectors and Windows10 replacement cycle, which stimulated commercial demands in convertible and ultra-slim PCs. Therefore, the decline trend for overall PC industry is expected to gradually slow down. In the short term, despite supply volatility caused by US/China trade dispute and shortage of key components, Windows10 replacement cycle will lead the growth in commercial sector, while consumer sector will likely be driven by preference in ultra-slim and gaming PC. In the long run, growth in commercial PC will be dominated by enterprises and public sector whereas growth in consumer PC and chromebook will be led by education institutions and gaming PC. PC replacement cycle has been prolonged by

increasing number of mobile devices with advanced features. Without innovative features, it is unlikely to stimulate the next wave of replacement cycle. As a result, according to IDC, the compound annual growth rate of overall PC volume from 2018 to 2022 is expected to -0.6%.

b. Communication Industry

According to IDC, the worldwide volume of smartphone shipped in 2018 reached 1.42 billion units, declined by 3.1% YoY, The decline was due to higher average selling price (“ASP”) on premium flagship smartphones, which negatively impact consumer appetite and discourage replacement cycle especially in the developed market. IDC further estimates that with more applications of 5G technology and demand in emerging markets, smartphone volume is likely to resume its growth momentum in the next few years and potentially reach 1.57 billion units in 2022, with estimated compound annual growth rate of 1.4% from 2017 to 2022. Smartphone growth is driven mainly by growing demand in emerging market and Asia Pacific region, whereas demand in other regions is likely to slow down. According to IDC’s estimation, with the launch of high end spec on various flagship models as well as 5G smartphones, smartphone ASP is likely to further escalate from US\$312.76 to US\$379.32 per unit from 2017 to 2020, with compound annual growth rate of 3.9%.

c. Consumer Electronics Industry

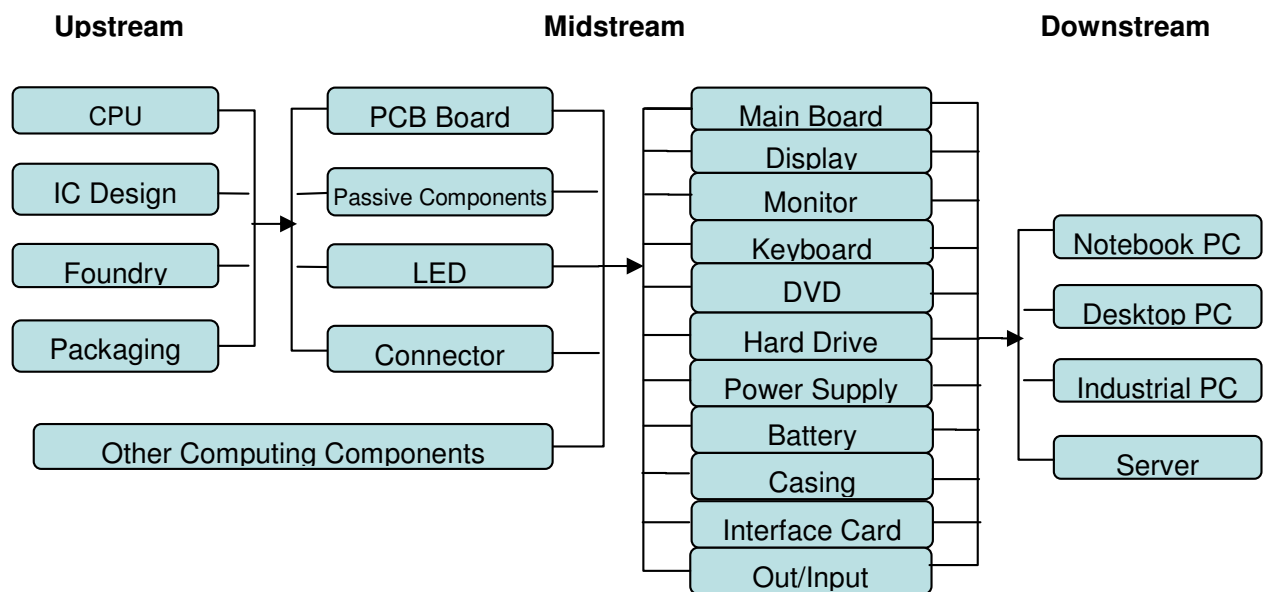
Tablets, game consoles and IoT devices are the major revenue contributors in consumer electronics segment. According to IDC, around 150 million units of tablet shipped in 2018, decline by 8.9% YoY. While consumer tablet market has been declining with cannibalization from lower price convertible PC and smartphones with large screen size, commercial tablets have been on a growing trend mainly driven by increasing adoption in education, financial, and public sectors. Looking forward to 2019, despite potential growth of commercial tablets with specific functions aiming at education, retail, medical and logistics sectors, it is believed that continuous decline in consumer tablets will negatively impact the overall tablet market. As a result, the compound annual growth rate of tablet market is expected to be -4.6% from 2017 to 2022.

Led by continuous market demand in Sony PS4 and Nintendo Switch, around 45.3 million units of game console shipped in 2018, an increase of 3.6% YoY. In 2019, market estimates that overall game console volume is expected to decline as Sony and Microsoft game consoles have been in the market for quite some time, while demand for Nintendo Switch also started to slow down. IDC further predicts that next wave of growth will start from 2020 after the launch of 9th general game console and volume will pick up from 2021. As a result, the compound growth rate

for game console will be -6.8% from 2017 to 2022.

According to IDC, worldwide spending on IoT field reached US\$646 billion in 2018, an increase of 16.4% YoY driven by increasing demand in IoT devices, followed by IoT related services. Going forward, it is expected that IoT platform and its analytics software will be the fastest growing categories. As the adoption of IoT is happening across industries while cloud and analytics capability are also improving alongside technology advancement, data generated by connecting devices is helping business, government and consumers operating in a more efficient manner and allow them to make well-informed and real-time decisions. IDC further forecasted that worldwide spending on IoT will continue to grow by 15.4% in 2019 with the compound growth rate of 13.7% from 2019 to 2022.

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



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

5.1.2.3 Trends of Product Development

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

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

5.1.2.4 Market Competition

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

Pegatron assembles computing, consumer electronics and communication products for brands customer. In addition to improving manufacturing efficiency, Pegatron also assist brand customers in handling global logistics and distribution as well as further cost reduction. While economies of scale and comprehensive vertical integration are considered two important elements, DMS service (design, manufacturing and services) and integrated services in hardware and software are also key successful factors to secure customers' orders.

5.1.3 Research and Development

5.1.3.1 Research and Development Expense in Recent Year

Unit: NT\$ thousands; %

Items	2017	2018
R&D Expense (A)	13,341,912	14,787,544
Net Revenue (B)	1,193,808,515	1,340,002,031
(A)/(B) %	1.12	1.10

5.1.3.2 Research and Development Accomplishments in the Recent Year

Year	Achievement in Research and Development
2018	<ol style="list-style-type: none"> 1. Developed big data storage and deep learning computing platform to provide toolset and services for deep learning application development, and combined with machine learning to develop best match, capacity simulation, optimized schedule related smart operation applications. 2. Developed face detection and face recognition by deep learning. Accuracy reaching 99.75% for LFW face data set. Applying to Door Bells, IP cameras, and robots. 3. Developed speaker verification by deep learning and applying to Door Bells and Robotic products. 4. Developed object detection reaching 99% accuracy and applying to Door Bell and IP cameras to detect humanoid shapes, detect flames, and gestures for Robotic products. 5. Developed pose estimation and applying to Robotic products. 6. Previously we were Google's official Android and ChromeOS, Android Auto 3PL certification labs in 2017. In 2018, we successfully qualified as Google's ART Audio certification Lab. 7. Developed the lightest 15" laptop with touch screen in the world as shown in IFA 2018/8, coming in at 990 grams by using special magnesium-lithium alloy, with new 8th-generation Intel Core i5 and i7 processors, a maximum of 16 GB of RAM, and up to 1 TB of SSD storage. This laptop was leveraged from 2017 Computex Pega Day project "Feather <1kg 15 inch laptop". 8. Developed a manufacturing calibration mechanism for camera + IMU based position tracking. The camera and IMU compensation parameters set has been proved to have superior position tracking performance when applied to a position tracking algorithm. Also, the calibration process can be accomplished with cost-effective manufacturing tools and processes. The calibration process is a key manufacturing process for any VR/AR HMD system equipped with inside-out tracking technology. 9. Developed a new type of conferencing speaker, combining passive radiator, which dramatically enhances its music playing quality. A simple conference speaker was turned into a BT speaker with excellent music listening experience. 10. Developing a high speed 4G LTE mobile hotspot with 802.11ac Wave II dual-band (2.4G/5G) wireless network support. It can provide a reliable high speed data connection anywhere anytime.

5.1.4 Long Term and Short Term Business Development Plans

5.1.4.1 Short Term Business Development Plan

- a. To increase market competitiveness, maintain operation sustainability and pursue higher annual revenue growth by lean operation management and effective manufacturing process.
- b. To improve the efficiency of logistic management by reducing logistic cost and shortening product delivery time.
- c. Based on the product mix to approach different markets with different strategies. For mainstream products, the aim is to increase value-added services and versatility of the products with industrial design and new

technologies, so as to become the market leader by developing leading products with innovative technology and expertise in the market. As for low cost products, the Company endeavors to provide products with lower manufacturing cost to fulfill consumers' needs.

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

5.1.4.2 Long Term Business Development Plan

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

- a. Customer Service Strategy
 - To strengthen the customer relationship and provide services in product planning, research and development, and manufacturing.
 - To complete the deployment of global sales network and provide comprehensive after sales services to customers.
- b. Manufacturing Strategy
 - To continuously promote the LSS project and improve the quality and efficiency at all level
 - To enhance vertical as well as horizontal integration and streamline group resources in related components, products, and services.
- c. Product Development Strategy
 - To focus on talent development especially in R&D and industrial design sectors and to enhance the Company's R&D capabilities.
 - To proactively develop material and technologies that are environmentally friendly and that comply with green product and other relevant environmental protection regulations

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Regions

Unit: NT\$ thousands; %

		2017		2018	
		Amount	%	Amount	%
Domestic		149,381,904	12.51	113,229,970	8.45
Export	Asia	139,079,110	11.65	146,020,946	10.90
	Europe	453,169,704	37.96	543,881,520	40.59
	America	407,742,938	34.15	473,857,313	35.36
	Others	44,434,859	3.73	63,012,282	4.70
	Subtotal	1,044,426,611	87.49	1,226,772,061	91.55
Total		1,193,808,515	100.00	1,340,002,031	100.00

5.2.1.2 Market Share

According to market research, notebook PC ODM/EMS companies in Taiwan accounted for 121 million units of notebook PCs in 2018, around 74% of total global shipment volume. This included 37.8 million units from Quanta, 39.5 million units from Compal, 17.5 million units from Wistron, 18.5 million units from Inventec and 7.7 million units from Pegatron. Notebook PCs manufactured by Pegatron accounted for 4.7% of worldwide volume.

5.2.1.3 Market Demand, Supply and Growth

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

Looking forward to 2019, consumer PC will move towards higher price tag models such as ultra-slim PC, gaming PC and 2-in-1 PC, whilst commercial PC will be incentivized by demand increase from enterprises, education institutions and government agency, alongside Windows10 replacement cycle. However, the overall PC market is still subject to uncertainties over US/China trade dispute, key component shortage and increasing preferences in mobile devices. Overall PC volume is expected to slow down in the short term. As for the outlook of mobile devices, despite smartphone volume slowing down in the developed countries, major product innovation leveraging 5G technologies and its applications will help stimulate another wave of replacement cycle. With IoT industry gradually maturing and demand of IoT devices substantially increasing, there will be various applications for consumer electronics segment such as smart home devices, wearable devices, auto electronics, Internet of Vehicles, etc. to boost market demand.

5.2.1.4 Competitive Advantages

a. Experienced R&D Team

In addition to R&D Center within the Company, there are also designated research and development engineers in each product category. As of the date of this annual report, total research and development engineers reached 6,835. The leading research and development engineers in each product development have more than 15 years of experience in the relevant fields.

b. Comprehensive Manufacturing Locations

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

c. Diversified Product Portfolio and Customer Based

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

d. Global Logistics Capabilities

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

e. Professional Management Team

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

f. Innovation Capabilities

With outstanding design capabilities and effective manufacturing capacity, the Company is able to design products based on customers' requirements and shorten products' time to market. The Company has in-depth study of special material and is able to offer various selections of material with a cost effective options. The industrial design team, after years of experience, has

effective options. The industrial design team, after years of experience, has won numerous international awards. It is evident that the capability of producing innovative designs is one of the core competitive advantages of the Company.

g. Comprehensive Vertical Integration

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

5.2.1.5 Advantages, Disadvantages and its Responsive Strategies

Advantages

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

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

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

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

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

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

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

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

e. Comprehensive after sales service network

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

Disadvantages

a. Declined gross margin due to severe pricing competition

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

b. Profit margin impact by fluctuation of foreign exchange rates

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

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

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

Responsive Strategies

- a. Enhance research and development capability and manufacture high value-added products.
- b. Enforce cost control and inventory management, and maximize production efficiency by increasing automation.

- c. Maximize the hedging effect by balancing the position in foreign and local currencies.
- d. Invest in automation equipment to reduce the reliance on labor and improve product quality.
- e. Allocate labors across manufacturing sites appropriately and minimize the impact of labor shortage.

5.2.2 Application of Major Products

a. Computing Products

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

b. Communication Products

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

c. Consumer Electronics Products

Products that can be used for entertainment and smart home connectivity, such as tablets, game consoles, smart home security systems, etc.

5.2.3 Supply of Major Material

Major Raw Materials	Source of Supply	Supply Situation
Chipset	R Company 、X Company 、S Company	Stable
System Module	X Company 、Q Company	Stable
Display	X Company 、Z Company	Stable
Mechanical Parts	X Company 、T Company 、O Company	Stable
PCB/FPC/ FPC Module	X Company 、P Company	Stable

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

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

5.2.4.1 Major Suppliers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2017				2018			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	X Company (Note 1)	509,466,562	48.23	None	X Company (Note 1)	635,266,185	52.61	None
2	Z Company (Note 1)	87,729,527	8.31	Shareholder	Z Company (Note 1)	64,158,380	5.31	Shareholder
3	U Company (Note 1)	43,646,107	4.13	None	U Company (Note 1)	45,542,156	3.77	None
	Others	415,414,018	39.33	-	Others	462,497,402	38.30	-
	Net Total Purchases	1,056,256,214	100.00	-	Net Total Purchases	1,207,464,123	100.00	-

Note 1: In 2017 and 2018, the Company purchased (raw) material via major customers.

Note 2: Increase and decrease of the amount was due to business demand.

5.2.4.2 Major Customers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2017				2018			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	A Company	733,049,391	61.40	None	A Company	844,032,246	62.99	None
2	B Company	111,201,206	9.31	Shareholder	B Company	79,615,762	5.94	Shareholder
	Others	349,557,918	29.29	-	Others	416,354,023	31.07	-
	Net Total Sales	1,193,808,515	100.00	-	Net Total Sales	1,340,002,031	100.00	-

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

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

Unit: thousands; NT\$ thousands

Major Products (or by departments)	Year	2017			2018		
		Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products		211	211	2,340,607	253	241	2,858,936
Other		-	-	6,133,415	-	-	7,935,227
Total		211	211	8,474,022	253	241	10,794,163

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

5.2.6 Sales Quantities and Value of the Last Two Years

Unit: thousands; NT\$ thousands

Shipments Year & Sales Major Products	2017				2018			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	14,490	136,231,563	164,588	919,288,918	10,669	100,228,383	198,498	1,101,568,160
Others	-	3,641,437	-	21,413,077	-	2,699,384	-	29,837,371
Total	14,490	139,873,000	164,588	940,701,995	10,669	102,927,767	198,498	1,131,405,531

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

5.3 Status of Employees

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

Year		2017	2018	As of 03/15/2019
Number of Employees	Others	2,694	2,829	2,886
	R&D	4,399	4,310	4,259
	Total	7,093	7,139	7,145
Average Age		36.1	36.6	36.7
Average Years of Service		6.86	7.2	7.3
Education	Ph.D.	0.20%	0.21%	0.21%
	Masters	42.51%	42.04%	41.72%
	Bachelor's Degree	51.02%	51.17%	51.28%
	Senior High School	5.58%	5.95%	6.16%
	Below Senior High School	0.69%	0.63%	0.63%

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

5.4 Expenditure on Environmental Protection

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

In 2018 and as of the date of this annual report, the Company was in accordance with environmental legislation and did not incur any loss or receive any penalty for major environmental pollution. Environmental aspects are identified and managed under an environmental management system externally certified to the international standard ISO14001 (Environmental Management System). There are designated personnel within the company who are in charge of environmental protection in compliance with the legal requirements. Waste clearance and disposal, wastewater management, environmental measurement and chemicals management have been conducted and controlled according to management procedures. Besides, we entrust the 3rd parties to measure the

concentration of the emissions and discharges to eliminate environmental pollution and ensure its compliance with relevant legal regulations. In order to meet the international regulations and customer requirements, the company introduces IECQ QC 080000 (Hazardous Substances Process Management System) to ensure the compliance of its products. Suppliers are requested to sign statements, provide material testing reports and guarantee that their products do not contain any environmental hazardous substance. Major expenditure on environmental protection includes the costs of pollution control, waste disposal, environmental monitoring, inspections of hazardous chemicals on products, environmental management system certification, hiring of dedicated professionals, environmental trainings and the relevant activities.

5.5 Employee Relations

5.5.1 Employee's Welfare and Benefit

a. Employee welfare and benefit

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

b. Training program

We place great emphasis on career planning and talent development for employees by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency development to enhance employees' capabilities, while external training programs include seminars or conferences organized by external parties that provide excellent training opportunities for employees. We have around 91,000 training hours in 2018. The average training hour is above 13 hours per employee.

Resources of Learning	Description
New employee orientation	<ul style="list-style-type: none"> Corporate introduction, corporate culture, and online orientation programs, HSF, and Occupational Safety & Health Programs are included to help new employees know about Pegatron and adapt to the new work environment In order to help new employee be familiar with the environment and the internal procedures quickly, each new employee may have one mentor
Core competency training	We plan trainings of each level's employees which are based on competencies.

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

c. Retirement system

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

d. Employee rights

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

e. Employees code of conduct

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

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

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

5.6 Important Contracts

As of 03/15/2019

Agreement	Counterparty	Period	Major Contents	Restrictions
Appointment Agreement	ABeam Consulting Ltd	03/28/2008 ~ to date	SAP system development and migration	Should ABeam not complete the work specified in the contract, the Company is entitled to cancel the contract and request for punitive damage as well as other compensation, provided ABeam is solely responsible for not completing the work as scheduled.
Software Purchase Agreement	NEC Taiwan Ltd	03/07/2012 ~ to date	Purchase of SAP software	None
License Agreement	SAP Taiwan Co., Ltd.	03/07/2012 ~ to date	License of SAP software	None
Lease Agreement	WIN Semiconductors Corp.	06/01/2016 ~ 4/30/2020	Lease the building from WIN as the factory.	None
Software Purchase Agreement	Acer e-Enabling Service Business Inc.	12/1/2016 ~ 11/30/2019	Purchase of Microsoft operating system and the related software	None
License Agreement	Microsoft Operations Pte Ltd.	12/1/2016 ~ 11/30/2019	License of Microsoft Office system and the related software	None
Construction Engineering Agreement	Li Jing Engineering Co. Ltd.	2015/11/15 ~ 2018/4/2	Reconstruction of Li-de building	None
Construction Engineering Agreement	ACTER CO.,LTD.	3/10/2016 ~ 4/27/2018	Electrical & HVAC Reconstruction of Li-de building	None
Investment Agreement	China Renewable Energy Fund GP Pte. Ltd., Deutsche Asset Management (Hong Kong) Limited, and ARA Initial Limited	6/29/2018	Participate in China Renewable Energy Fund investment	None
Lease Agreement	Suzhou DTW Warehouse Co., Ltd.	1/1/2018	Lease the hub for product storage	None

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

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheet

Unit: NT\$ thousands

Year		Five-Year Financial Summary (Note)				
		2014	2015	2016	2017	2018
Current assets		369,602,726	390,403,344	364,225,586	395,398,572	482,805,097
Funds & Investments		490,372	424,191	362,909	503,718	246,423
Property, plant and equipment		72,898,284	71,037,778	66,860,809	78,075,271	87,605,762
Intangible assets		1,601,259	1,555,087	1,439,186	1,497,234	1,475,872
Other assets		12,500,500	12,666,263	11,056,743	12,760,824	12,217,461
Total assets		457,093,141	476,086,663	443,945,233	488,235,619	584,350,615
Current liabilities	Before Distribution	264,997,445	267,707,497	254,236,823	291,327,147	370,401,314
	After Distribution	275,507,067	280,660,998	267,110,739	301,781,799	Undistributed
Non-current liabilities		17,224,466	16,040,641	7,686,209	17,184,662	27,502,518
Total liabilities	Before Distribution	282,221,911	283,748,138	261,923,032	308,511,809	397,903,832
	After Distribution	292,731,533	296,701,639	274,796,948	318,966,461	Undistributed
Equity		133,670,931	150,380,135	148,269,590	145,975,738	150,028,838
Share capital		25,156,805	26,030,205	25,751,695	26,140,906	26,123,773
Capital surplus		74,295,720	78,972,374	78,214,259	79,897,751	80,676,330
Retained earnings	Before Distribution	29,325,244	42,655,172	48,104,750	49,976,468	51,627,273
	After Distribution	18,815,622	29,701,671	35,230,834	39,521,816	Undistributed
Other equity interest		4,901,345	2,724,974	(3,798,868)	(10,037,445)	(8,393,564)
Treasury stock		(8,183)	(2,590)	(2,246)	(1,942)	(4,974)
Non-controlling interests		41,200,299	41,958,390	33,752,611	33,748,072	36,417,945
Total Equity	Before Distribution	174,871,230	192,338,525	182,022,201	179,723,810	186,446,783
	After Distribution	164,361,608	179,385,024	169,148,285	169,269,158	Undistributed

Note: Above financial information has been audited by CPA.

6.1.2 Condensed Consolidated Statement of Comprehensive Income

Unit: NT\$ thousands

Item	Year	Five-Year Financial Summary (Note)				
		2014	2015	2016	2017	2018
Operating revenues		1,019,738,833	1,213,712,976	1,157,710,113	1,193,808,515	1,340,002,031
Gross profit		59,455,442	75,274,993	63,067,117	46,669,889	40,768,545
Results from operating activities		28,320,585	39,674,544	32,413,969	18,998,696	11,930,623
Non-operating income and expenses		(2,058,498)	(488,530)	(3,334,299)	1,414,354	3,125,644
Profit before tax		26,262,087	39,186,014	29,079,670	20,413,050	15,056,267
Profit (loss) from continuing operations		18,927,613	28,871,859	22,137,392	16,014,772	11,116,099
Profit (loss) from discontinued operations		-	-	-	-	-
Profit (loss)		18,927,613	28,871,859	22,137,392	16,014,772	11,116,099
Other comprehensive income (after tax)		6,256,340	(1,339,618)	(8,421,469)	(5,878,122)	1,776,451
Comprehensive income		25,183,953	27,532,241	13,715,923	10,136,650	12,892,550
Profit (loss), attributable to owners of parent		14,658,138	23,811,625	19,339,815	14,682,988	11,114,866
Profit (loss), attributable to non-controlling interests		4,269,475	5,060,234	2,797,577	1,331,784	1,233
Comprehensive income, attributable to owners of parent		19,604,022	22,809,542	12,008,187	9,241,061	13,096,757
Comprehensive income, attributable to non-controlling interests		5,579,931	4,722,699	1,707,736	895,589	(204,207)
Basic earnings per share		6.24	9.23	7.05	5.66	4.25

Note: Above financial information has been audited by CPA.

6.1.3 Condensed Individual Balance Sheet

Unit: NT\$ thousands

Year Item		Five-Year Financial Summary (Note)				
		2014	2015	2016	2017	2018
Current assets		316,056,068	317,603,542	372,570,658	380,463,314	560,145,033
Funds & Investments		112,093,393	117,840,661	117,619,640	122,190,881	129,941,116
Property, plant and equipment		4,478,327	4,423,894	4,724,010	4,722,912	7,384,642
Intangible assets		48,713	67,576	184,050	316,961	293,045
Other assets		206,989	333,018	833,534	1,259,125	1,546,820
Total assets		432,883,490	440,268,691	495,931,892	508,953,193	699,310,656
Current liabilities	Before Distribution	286,989,503	279,015,180	344,696,528	355,933,994	534,208,466
	After Distribution	297,499,125	291,968,681	357,570,444	366,388,646	Undistributed
Non-current liabilities		12,223,056	10,873,376	2,965,774	7,043,461	15,073,352
Total liabilities	Before Distribution	229,212,559	289,888,556	347,662,302	362,977,455	549,281,818
	After Distribution	309,722,181	302,842,057	360,536,218	373,432,107	Undistributed
Equity		NA	NA	NA	NA	NA
Share capital		25,156,805	26,030,205	25,751,695	26,140,906	26,123,773
Capital surplus		74,295,720	78,972,374	78,214,259	79,897,751	80,676,330
Retained earnings	Before Distribution	29,325,244	42,655,172	48,104,750	49,976,468	51,627,273
	After Distribution	18,815,622	29,701,671	35,230,834	39,521,816	Undistributed
Other equity interest		4,901,345	2,724,974	(3,798,868)	(10,037,445)	(8,393,564)
Treasury stock		(8,183)	(2,590)	(2,246)	(1,942)	(4,974)
Non-controlling interests		NA	NA	NA	NA	NA
Total Equity	Before Distribution	133,670,931	150,380,135	148,269,590	145,975,738	150,028,838
	After Distribution	123,161,309	137,426,634	135,395,674	135,521,086	Undistributed

Note: Above financial information has been audited by CPA.

6.1.4 Condensed Individual Statement of Comprehensive Income

Unit: NT\$ thousands

Year Item	Five-Year Financial Summary (Note1)				
	2014	2015	2016	2017	2018
Operating revenues	897,963,588	1,053,435,822	1,008,096,787	1,080,574,995	1,234,333,298
Gross profit (Note 2)	24,884,749	32,722,289	26,868,971	18,787,939	17,785,437
Results from operating activities	7,971,306	14,062,692	12,121,369	6,304,079	5,163,823
Non-operating income and expenses	8,467,161	12,674,865	9,776,015	8,896,368	6,579,206
Profit before tax	16,438,467	26,737,557	21,897,384	15,200,447	11,743,029
Profit (loss) from continuing operations	14,658,138	23,811,625	19,339,815	14,682,988	11,114,866
Profit (loss) from discontinued operations	-	-	-	-	-
Profit (loss)	14,658,138	23,811,625	19,339,815	14,682,988	11,114,866
Other comprehensive income (after tax)	4,945,884	(1,002,083)	(7,331,628)	(5,441,927)	1,981,891
Comprehensive income	19,604,022	22,809,542	12,008,187	9,241,061	13,096,757
Profit (loss), attributable to owners of parent	NA	NA	NA	NA	NA
Profit (loss), attributable to non-controlling interests	NA	NA	NA	NA	NA
Comprehensive income, attributable to owners of parent	NA	NA	NA	NA	NA
Comprehensive income, attributable to non-controlling interests	NA	NA	NA	NA	NA
Basic earnings per share	6.24	9.23	7.50	5.66	4.25

Note 1: Above financial information has been audited by CPA.

Note 2: Gross profit included realized (unrealized) profits from affiliated companies.

6.1.5 Auditing by CPA from 2014 to 2018

Year	CPA Firm	CPA's Name	Auditing Opinion
2014	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2015	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2016	KPMG	Kuo-Yang Tseng & Chi-Lung Yu	Unqualified
2017	KPMG	Kuo-Yang Tseng & Chi-Lung Yu	Unqualified
2018	KPMG	Kuo-Yang Tseng & Chi-Lung Yu	Unqualified

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis

Year (Note1) Item (Note 2)		Five-Year Financial Analysis				
		2014	2015	2016	2017	2018
Capital structure (%)	Debt ratio	61.74	59.60	59.00	63.19	68.09
	Ratio of long-term capital to property, plant and equipment	259.02	288.08	279.01	248.06	240.79
Solvency	Current ratio (%)	139.47	145.83	143.26	135.72	130.35
	Quick ratio (%)	98.84	95.87	98.23	90.20	83.82
	Times interest earned (Times)	31.26	59.29	32.88	22.45	6.80
Operating ability	Accounts receivable turnover (Times)	8.56	9.55	10.65	9.69	7.62
	Average collection period	42.64	38.22	34.27	37.66	47.90
	Inventory turnover (Times)	9.11	10.07	9.23	9.44	8.55
	Accounts payable turnover (Times)	5.76	6.78	6.59	6.41	6.26
	Average days in sales	40.06	36.26	39.52	38.66	42.69
	Property, plant, and equipment turnover (Times)	13.99	17.09	17.32	15.29	15.30
	Total assets turnover (Times)	2.23	2.55	2.61	2.45	2.29
Profitability	Return on total assets (%)	4.50	6.31	4.98	3.61	2.46
	Return on stockholders' equity (%)	11.87	15.72	11.83	8.85	6.07
	Pretax profit to paid-in capital (%)	104.39	150.54	112.92	78.09	57.63
	Net profit margin (%)	1.86	2.38	1.91	1.34	0.83
	Basic earnings per share (\$)	6.24	9.23	7.50	5.66	4.25
Cash flow	Cash flow ratio (%)	18.70	3.72	28.25	6.46	(Note 3)
	Cash flow adequacy ratio (%)	84.98	63.88	109.74	102.32	58.65
	Cash reinvestment ratio (%)	15.58	(Note3)	22.34	1.65	(Note 3)
Leverage	Operating leverage	1.49	1.35	1.40	1.69	2.38
	Financial leverage	1.03	1.02	1.03	1.05	1.28

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio decreased in 2018 due to the increase in interest expense.
2. Accounts receivable turnover (Times): The ratio decreased in 2018 due to the increase in accounts receivable.
3. Average collection period: The ratio increased in 2018 due to the decrease in accounts receivable turnover (Times).
4. Return on total assets: The ratio decreased in 2018 due to the decrease in gross profit and net income.
5. Return on stockholders' equity: The ratio decreased in 2018 due to the decrease in gross profit and net income.
6. Pretax profit to paid-in capital: The ratio decreased in 2018 due to the decrease in gross profit and profit before tax.
7. Net profit margin: The ratio decreased in 2018 due to the decrease in gross profit and net income.
8. Basic EPS: The amount decreased in 2018 due to the decrease in net income.
9. Cash flow ratio: The ratio decreased in 2018 due to the decrease in net cash inflow from operating activity.
10. Cash flow adequacy ratio: The ratio decreased in 2018 due to the decrease in net cash inflow from operating activity.
11. Cash reinvestment ratio: The ratio decreased in 2018 due to the decrease in net cash inflow from operating activity.
12. Operating leverage: The ratio increased in 2018 due to the decrease in results from operating activities.
13. Financial leverage: The ratio increased in 2018 due to the increase in interest expense.

Note 1: Financial report of each year has been audited by CPA firm.

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

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

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

(1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets

(2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity

(3) Return to issued capital stock = Net income before tax / Issued capital stock

(4) Profit ratio = Net income (loss) / Net sales

(5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activity / Current liability

(2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years

(3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)

6. Balance

(1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)

(2) Degree of financial leverage = Operating income / (Operating income – interest expense)

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

6.2.2 Individual Financial Analysis

Year (Note1)		Five-Year Financial Analysis				
		2014	2015	2016	2017	2018
Item (Note 2)						
Capital structure (%)	Debt ratio	69.12	65.84	70.10	71.32	78.55
	Ratio of long-term capital to property, plant and equipment	3,252.40	3,639.15	3,195.62	3,238.85	2,234.58
Solvency	Current ratio (%)	110.13	113.83	108.09	106.89	104.86
	Quick ratio (%)	103.69	104.12	99.72	96.95	95.45
	Times interest earned (Times)	34.79	66.32	45.46	28.56	8.20
Operating ability	Accounts receivable turnover (Times)	5.34	9.18	9.08	8.95	7.96
	Average collection period	68.35	39.76	40.20	40.78	45.85
	Inventory turnover (Times)	42.07	43.97	34.56	32.36	27.88
	Accounts payable turnover (Times)	4.12	4.82	3.99	3.55	3.25
	Average days in sales	8.68	8.30	10.56	11.28	13.09
	Property, plant, and equipment turnover (Times)	200.51	238.12	213.40	228.79	167.15
	Total assets turnover (Times)	2.07	2.39	2.03	2.12	1.77
Profitability	Return on total assets (%)	3.69	5.53	4.22	3.01	2.06
	Return on stockholders' equity (%)	12.17	16.77	12.95	9.98	7.51
	Pretax Profit to paid-in capital (%)	65.34	102.72	85.03	58.15	44.95
	Net profit margin (%)	1.63	2.26	1.92	1.36	0.90
	Basic earnings per share (\$)	6.24	9.23	7.50	5.66	4.25
Cash flow	Cash flow ratio (%)	7.10	0.18	15.86	(Note3)	(Note 3)
	Cash flow adequacy ratio (%)	44.82	12.15	85.59	76.57	40.46
	Cash reinvestment ratio (%)	9.45	(Note3)	27.41	(Note3)	(Note 3)
Leverage	Operating leverage	1.08	1.05	1.05	1.13	1.14
	Financial leverage	1.07	1.03	1.04	1.10	1.46

Analysis of financial ratio change in the last two years.

- Ratio of long-term capital to property, plant and equipment: The ratio decreased in 2018 due to the increase in property, plant and equipment.
- Times interest earned ratio: The ratio decreased in 2018 due to the increase in interest expense.
- Property, plant and equipment turnover (Times): The ratio decreased in 2018 due to the increase in property, plant and equipment.
- Return on total assets: The ratio decreased in 2018 due to the decrease in gross profit and net income.
- Return on stockholders' equity: The ratio decreased in 2018 due to the decrease in gross profit and net income.
- Pretax Profit to paid-in capital: The ratio decreased in 2018 due to the decrease in gross profit and profit before tax.
- Net profit margin: The ratio decreased in 2018 due to the decrease in gross profit and net income.
- Basic EPS: EPS decreased in 2018 due to the decrease in net income.
- Cash flow adequacy ratio: The ratio decreased in 2018 due to the decrease in net cash inflow from operating activity.
- Financial leverage: The ratio increased in 2018 due to the increase in interest expense.

Note 1: Financial report of each year has been audited by CPA firm.

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

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

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business

3. Operating ability

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

4. Profitability

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

5. Cash flow

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

6. Balance

- (1) Degree of operating leverage = $(\text{Net operating income} - \text{Variable operating cost and expense}) / \text{Operating income (note 6)}$
- (2) Degree of financial leverage = $\text{Operating income} / (\text{Operating income} - \text{interest expense})$

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

6.3 Audit Committee's Report in the Most Recent Year

Pegatron Corporation

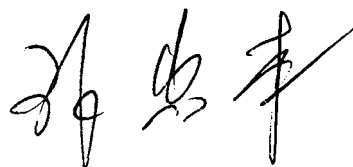
Audit Committee's Review Report

Date: March 14, 2019

The Board of Directors has prepared the Pegatron Corporation's ("the Company") 2018 Business Report, financial statements, and proposal for earning distribution. The CPA firm of KPMG was retained to audit the Company's financial statements and has issued an audit report relating to the financial statements. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the Audit Committee members of Pegatron Corporation. According to Article 14-4 of Securities and Exchange Act and relevant requirement of the Company Law, we hereby submit this report.

Pegatron Corporation

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



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

Please refer to Attachment I.

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

Please refer to Attachment II.

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

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

7.1 Analysis of Financial Status – Consolidated

Unit: NT\$ thousands; %

Item	Year		Difference	
	2017	2018	Amount	%
Current Assets	395,398,572	482,805,097	87,406,525	22.11%
Funds & Investments	503,718	246,423	(257,295)	(51.08%)
Property, plant and equipment	78,075,271	87,605,762	9,530,491	12.21%
Intangible Assets	1,497,234	1,475,872	(21,362)	(1.43%)
Other Assets	12,760,824	12,217,461	(543,363)	(4.26%)
Total Assets	488,235,619	584,350,615	96,114,996	19.69%
Current Liabilities	291,327,147	370,401,314	79,074,167	27.14%
Long-term Liabilities	13,947,276	24,498,443	10,551,167	75.65%
Other Liabilities	3,237,386	3,004,075	(233,311)	(7.21%)
Total Liabilities	308,511,809	397,903,832	89,392,023	28.98%
Capital stock	26,140,906	26,123,773	(17,133)	(0.07%)
Capital surplus	79,897,751	80,676,330	778,579	0.97%
Retained Earnings	49,976,468	51,627,273	1,650,805	3.30%
Other Adjustments	23,708,685	28,019,407	4,310,722	18.18%
Total Stockholders' Equity	179,723,810	186,446,783	6,722,973	3.74%

Analysis of changes in financial ratios:

1. Current Assets: The increase is due to the increase of accounts receivable and inventory.
2. Funds & Investments: The decrease is due to the decrease of unrealized gains on available-for-sale financial assets recognized under equity method.
3. Current Liabilities: The increase is due to the increase of short-term loans and accounts payable.
4. Long-term Liabilities: The increase is due to the increase of long-term loans and issuance of corporate bonds.
5. Total Liabilities: The increase is due to the increase of current liabilities and long-term liabilities.

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

No significant changes on the Company's financial condition.

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

7.2 Analysis of Operating Results - Consolidated

Unit: NT\$ thousands; %

Item	Year		Difference	
	2017	2018	Amount	%
Net Sales	1,193,808,515	1,340,002,031	146,193,516	12.25%
Cost of Sales	1,147,138,626	1,299,233,486	152,094,860	13.26%
Gross Profit	46,669,889	40,768,545	(5,901,344)	(12.64%)
Operating Expense	27,671,193	28,837,922	1,166,729	4.22%
Results from operating activities	18,998,696	11,930,623	(7,068,073)	(37.20%)
Non-operating Income and Expenses	1,414,354	3,125,644	1,711,290	120.99%
Profit Before Tax	20,413,050	15,056,267	(5,356,783)	(26.24%)
Income Tax Expense	4,398,278	3,940,168	(458,110)	(10.42%)
Profit for the year	16,014,772	11,116,099	(4,898,673)	(30.59%)
Other Comprehensive Income	(5,878,122)	1,776,451	7,654,573	(130.22%)
Total Comprehensive Income	10,136,650	12,892,550	2,755,900	27.19%
Analysis of changes in financial ratios:				
1. Results from operating activities: The decrease is due to the decrease of gross profit.				
2. Non-Operating Income and Expense: The increase is due to the increase of foreign exchange gain.				
3. Profit Before Tax: The decrease is due to the decrease of results from operating activities.				
4. Profit for the year: The decrease is due to the decrease of profit before tax.				
5. Other comprehensive income: The increase is due to the increase in exchange difference on translation of foreign financial statements.				
6. Total Comprehensive Income: The increase is due to the increase in other comprehensive income.				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year – Consolidated

Unit: NT\$ thousands; %

Item \ Year	2018	2017	Difference	
			Amount	%
Cash flows from operating activities	(23,147,927)	18,823,847	(41,971,774)	222.97
Cash flows from investing activities	(24,978,899)	(27,164,586)	2,185,687	8.05
Cash flows from financing activities	45,142,071	11,265,631	33,876,440	300.71

Analysis of changes in financial ratios:

1. Cash flows from operating activities: The decrease in cash flow was due to increased inventory and increased accounts receivable as compared to the previous year.
2. Cash flows from investing activities: The increase was due to decreased prepayments on purchase of equipment as compared to the previous year.
3. Cash flows from financing activities: The increase was due to increased short-term debt and cash injection from the subsidiary as compared to the previous year.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

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

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

7.4 Major Capital Expenditure Items: None.

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

The Company's long-term investment accounted under the equity method is mostly for strategic purposes. In 2018, the investment income under equity method reached NT\$6,634,627 thousand dollars, which decreased by 34.6% as compared to the previous year. The decrease was due to order fluctuation from customers in 2018. For future investment, the Company will continue focusing on strategic purpose and carefully assessing the financial risks and its return in order to maximize the value for the Company.

7.6 Analysis of Risk Management

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

(1) Interest Rate

The Company's interest rate risks mainly arise from the short-term loans made from banks and the short-term capital management for working capital needs. In order to reduce the risks of interest rates, especially relating to bank loans, the Company contacts banks on the regular basis, studies the trend of interest rate and negotiates for the best interest rate for the Company. We also issued NT\$15 billion unsecured corporate bonds in order to lock in long term funding cost. As for short-term capital management, the Company mainly invests in financial instruments of fixed deposit,

which not only secures the capital but also reduces associated risks.

(2) Foreign Exchange Rate

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

- a. Collecting market information for analysis and risk evaluation, contacting banks on a regular basis to be fully aware of the trend of foreign exchange rate, and adjusting financial positions in foreign currency when necessary.
- b. Securing reasonable profits by taking foreign exchange into consideration when providing quotations for sales.

(3) Inflation

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index increased by 1.35% and 3.64% respectively in 2018, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2018. The Company observes the changes of market price at all times and adjusts selling price or inventory levels when necessary.

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

(1) High-Risk, High-Leverage Investment

In 2018 and as of the date of this annual report, the Company has not conducted any high-risk and/or high-leverage investment.

(2) Loaning or Endorsement Guarantees

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

(3) Derivatives Transactions

The Company did not conduct any derivative transactions in 2018. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets". The derivative transactions conducted by the Company's subsidiaries are for hedging purpose. For non-hedging transactions, subsidiaries will handle cautiously.

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company focuses on the development of products that are integrated with high added value based on the Company's product roadmap. Going forward, it is estimated that around NT\$10 billion will be spent on product research and development and pursuing leading position in core business by controlling factors such as talent, capital, technology, etc.

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

The Company complies with regulations associating with corporate governance, company law, security law and other important sources of regulations. In addition, the Company also monitors material changes in governing regulations and laws and be fully aware of the changes in the markets. In 2018 and as of the date of this annual report, there were no such risks to the Company.

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

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

The Company established an information security management organization to identify and control information security risks to protect information assets from various security threats. Currently, the risks identified are under control and no material impact to business operation.

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

Since the date of incorporation, the Company has been having a positive corporate image and complying with relevant laws and regulations. In 2018 and as of the date of this annual report, there were no such risks for the Company.

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

In 2018 and as of the date of this annual report, the Company did not have any plans for mergers and acquisitions and there were no such risks for the Company.

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

The Company takes factors such as global economy, industry outlook, market demand and customers' order forecast into consideration when planning factory and capacity expansion. In 2018 and as of the date of this annual report, the benefits of expansion plan meet the Company's expectation.

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

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

a. Source of Purchase

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

b. Sales of Products

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

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

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

As of the date of this annual report, Asustek Computer Inc. owns around 17.17% of Pegatron total outstanding shares. Asustek has reiterated its intention to gradually and orderly reduce its equity interest in Pegatron. Pegatron will work closely with Asustek to complete their contemplated disposals of Pegatron shares in a way that would minimize the negative impact on the price of Pegatron shares and other shareholders.

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

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

7.6.12 Litigation or Non-litigation Matters

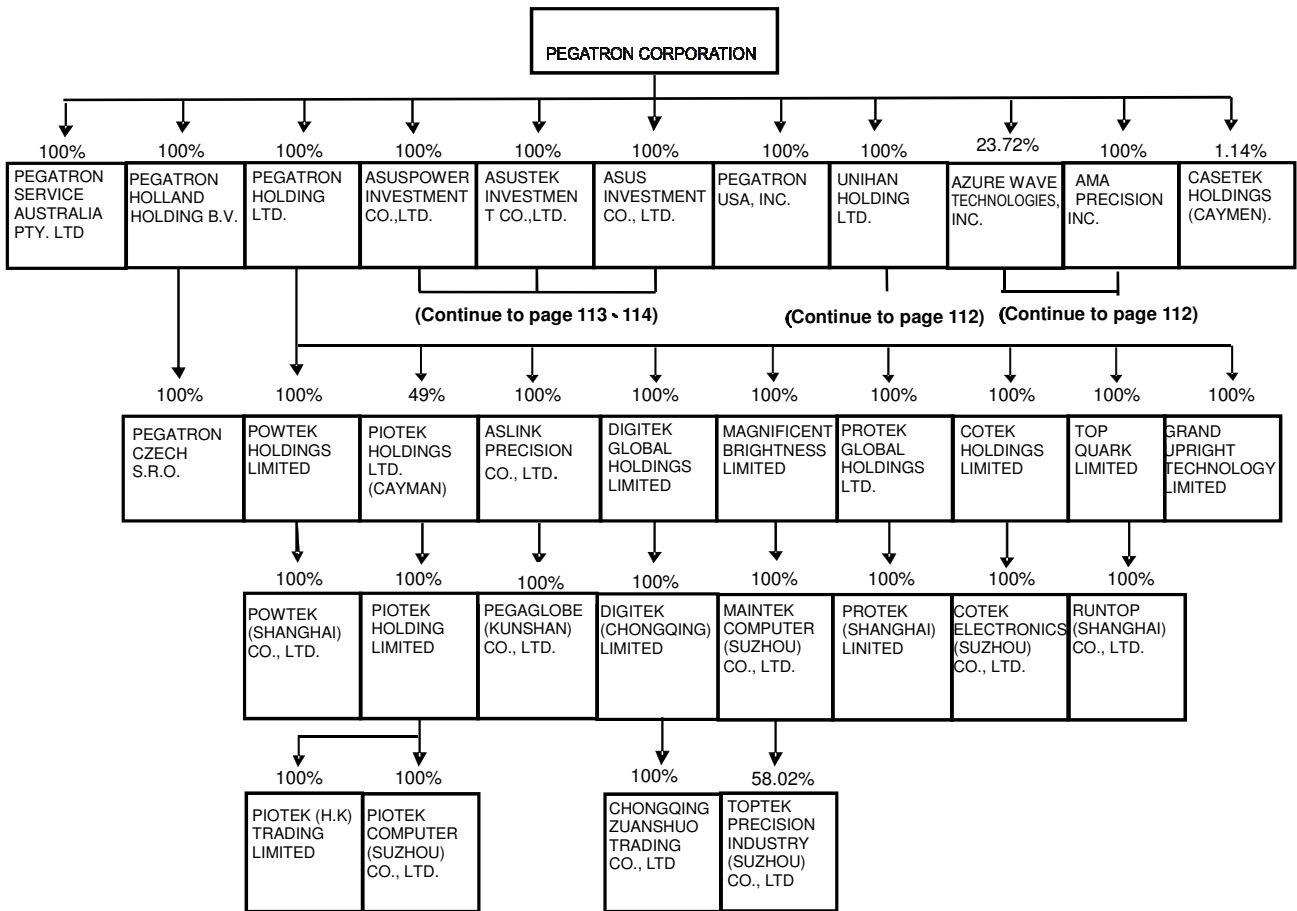
In 2018 and as of the date of this annual report, the Company did not engage in litigation or non-litigation matters that had significant impacts on shareholders' right or security prices. For litigation or non-litigation matter for major shareholder with 10% or more holding (as of the date of this annual report, Asustek Computer Inc. is the only shareholder with more than 10% of shareholding), please refer to the major shareholder's annual report.

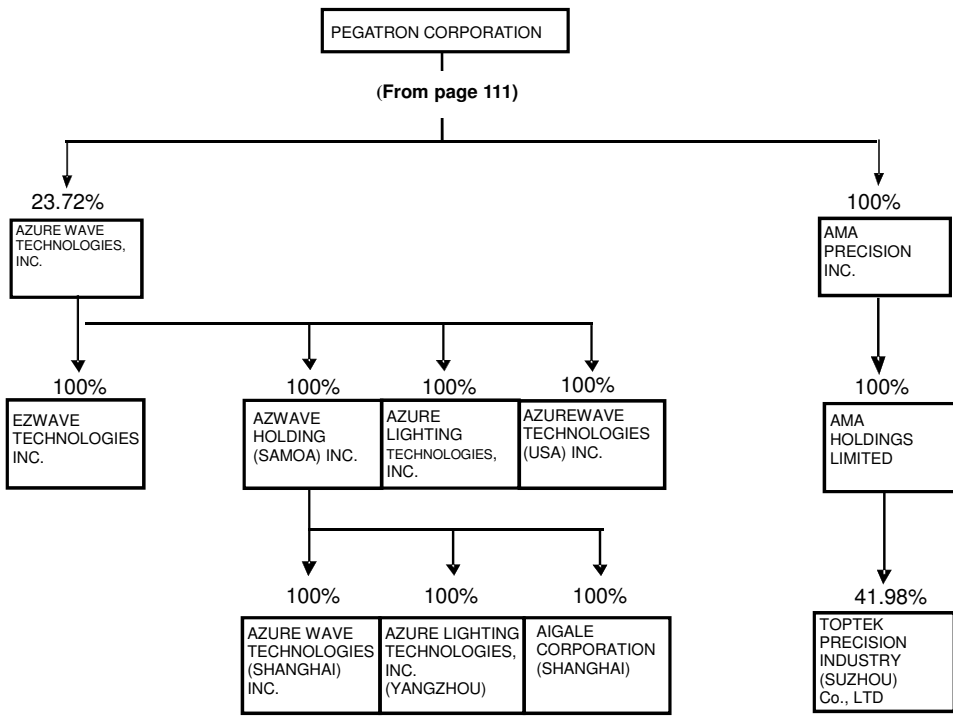
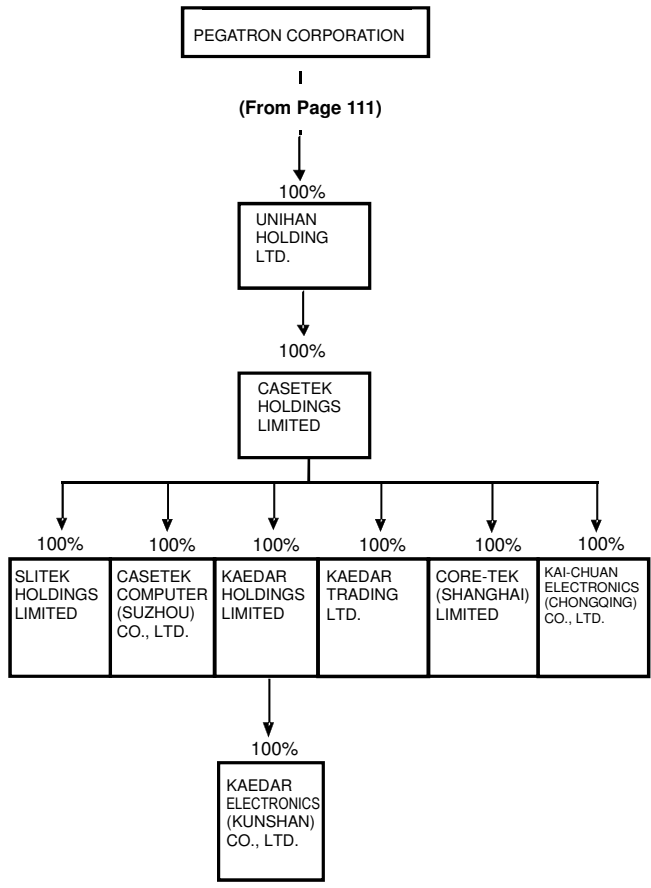
7.7 Other Major Risks

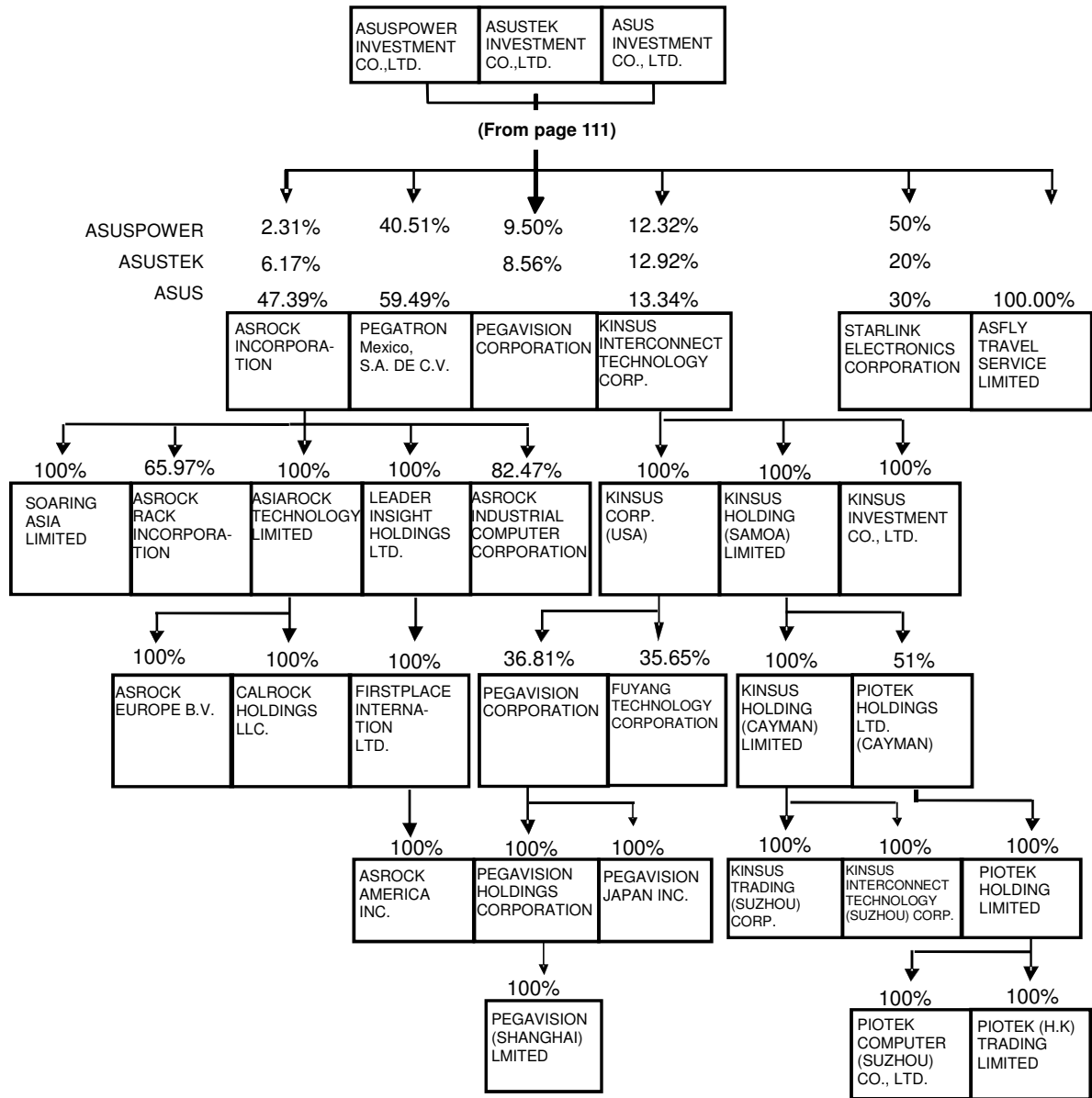
In 2018 and as of the date of this annual report, the Company did not have any other major risks.

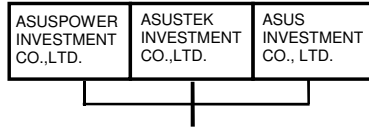
8. Other Special Notes
8.1 Summary of Affiliated Companies
8.1.1 Affiliated Companies Chart

As of 12/31/2018

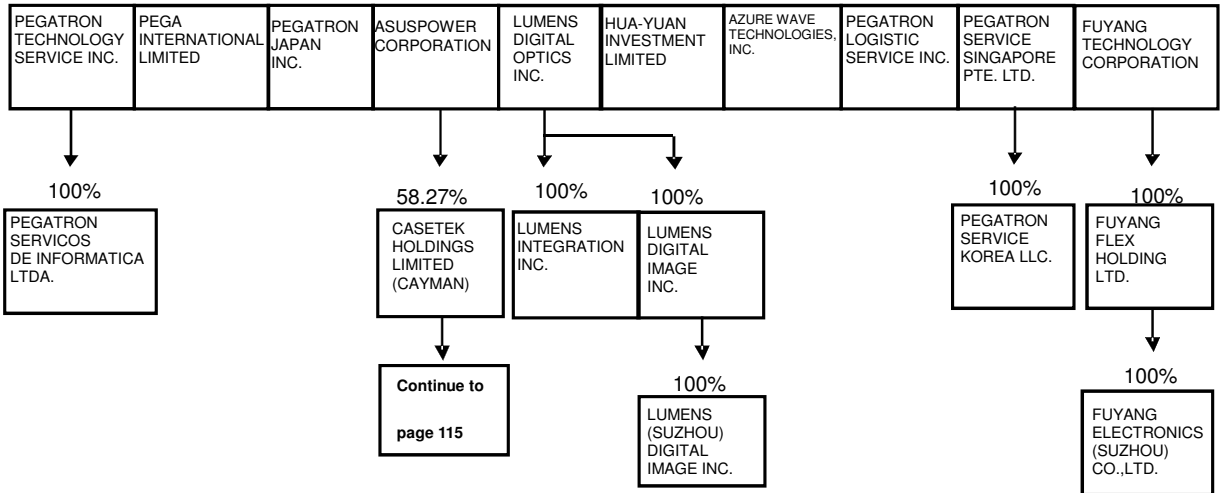
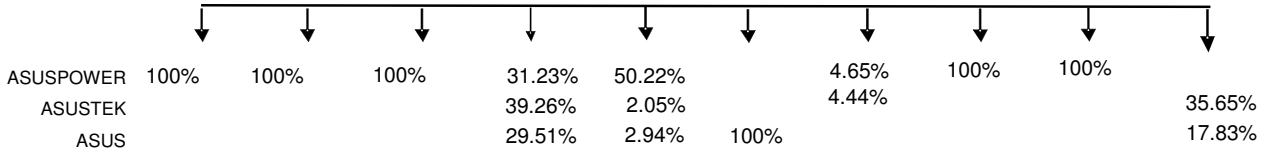






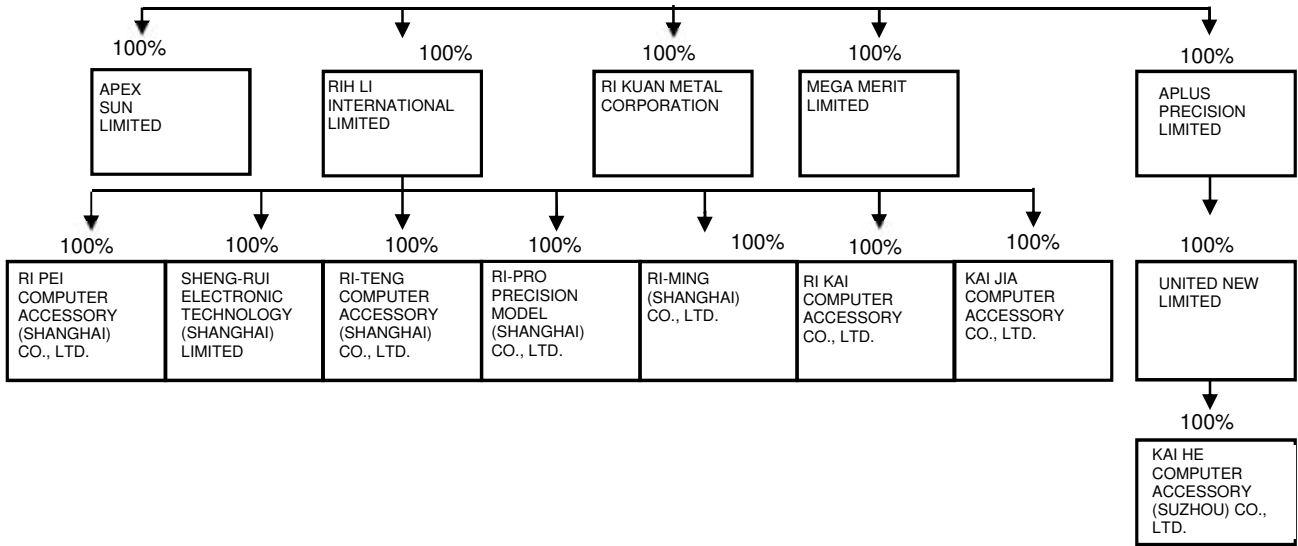


(From page 111)



CASETEK HOLDINGS LIMITED (CAYMAN)

(From page 114)



8.1.2 Business Scope of Pegatron and Its Affiliated Companies

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

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

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

8.4 Any Other Special Notes to be specify: None.

8.5 Any Events in 2018 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

Attachment I

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(With Independent Accountants' Audit Report Thereon)

Representation Letter

The entities that are required to be included in the combined financial statements of Pegatron Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Pegatron Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Pegatron Corporation

Chairman: Tzu-Hsien Tung

Date: March 14, 2019

Independent Auditors' Report

To the Board of Directors of Pegatron Corporation:

Opinion

We have audited the consolidated financial statements of Pegatron Corporation and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Based on our professional judgment, key audit matters pertain to the most important matters in the audit of consolidated financial statements for the year ended December 31, 2018 of the Group. Those matters have been addressed in our audit opinion on the said consolidated financial statements and during the formation of our audit opinion. However, we do not express an opinion on these matters individually. The key audit matters that, in our professional judgment, should be communicated are as follows:

1. Revenue recognition

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

(a) Key audit matters:

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

Therefore, the test of sales and sales returns and allowances recognition was one of the key audit matters in the audit of consolidated financial reports for the years ended December 31, 2018 and 2017 of the Group.

(b) Auditing procedures performed:

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

2. Inventory valuation

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

(a) Key audit matters:

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

(b) Auditing procedures performed:

- Analyze the amount of obsolete inventory and inventory market price decline between 2018 and 2017 and understand reasons of the difference. Discuss and resolve those differences with management.
- Obtain an inventory aging analysis and randomly select items to verify the correctness for age of inventory.
- Obtain last selling price for finished goods and replacement cost for raw material, and recalculate net realizable value with selling expense rate to check whether or not the method of inventory measurement adopted by the Group is reasonable.

Other Matter

We did not audit the financial statements of certain consolidated subsidiaries with total assets representing 9.49% and 11.08% and net sales representing 2.87% and 2.97% of the related consolidated total as of and for the years ended December 31, 2018 and 2017, respectively. Also, we did not audit the long-term investments in other companies representing 0.00% and 0.03% of consolidated total assets as of December 31, 2018 and 2017, respectively, and the related investment loss thereon representing 0.00% and (0.07)% of consolidated net income before tax for the years ended December 31, 2018 and 2017, respectively. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors.

We have also audited the non-consolidated financial statements of Pegatron Corporation as of and for the years ended December 31, 2018 and 2017 and have issued unqualified audit reports with other matter thereon.

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

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

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

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

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

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

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

1. Assess for purposes of identifying the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Evaluate for purposes of determining the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we determine that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)

March 14, 2019

Notes to Readers

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

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

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

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		<u>December 31, 2018</u>		<u>December 31, 2017</u>	
		Amount	%	Amount	%
Assets					
Current assets:					
1100	Cash and cash equivalents (Note 6(a))	\$ 106,068,046	18	107,444,124	22
1110	Current financial assets at fair value through profit or loss (Note 6(b))	3,113,002	1	2,824,913	1
1125	Current available-for-sale financial assets (Note 6(d))	-	-	384,782	-
1170	Notes and accounts receivable, net (Notes 6(f) and 6(aa))	198,883,584	34	149,414,212	31
1200	Other receivables, net (Note 6(g))	1,476,581	-	1,490,873	-
130X	Inventories (Note 6(h))	164,988,341	29	123,874,993	25
1460	Non-current assets classified as held for sale, net (Notes 6(i))	145,893	-	-	-
1476	Other current financial assets (Notes 6(o) and 8)	794,775	-	1,222,740	-
1479	Other current assets (Note 6(o))	<u>7,334,875</u>	<u>1</u>	<u>8,741,935</u>	<u>2</u>
		<u>482,805,097</u>	<u>83</u>	<u>395,398,572</u>	<u>81</u>
Non-current assets:					
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	419,971	-	-	-
1520	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	812,593	-	-	-
1523	Non-current available-for-sale financial assets (Note 6(d))	-	-	1,158,831	-
1543	Non-current financial assets carried at cost (Note 6(e))	-	-	350,509	-
1550	Investments accounted for using equity method (Note 6(j))	246,423	-	503,718	-
1600	Property, plant and equipment (Notes 6(l) and 8)	87,605,762	15	78,075,271	16
1760	Investment property, net (Note 6(m))	48,712	-	52,870	-
1780	Intangible assets (Note 6(n))	1,475,872	-	1,497,234	-
1840	Deferred tax assets	3,627,681	1	3,345,992	1
1915	Prepayments on purchase of equipment	2,578,494	-	3,717,374	1
1980	Other non-current financial assets (Notes 6(o) and 8)	650,896	-	300,700	-
1985	Long-term prepaid rentals (Note 6(t))	3,749,695	1	3,783,164	1
1990	Other non-current assets (Note 6(o))	<u>329,419</u>	<u>-</u>	<u>51,384</u>	<u>-</u>
		<u>101,545,518</u>	<u>17</u>	<u>92,837,047</u>	<u>19</u>
Total assets		<u>\$ 584,350,615</u>	<u>100</u>	<u>488,235,619</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		<u>December 31, 2018</u>		<u>December 31, 2017</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (Note 6(p))	\$ 86,927,246	15	46,058,620	10
2130	Current contract liabilities (Note 6(aa))	990,704	-	-	-
2150	Notes and accounts payable (Note 7)	228,074,756	39	186,896,307	38
2209	Accrued expenses (Note 6(u))	27,173,941	5	27,121,355	6
2219	Other payables	5,588,935	1	11,432,493	2
2230	Current tax liabilities	3,005,187	-	3,132,941	1
2250	Current provisions (Note 6(s))	-	-	186,802	-
2313	Deferred revenue	-	-	902,193	-
2322	Long-term loans payable, current portion (Note 6(q))	2,388,522	-	1,107,312	-
2399	Other current liabilities	<u>16,252,023</u>	<u>3</u>	<u>14,489,124</u>	<u>3</u>
		<u>370,401,314</u>	<u>63</u>	<u>291,327,147</u>	<u>60</u>
Non-Current liabilities:					
2527	Non-current contract liabilities (Note 6(aa))	372,493	-	-	-
2530	Bonds payable (Note 6(r))	14,986,762	3	6,992,476	2
2540	Long-term loans (Note 6(q))	9,511,681	2	6,954,800	1
2570	Deferred tax liabilities	1,538,252	-	1,601,481	-
2670	Other non-current liabilities	<u>1,093,330</u>	<u>-</u>	<u>1,635,905</u>	<u>-</u>
		<u>27,502,518</u>	<u>5</u>	<u>17,184,662</u>	<u>3</u>
		<u>397,903,832</u>	<u>68</u>	<u>308,511,809</u>	<u>63</u>
Total liabilities					
Equity Attributable to Owners of the Parent Company (Note 6(w)):					
3100	Share capital	<u>26,123,773</u>	<u>4</u>	<u>26,140,906</u>	<u>5</u>
Capital surplus:					
3210	Capital surplus, premium on capital stock	75,696,958	13	74,283,165	15
3280	Capital surplus, others (Note 6(x))	<u>4,979,372</u>	<u>1</u>	<u>5,614,586</u>	<u>1</u>
		<u>80,676,330</u>	<u>14</u>	<u>79,897,751</u>	<u>16</u>
Retained earnings:					
3310	Legal reserve	10,662,823	2	9,194,524	2
3320	Special reserve	8,815,213	2	3,368,986	1
3350	Unappropriated retained earnings	<u>32,149,237</u>	<u>5</u>	<u>37,412,958</u>	<u>8</u>
		<u>51,627,273</u>	<u>9</u>	<u>49,976,468</u>	<u>11</u>
Other equity interest:					
3410	Exchange differences on translation of foreign financial statements	(7,482,556)	(1)	(9,698,374)	(2)
3420	Unrealized losses on financial assets measured at fair value through other comprehensive income	(386,322)	-	-	-
3425	Unrealized gains on available-for-sale financial assets	-	-	883,161	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(x))	<u>(524,686)</u>	<u>-</u>	<u>(1,222,232)</u>	<u>-</u>
		<u>(8,393,564)</u>	<u>(1)</u>	<u>(10,037,445)</u>	<u>(2)</u>
3500	Treasury stock	<u>(4,974)</u>	<u>-</u>	<u>(1,942)</u>	<u>-</u>
Equity attributable to the parent company		<u>150,028,838</u>	<u>26</u>	<u>145,975,738</u>	<u>30</u>
36xx	Non-controlling interests (Notes 6(k) and (w))	<u>36,417,945</u>	<u>6</u>	<u>33,748,072</u>	<u>7</u>
	Total equity	<u>186,446,783</u>	<u>32</u>	<u>179,723,810</u>	<u>37</u>
Total liabilities and equity		<u>\$ 584,350,615</u>	<u>100</u>	<u>488,235,619</u>	<u>100</u>

See accompanying notes to financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		For the years ended December 31			
		2018		2017	
		Amount	%	Amount	%
4110	Operating revenue (Notes 6(aa) and 6(ab))	\$ 1,343,782,768	100	1,197,312,896	100
4170	Less: Sales returns and allowances	<u>3,780,737</u>	-	<u>3,504,381</u>	-
	Operating revenue, net	1,340,002,031	100	1,193,808,515	100
5000	Cost of sales (Notes 6(h), 6(t), 6(u), 6(ac) and 7)	<u>1,299,233,486</u>	<u>97</u>	<u>1,147,138,626</u>	<u>96</u>
	Gross profit from operations	<u>40,768,545</u>	<u>3</u>	<u>46,669,889</u>	<u>4</u>
6000	Operating expenses (Notes 6(t), 6(u) and 6(ac)):				
6100	Selling expenses	5,015,981	-	4,920,146	-
6200	General and administrative expenses	9,034,397	1	9,409,135	1
6300	Research and development expenses	<u>14,787,544</u>	<u>1</u>	<u>13,341,912</u>	<u>1</u>
	Total operating expenses	<u>28,837,922</u>	<u>2</u>	<u>27,671,193</u>	<u>2</u>
	Net operating income	<u>11,930,623</u>	<u>1</u>	<u>18,998,696</u>	<u>2</u>
	Non-operating income and expenses:				
7010	Other income (Notes 6(m) and 6(ad))	5,366,195	-	4,173,619	-
7020	Other gains and losses (Notes 6(l), 6(ad) and 12)	478,836	-	(1,655,179)	-
7050	Finance costs (Notes 6(f), 6(r) and 6(ad))	(2,614,435)	-	(1,018,004)	-
7060	Share of loss of associates and joint ventures accounted for using equity method (Note 6(j))	(26,971)	-	(4,484)	-
7590	Miscellaneous disbursements	<u>(77,981)</u>	<u>-</u>	<u>(81,598)</u>	<u>-</u>
	Total non-operating income and expenses	<u>3,125,644</u>	<u>-</u>	<u>1,414,354</u>	<u>-</u>
	Profit before tax	15,056,267	1	20,413,050	2
7950	Less: Tax expense (Note 6(v))	<u>3,940,168</u>	<u>-</u>	<u>4,398,278</u>	<u>-</u>
	Profit for the year	<u>11,116,099</u>	<u>1</u>	<u>16,014,772</u>	<u>2</u>
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	(Losses) gains on remeasurements of defined benefit plans	(881)	-	1,414	-
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(225,274)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Note 6(v))	<u>(457)</u>	<u>-</u>	<u>(1,088)</u>	<u>-</u>
	Total components of other comprehensive income that will not be reclassified to profit or loss	<u>(225,698)</u>	<u>-</u>	<u>2,502</u>	<u>-</u>
8360	Components of other comprehensive income that will be reclassified to profit or loss (Note 6 (ae))				
8361	Exchange differences on translation of foreign financial statements	2,023,357	-	(6,599,633)	(1)
8362	Unrealized gains on valuation of available-for-sale financial assets (Note 6(d))	-	-	541,228	-
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(j))	(12,835)	-	167,389	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(v))	<u>8,373</u>	<u>-</u>	<u>(10,392)</u>	<u>-</u>
	Total components of other comprehensive income that will be reclassified to profit or loss	<u>2,002,149</u>	<u>-</u>	<u>(5,880,624)</u>	<u>(1)</u>
8300	Other comprehensive income for the year, net of tax	1,776,451	-	(5,878,122)	(1)
8500	Total comprehensive income for the year	<u>\$ 12,892,550</u>	<u>1</u>	<u>10,136,650</u>	<u>1</u>
	Profit attributable to:				
8610	Owners of the parent company	\$ 11,114,866	1	14,682,988	2
8620	Non-controlling interests	<u>1,233</u>	<u>-</u>	<u>1,331,784</u>	<u>-</u>
		<u>\$ 11,116,099</u>	<u>1</u>	<u>16,014,772</u>	<u>2</u>
	Comprehensive income attributable to:				
8710	Owners of the parent company	\$ 13,096,757	1	9,241,061	1
8720	Non-controlling interests	<u>(204,207)</u>	<u>-</u>	<u>895,589</u>	<u>-</u>
		<u>\$ 12,892,550</u>	<u>1</u>	<u>10,136,650</u>	<u>1</u>
	Earnings per share, net of tax (Note 6(z))				
9750	Basic earnings per share	<u>\$ 4.25</u>		<u>5.66</u>	
9850	Diluted earnings per share	<u>\$ 4.22</u>		<u>5.63</u>	

See accompanying notes to financial statements.

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

Consolidated Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

Share capital	Equity attributable to owners of parent											Total equity attributable to owners of parent			
	Retained earnings				Total other equity interest										
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on sale of financial assets available for sale	Unrealized gains (losses) on other comprehensive income	Deferred compensation cost	Total other equity interest		Treasury stock	Total equity attributable to owners of parent	Non-controlling interests
\$ 25,751,695	78,214,259	7,260,543	-	-	40,844,207	48,104,750	(3,557,939)	183,953	-	(429,882)	(3,798,868)	(2,246)	148,269,590	33,752,611	182,022,201
-	-	-	-	-	14,682,988	14,682,988	-	-	-	-	-	-	14,682,988	1,331,784	16,014,772
-	-	-	-	-	4,300	4,300	(6,145,435)	699,208	-	(5,446,227)	-	-	(5,441,927)	(436,195)	(5,878,122)
-	-	-	-	-	14,687,288	14,687,288	(6,145,435)	699,208	-	(5,446,227)	-	-	9,241,061	895,589	10,136,650
-	-	1,933,981	-	-	(1,933,981)	-	-	-	-	-	-	-	-	-	-
-	-	-	3,368,986	-	(3,368,986)	-	-	-	-	-	-	-	-	-	-
-	(165,279)	-	-	-	(12,873,916)	(12,873,916)	-	-	-	-	-	-	(12,873,916)	-	(12,873,916)
400,000	-	-	-	-	-	-	-	-	-	-	-	-	400,000	-	400,000
(10,789)	10,485	-	-	58,346	58,346	-	-	-	-	-	-	304	58,346	-	58,346
-	1,838,286	-	-	-	-	-	-	-	(792,350)	(792,350)	-	-	1,045,936	-	1,045,936
26,140,906	79,897,751	9,194,524	3,368,986	37,412,958	49,976,468	(9,698,374)	883,161	-	(1,222,232)	(10,037,445)	(1,942)	145,975,738	33,748,072	179,723,810	
-	-	-	-	1,031,638	1,031,638	11,223	(883,161)	-	-	(1,032,986)	-	(1,348)	-	(1,348)	
26,140,906	79,897,751	9,194,524	3,368,986	38,444,596	51,008,106	(9,687,151)	-	(161,048)	(1,222,232)	(11,070,431)	(1,942)	145,974,390	33,748,072	179,722,462	
-	-	-	-	11,114,866	11,114,866	-	-	-	-	-	-	-	1,233	11,116,099	
-	-	-	-	2,570	2,570	2,204,595	-	(225,274)	-	1,979,321	-	-	1,981,891	1,776,451	
-	-	-	-	11,117,436	11,117,436	2,204,595	-	(225,274)	-	1,979,321	-	-	13,096,757	12,892,550	
-	-	1,468,299	-	(1,468,299)	-	-	-	-	-	-	-	-	-	-	
-	-	-	5,446,227	(5,446,227)	-	-	-	-	-	-	-	-	-	-	
-	183,992	-	-	(10,454,652)	(10,454,652)	-	-	-	-	-	-	-	(10,454,652)	-	
(17,133)	20,165	-	-	(43,617)	(43,617)	-	-	-	-	-	-	(3,032)	183,992	(183,992)	
-	574,422	-	-	-	-	-	-	697,546	-	697,546	-	-	1,271,968	1,271,968	
-	-	-	-	-	-	-	-	-	-	-	-	-	3,058,072	3,058,072	
\$ 26,123,773	80,676,330	10,662,823	8,815,213	32,149,237	51,027,273	(7,482,556)	(386,322)	(8,393,564)	(4,974)	150,028,838	36,417,945	186,446,783			

See accompanying notes to financial statements.

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2018	2017
Cash flows from operating activities:		
Profit before tax	\$ 15,056,267	20,413,050
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	16,209,357	12,875,356
Amortization expense	266,716	233,799
Expected credit loss (Reversal of provision for bad debt expense)	53,837	(162,127)
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	191,266	(146,321)
Interest expense	2,596,132	951,706
Interest income	(2,309,814)	(1,499,714)
Dividend income	(42,047)	(37,902)
Compensation cost arising from employee stock options	1,442,402	1,386,317
Amortization of issuance costs on bonds payable	2,286	476
Share of loss of associates and joint ventures accounted for using equity method	26,971	4,484
Loss (gain) on foreign currency exchange on long-term loans	202,341	(85,597)
(Gain) loss on disposal of property, plant and equipment	(123,709)	53,364
Property, plant and equipment charged to expenses	109,951	65,166
Gain on disposal of investments	(42,098)	(38,091)
(Reversal of) Impairment loss on non-financial assets	63,167	(34,474)
Long-term prepaid rent charged to expenses	92,366	184,111
Increase in other current liabilities	409,971	-
Decrease in other current assets	4,981	-
Increase in provision	-	49,426
Other loss	-	470,924
Total adjustments to reconcile profit (loss)	19,154,076	14,270,903
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	35,036	1,689,255
Increase in notes and accounts receivable	(49,494,744)	(55,937,542)
Decrease in other receivables	66,981	40,684,759
Increase in inventories	(41,111,648)	(16,555,591)
Decrease (increase) in other financial assets	427,965	(743,230)
Decrease (increase) in other current assets	1,414,814	(1,699,082)
Increase in other non-current assets	(164,884)	(1,855)
Total changes in operating assets	(88,826,480)	(32,563,286)
Changes in operating liabilities:		
Decrease in contract liabilities	(413,225)	-
Increase in notes and accounts payable	41,178,449	15,636,278
Increase in accrued expenses	160,914	1,628,745
(Decrease) increase in other payables	(6,113,585)	5,854,604
Decrease in provisions	-	(22,688)
Decrease in deferred revenue	-	(158,685)
Increase (decrease) in other current liabilities	1,162,501	(397,673)
Increase in other non-current liabilities	182,514	298,595
Total changes in operating liabilities	36,157,568	22,839,176
Total changes in operating assets and liabilities	(52,668,912)	(9,724,110)
Total adjustments	(33,514,836)	4,546,793
Cash (outflow) inflow generated from operations	(18,458,569)	24,959,843
Interest received	2,263,306	1,436,231
Dividends received	42,047	37,902
Interest paid	(2,431,047)	(864,790)
Income taxes paid	(4,563,664)	(6,745,339)
Net cash flows (used in) from operating activities	(23,147,927)	18,823,847

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

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (CONT'D)

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2018	2017
Cash flows used in investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(25,054)	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	1,929	-
Proceeds from disposal of available-for-sale financial assets	-	69,167
Proceeds from disposal of investments accounted for using equity method	92,145	-
Proceeds from capital reduction of investments accounted for using equity method	120,188	-
Acquisition of property, plant and equipment	(20,416,017)	(20,357,276)
Proceeds from disposal of property, plant and equipment	702,000	680,928
Acquisition of intangible assets	(212,569)	(366,923)
(Increase) Decrease in other financial assets	(350,196)	126,955
Increase in prepayments on purchase of equipment	(4,845,700)	(7,140,517)
Increase in long-term prepaid rentals	(45,625)	(176,920)
Net cash flows used in investing activities	(24,978,899)	(27,164,586)
Cash flows from financing activities:		
Increase in short-term loans	40,868,626	14,910,152
Proceeds from issuing bonds	7,992,000	6,992,000
Proceeds from long-term loans	4,871,500	6,375,600
Repayments of long-term loans	(1,235,750)	(3,287,038)
Cash dividends paid	(11,570,817)	(14,431,721)
Issuance of restricted stock	-	493,590
Redemption of restricted stock	(23,525)	(10,485)
Changes in non-controlling interests	4,240,037	223,533
Net cash flows from financing activities	45,142,071	11,265,631
Effect of exchange rate fluctuations on cash held	1,608,677	(4,194,080)
Net decrease in cash and cash equivalents	(1,376,078)	(1,269,188)
Cash and cash equivalents, beginning of the year	107,444,124	108,713,312
Cash and cash equivalents, end of the year	\$ 106,068,046	107,444,124

See accompanying notes to financial statements.

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(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 year ended December 31, 2018 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates entities.

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2019.

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

- (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 Group has prepared its consolidated financial statements in conformity with the following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies :

1) Sales of goods

For the sale of products, revenue was recognized when the goods are delivered to the *customers’ premises*, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

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

Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the balance sheet.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group's consolidated financial statements :

	December 31, 2018			January 1, 2018		
	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15
Impacted line items on the consolidated balance sheet						
Right to returned goods (under other current assets)	\$ -	106,828	106,828	-	111,809	111,809
Allowance for sales return and discounts (under contra account of accounts receivable)	(47,739)	<u>47,739</u>	-	(28,700)	<u>28,700</u>	-
Impact on assets		<u>154,567</u>			<u>140,509</u>	
Current provisions	\$ 333,541	(333,541)	-	186,802	(186,802)	-
Deferred revenue	811,656	(811,656)	-	902,193	(902,193)	-
Unearned sales revenue (under other current liabilities)	168,308	(168,308)	-	227,001	(227,001)	-
Current contract liabilities	-	990,703	990,703	-	1,129,194	1,129,194
Refund liabilities (under other current liabilities)	-	477,369	477,369	-	327,311	327,311
Non-current contract liabilities	-	372,493	372,493	-	725,513	725,513
Long-term deferred revenue (under other non-current liabilities)	372,493	<u>(372,493)</u>	-	725,513	<u>(725,513)</u>	-
Impact on liabilities		<u>154,567</u>			<u>140,509</u>	

	For the year ended December 31, 2018		
	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15
Impacted line items on the consolidated statement of cash flows			
Cash flows from operating activities:			
Profit before tax	\$ 15,056,267	-	15,056,267
Adjustments:			
Increase in provision	414,952	(414,952)	-
Other current liabilities	-	409,971	409,971
Decrease in other current assets	-	4,981	4,981
Decrease in contract liabilities	-	(413,225)	(413,225)
Increase in deferred revenue	(90,537)	90,537	-
Increase in unearned sales revenue (under other current liabilities)	30,332	(30,332)	-
Decrease in refund liabilities (under other current liabilities)	-	(372,144)	(372,144)
Increase in long-term deferred revenue (under other non-current liabilities)	(353,020)	353,020	-
Decrease in provision	(372,144)	<u>372,144</u>	-
Impact on net cash flows from operating activities		<u>-</u>	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) IFRS 9 “Financial Instruments”

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

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’s approach was to include the impairment of trade receivables in operating expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 “Financial Instruments: Disclosures” that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The significant changes in accounting policies due to the application of IFRS 9 are as follows :

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Please refer to Note 4(g) for an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9.

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities. Please refer to Note 4(g) for accounting policies applied to financial liabilities beginning January 1, 2018.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please refer to Note 4(g).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity interest as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018. (There is no change in both categories and carrying value of financial liabilities.)

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables	107,444,124	Amortized cost	107,444,124
Debt instruments	Designated as at FVTPL (Note 1)	2,473,128	Mandatorily at FVTPL	2,473,128
Equity instruments	Designated as at FVTPL (Note 2)	322,985	Mandatorily at FVTPL	322,985
	Available-for-sale (Note 3)	836,278	Mandatorily at FVTPL	836,278
	Designated as at FVTPL (Note 4)	28,800	FVOCI	28,800
	Available-for-sale	707,335	FVOCI	707,335
	Carried at cost (Note 5)	279,494	FVOCI	279,494
	Carried at cost (Note 6)	71,015	Mandatorily at FVTPL	71,015
Notes and accounts receivables	Loans and receivables (Note 7)	150,905,085	Amortized cost	150,905,085
Other financial assets	Loans and receivables	1,523,440	Amortized cost	1,523,440

Note 1: Under IAS 39, these debt securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note 2: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 3: As permitted by IFRS 9, the Group has designated these equity investments at the date of initial application as mandatorily measured at FVTPL. Accordingly, an increase of \$606,270 in retained earnings, and a decrease of \$606,270 in other equity interest were recognized on January 1, 2018.

Note 4: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of \$5,850 in retained earnings, and an increase of \$5,850 in other equity interest were recognized on January 1, 2018.

Note 5: These equity securities (including financial assets carried at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of \$274,587 in other equity interest, as well as the increase of \$274,587 in retained earnings were recognized on January 1, 2018.

Note 6: Under IAS 39, these equity securities were measured at cost. As permitted by IFRS 9, the Group has classified these investments at the date of initial application as mandatorily measured at FVTPL.

Note 7: Notes receivables, accounts receivables and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of \$1,348 in the allowance for impairment was recognized in opening retained earnings upon transition to IFRS 9 on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 2,824,913	-	-	-	-	-
Additions – equity instruments:						
From available-for-sale	-	836,278	-	-	606,270	(606,270)
From financial assets carried at cost	-	71,015	-	-	-	-
Subtraction – equity instruments:						
To FVOCI	-	(28,800)	-	-	-	-
Total	<u>\$ 2,824,913</u>	<u>878,493</u>	<u>-</u>	<u>3,703,406</u>	<u>606,270</u>	<u>(606,270)</u>
Fair value through other comprehensive income						
Beginning balance of available-for-sale (including carried at cost) (IAS 39)	\$ 1,894,122	-	-	-	-	-
Addition – equity instruments:						
From FVTPL	-	28,800	-	-	(5,850)	5,850
Subtraction – equity instruments:						
To FVTPL – required reclassification based on classification criteria	-	(907,293)	-	-	-	-
Total	<u>\$ 1,894,122</u>	<u>(878,493)</u>	<u>-</u>	<u>1,015,629</u>	<u>(5,850)</u>	<u>5,850</u>
Amortized cost						
Beginning balance of accounts receivables, and other financial asset (IAS 39)	\$ 152,428,525	-	-	-	-	-
Adjustments for allowance of impairment for financial assets measured at amortized cost	-	-	(1,348)	-	(1,348)	-
Total	<u>\$ 152,428,525</u>	<u>-</u>	<u>(1,348)</u>	<u>152,427,177</u>	<u>(1,348)</u>	<u>-</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Amendments to IAS 7 “Disclosure Initiative”

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

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as Note 6(ai).

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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 signification changes are as follows:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- A practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of employees' dormitories, factory facilities, and warehouses. The Group estimated that both the right-of-use assets and the lease liabilities to increase by \$3,141,921 respectively, on January 1, 2019. No significant impact is expected for the Group's finance leases. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its loan covenants.

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

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

As of the date, the following IFRSs that have been issued by the 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 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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>
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	<p>The amendments address an acknowledged inconsistency between the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business.</p>

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C. (hereinafter referred to as “IFRS endorsed by the FSC”).

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value ;
- 2) Fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value ;
- 3) The net defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets.

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(ii) Acquisition of non-controlling interests

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

(iii) Subsidiaries

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

(iv) Business combination under common control

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

(v) Losing control

When the Group loses control of a subsidiary it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. 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. (Recognized as available-for-sale financial assets before January 1, 2018)

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

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
THE COMPANY	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00 %	100.00 %	
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00 %	100.00 %	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00 %	100.00 %	
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00 %	100.00 %	
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00 %	100.00 %	
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00 %	100.00 %	
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing and manufacturing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products	100.00 %	100.00 %	
THE COMPANY, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	32.81 %	37.04 %	Notes 1 and 2
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	Note 1
AZURE WAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00 %	100.00 %	Note 1
AZURE WAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	Note 1
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	Note 1
Azwave Samoa	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and trading computer products	100.00 %	100.00 %	Note 1
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00 %	100.00 %	Note 1
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00 %	100.00 %	Note 1
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00 %	100.00 %	
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	100.00 %	100.00 %	
AMA, MAINTEK COMPUTER (SUZHOU) CO., LTD.	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00 %	100.00 %	Note 5
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00 %	100.00 %	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00 %	100.00 %	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00 %	100.00 %	
POWTEK	POWTEK (SHANGHAI) LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING · KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00 %	100.00 %	Note 7
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	Note 7
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	Note 7
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	Note 7
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00 %	100.00 %	
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00 %	100.00 %	
ASLINK	PEGAGLOBE (KUNSHAN) CO.,LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00 %	100.00 %	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00 %	100.00 %	
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, electronic calculators, and after sale service	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 %	- %	Note 8
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00 %	100.00 %	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
PROTEK	PROTEK (SHANGHAI) LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED(COTEK)	Investing and trading activities	100.00 %	100.00 %	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00 %	100.00 %	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	55.87 %	55.87 %	
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Investing and holding activities	100.00 %	100.00 %	
ASIAROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00 %	100.00 %	
ASIAROCK	Calrock Holdings, LLC.	Office building leasing	100.00 %	100.00 %	
ASROCK	Leader Insight Holdings Limited (Leader)	Investing and holding activities	100.00 %	100.00 %	
Leader	First place International Limited (First place)	Investing and holding activities	100.00 %	100.00 %	
First place	ASRock America, Inc.	Selling database service and trading electronic components	100.00 %	100.00 %	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	65.97 %	65.97 %	
ASROCK	ASRock Industrial Computer Corporation	Manufacturing and selling computer and related peripherals	82.47 %	- %	Note 9
ASROCK	Soaring Asia Limited	Trading activities	100.00 %	- %	Note 10
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00 %	100.00 %	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Investor</u>	<u>Subsidiary</u>	<u>Nature of business</u>	<u>Shareholding ratio</u>		<u>Notes</u>
			<u>December 31, 2018</u>	<u>December 31, 2017</u>	
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	38.58 %	39.00 %	Notes 6 and 7
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	Note 7
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87 %	54.87 %	Note 7
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	89.13 %	Note 7
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00 %	100.00 %	Note 7
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	Note 7
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	
FUYANG HOLDING	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Researching, producing, inspecting, repairing and selling flexible multilayer model, computer digital signal process system and card; selling own produced products and providing related technical consulting service	100.00 %	100.00 %	
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	100.00 %	Note 7
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	Note 7
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	Note 7
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	Note 7
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	Note 7
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	Note 7

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00 %	100.00 %	
THE COMPANY, ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	59.41 %	60.47 %	Note 3
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00 %	100.00 %	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product.	100.00 %	100.00 %	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	KAI JIA COMPUTER ACCESSORY CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	
RIH LI	RI KAI COMPUTER ACCESSORY CO., LTD.(RI KAI)	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	100.00 %	100.00 %	
CASETEK CAYMAN	RIH KUAN METAL CORPORATION	Selling iron and aluminum products	100.00 %	100.00 %	
CASETEK CAYMAN	APLUS PRECISION LIMITED(APLUS)	Investing and trading activities	100.00 %	100.00 %	
APLUS	UNITED NEW LIMITED(UNITED)	Investing and trading activities	100.00 %	100.00 %	
UNITED	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00 %	100.00 %	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00 %	100.00 %	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	Maintenance service	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	55.21 %	56.52 %	Note 4
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00 %	100.00 %	
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00 %	100.00 %	
Lumens	Lumens (Suzhou) Digital Image Inc.	Manufacturing and selling projectors, projection screens and related products	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00 %	100.00 %	
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00 %	100.00 %	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	
THE COMPANY	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Investing activities	100.00 %	- %	Note 10
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	

Note 1 : Since the Group only held 32.81% of voting rights of AZURE WAVE TECHNOLOGY INC., with the remaining 67.19% 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 AZURE WAVE TECHNOLOGY INC., therefore, AZURE WAVE TECHNOLOGY INC., has been included in the consolidated financial statement of the Group.

Note 2 : On March 20, 2018, AZURE WAVE TECHNOLOGY INC. issued common stocks for cash and retired those expired employee restricted shares. In addition, on August 8, 2018, AZURE WAVE TECHNOLOGY INC. reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in AZURE WAVE TECHNOLOGY INC. decreased from 37.04% to 32.81%.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Note 3 : On February 7, 2018, CASETEK HOLDINGS LIMITED issued common stocks for cash. In addition, on November 22, 2018, CASETEK HOLDINGS LIMITED reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in CASETEK HOLDINGS LIMITED decreased from 60.47% to 59.41%.
- Note 4 : Lumens Optics reduced, as well as increased, its capital on April 30 and June 25, 2018, respectively. However, the Group did not proportionally increase its investment in Lumens Optics, resulting in its shareholding ratio decreased from 56.52% to 55.21%.
- Note 5 : In October 2017, the Group has restructured, so that the 100% equity ownership of TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD. was held by AMA and MAINTEK COMPUTER (SUZHOU) CO., LTD.
- Note 6 : On August 28, 2018, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) issued employee restricted shares, resulting in the Group's shareholding ratio in KINSUS decreased from 39.00% to 38.58%.
- Note 7 : Since the Group only held 38.58% of voting rights of KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS), with the remaining 61.42% 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 8 : DIGITEK (CHONGQING) LTD. established CHONGQING ZUANSHUO TRADING CO., LTD. by transferring retained earnings into capital. It was registered on January 12, 2018.
- Note 9 : Subsidiary established by the Group in the third quarter of 2018.
- Note 10 : Subsidiary established by the Group in the fourth quarter of 2018.

(vii) Subsidiaries excluded from consolidation : None.

(d) Foreign currency

(i) Foreign currency transaction

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

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

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

- 1) Fair value through other comprehensive income (Available-for-sale) equity investment ;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective ; or

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(ii) Foreign operations

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

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

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

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

An asset is classified as current when :

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

All other assets are classified as non-current.

A liability is classified as current when :

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

All other liabilities are classified as non-current.

- (f) Cash and cash equivalents

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

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

- (g) Financial assets (applicable from January 1, 2018)

- (i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

- 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 amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost, which has deducted impairment losses, using the effective interest method. Interest income, foreign exchange gains and losses, and impairment loss, 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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal amount outstanding.

Some accounts receivables 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 and presented as accounts receivable.

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 investment-by-investment basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, derived from debt investments are recognized in profit or loss; whereas dividends derived from equity investments 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 of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

- 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 and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which otherwise 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.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest 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 :

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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) the performance of the business model, and how the financial assets in the business model are 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.

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 (i.e. non-recourse features).

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PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

6) Impairment of financial assets

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

The Group measures loss allowances at an amount equal to lifetime expected credit loss (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 receivables is always measured at an amount equal to lifetime ECL.

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

12-month ECL is the portion of ECL that result from default events that is 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 ECL is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, 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, informed credit assessment and including 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 borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise ;
- 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 recognized in other comprehensive income, and the amount of loss allowances (or reversal) is charged to profit or loss.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-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 amounts due.

7) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash flows from the assets expire or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in “other equity – unrealized gains or losses on fair value through other comprehensive income”, in profit or loss, and presented it in the line item of non-operating income and expenses.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On derecognition of a debt instrument other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial instruments (applicable before January 1, 2018)

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

1) Financial assets at fair value through profit or loss

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

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

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss, and included in statement of comprehensive income.

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Available-for sale financial assets

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

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

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

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

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on short-term receivables.

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

4) Impairment of financial assets

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

5) Derecognition of financial assets

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

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

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

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

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

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

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

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

2) Other financial liabilities

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

5) Financial guarantee contract

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

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

(iv) Derivative financial instruments, including hedge accounting (applicable from January 1, 2018)

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

At initial designated hedging relationships, the Group documents the risk management objectives and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the fair value or cash flows of the hedged items and hedging instrument are expected to offset each other.

The Group shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

1) Fair value hedges

The gain or loss on the hedging instrument shall be recognized in profit or loss. But if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, the gain or loss shall be recognized in other comprehensive income.

The hedged item of not measured at fair value is attributable to the hedged risk with any changes in the fair value. The change in the fair value of the hedging instrument is recognized in profit or loss. The hedged item is a debt instrument that is measured at fair value through other comprehensive income, the hedging gains or losses on the hedged item shall be recognized in profit or loss. However, the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. The hedging gains or losses on the hedged item shall be recognized in other comprehensive income.

When it discontinues hedge accounting for a fair value hedge for which the hedged item is a financial instrument measured at amortized cost that is attributable to the changes in the fair value. Amortized to profit or loss is based on over the period to maturity when hedge accounting is discontinued.

2) Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in “other equity —gains (losses) on hedging instruments”. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, and is presented in the line item of non-operating income and expenses.

The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of the forward exchange contract is separately accounted for as a cost of hedging and accumulated in a separate component of equity as “other equity —gains (losses) on hedging instruments”.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and is presented in the same accounting item with the hedged item recognized in the non-consolidated statement of comprehensive income. However, for a cash flow hedge of a forecast transaction recognized as a nonfinancial asset or liability, the amount accumulated in “ other equity — gains (losses) on hedging instruments” and retained in other comprehensive income is reclassified as the initial cost of the nonfinancial asset or liability. In addition, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in future periods, it shall immediately reclassify the amount into profit or loss.

When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cash flow hedge reserve (and the costs of hedging reserve) remains in equity until the hedged future cash flows are no longer expected to occur. Otherwise, that amount would be adjusted within the carrying amount of the non-financial item. For other cash flow hedges, the amount is reclassified to profit or loss in the same period or in the periods as the hedged expected future cash flows affect the profit or loss. However, if the hedged future cash flows are no longer expected to occur, the amount shall immediately be reclassified from cash flow hedge reserve (and the cost of hedging reserve) to profit or loss.

- (v) Derivative financial instruments, including hedge accounting (applicable before January 1, 2018)

Except for the following items, the Group applies the same accounting policies as applicable from January 1, 2018.

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

For all cash flow hedges (including hedged forecast transactions which will recognize non-financial assets or liabilities), when the future cash flow of hedged item is expected to influence profit or loss, the amount originally recognized in other comprehensive income and accumulated in equity will be reclassified to profit or loss in the same period. In addition, cash flow hedge policy, which has been inapplicable before January 1, 2018, the fair value changes in the future are directly recognized to profit and loss.

- (h) Inventories

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The replacement cost of raw material is its net realizable value.

(i) Non-current assets held for sale

(i) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use, are reclassified as held for sale or held for distribution to owners. Non-current assets classified as held for sale are available for sale under current circumstances, and the sales are highly possible within one year. Immediately before classification as held for sale or held for distribution to owners, the assets, 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 will first be allocated to goodwill, and then to remaining assets and liabilities will be apportioned 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 or held for distribution to owners and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

When the assets classified as held for sale or held for distribution to owners 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 that significant influence commences until the date that significant influence ceases.

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

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

(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 fair value with any change therein recognized in profit or loss.

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

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

Buildings	20 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 less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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

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

(ii) Reclassification to investment property

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

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

Buildings	1-50 years
Machinery	1-10 years
Instrument equipment	1-10 years
Office and other equipment	1-10 years
Miscellaneous equipment	1-25 years

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

(m) Leased assets

(i) Lessor

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(ii) Lessee

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

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

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

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

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

At inception of an arrangement, the Group evaluates whether such an arrangement is or contains a lease, which involves the fulfillment of the arrangement is dependent on the use of a specific asset or assets and contains a right to transfer the asset. At inception or on reassessment of the arrangement, if an arrangement contains a lease, that lease is classified as a finance lease or an operating lease.

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Intangible assets

(i) Goodwill

1) Recognition

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

2) Measurement

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

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

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

Computer software cost	0-10 years
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Trademark rights	5 years
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Intangible assets in development	1-10 years
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The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Any change thereof is accounted for as a change in accounting estimate.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Impairment – Non-financial assets

The Group assesses non-financial assets for impairment (except for inventories, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

Notwithstanding whether indicators exist, goodwill and intangible assets with indefinite useful lives or those not yet in use are required to be tested at least annually.

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

For the purpose of impairment testing, goodwill acquired in a business combination, from the acquisition date, is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

The Group assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss.

(p) Provisions

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

Allowances for sales returns and allowances are applied in accordance with IFRS 15 beginning January 1, 2018. Please refer to Note 4(r) for details.

(q) Treasury stock

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(r) Revenue

(i) Revenue from contracts with customers (applicable from January 1, 2018)

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.

1) Sale of good

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

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

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

2) Services

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

3) Financing 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Revenue (applicable before January 1, 2018)

1) Goods sold

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

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

2) Service

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

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

(iii) Short-term employee benefits

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

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

(t) Share-based payment

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

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Income Taxes

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

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

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

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

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

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Business combination

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

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

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

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

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

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

(w) Government grant

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Earnings per share

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

(y) Operating segments

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

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

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

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

- Judgment regarding control of subsidiaries

Due to significant judgments involved and material impact on recognized amounts for consolidated financial report, please refer to Note 4(c) for details.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

- Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to Note 6(h) for further description of the valuation of inventories.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand	\$ 15,084	16,139
Cash in banks	27,781,441	23,429,025
Time deposits	74,035,178	83,998,960
Cash equivalents	<u>4,236,343</u>	<u>-</u>
	<u>\$ 106,068,046</u>	<u>107,444,124</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(o) and 8 for details.

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

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current mandatorily measured at fair value through profit or loss :		
Non-derivative financial assets		
Shares of stock of listed companies	\$ 668,448	-
Beneficiary certificates	2,149,733	-
Shares of stock of overseas listed companies (RMB 65,879 thousand dollars)	294,821	-
Non-current mandatorily measured at fair value through profit or loss :		
Non-derivative financial assets		
Shares of stock of listed companies	217,000	-
Beneficiary certificates	123,320	-
Shares of stock of overseas unlisted companies (USD 2,500 thousand dollars)	79,651	-
Financial assets held-for-trading :		
Non-derivative financial assets		
Shares of stock of listed companies	-	351,785
Beneficiary certificates	<u>-</u>	<u>2,473,128</u>
Total	<u>\$ 3,532,973</u>	<u>2,824,913</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) Please refer to Note 6(ad) for re-measurement at fair value recognized in profit or loss.
 - (ii) Please refer to Note 6(af) for credit risk and market risk.
 - (iii) The aforesaid financial assets were not pledged as collateral.
- (c) Fair value through other comprehensive income

	December 31, 2018
Equity instruments at fair value through other comprehensive income :	
Shares of stock of listed companies	\$ 530,518
Shares of stock of unlisted companies	174,167
Shares of stock of overseas unlisted companies (USD8,492 thousand dollars)	107,908
Total	\$ 812,593

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

The Group has applied IFRS 9 from January 1, 2018. The Group re-estimate and holds these equity instruments, which are not held for trading at designated fair value through other comprehensive income, for long-term strategic purposes. These investments were recognized as available-for-sale financial assets, financial assets carried at cost and financial assets at fair value through profit or loss on December 31, 2017.

For the year ended December 31, 2018 the Group has recognized dividend income of \$28,503 from equity instruments designated at fair value through other comprehensive income. Please refer to Note 6 (ad) for details.

No strategic investments were disposed for the year ended December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

	December 31, 2017
Current available-for-sale financial assets	
Shares of stock of overseas listed companies	\$ 384,782
Non-current available-for-sale financial assets	
Shares of stock of listed companies	\$ 721,071
Equity securities-common stock	437,760
Total	\$ 1,158,831

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) For the year ended December 31, 2017, the unrealized gain on available-for-sale financial assets amounted to \$541,228.
 - (ii) The aforesaid investments were recognized as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income on December 31, 2018. Please refer to Notes 6(b) and (c) for details.
 - (iii) Please refer to Note 6(af) for credit risk and market risk.
 - (iv) Please refer to Note 6(ad) for gain or loss arising from disposal of investments.
 - (v) The aforesaid financial assets were not pledged as collateral.
- (e) Financial assets carried at cost

	December 31, 2017
Non-current financial assets carried at cost	
Equity securities-common stock	\$ 152,853
Equity securities-preferred stock	197,656
Total	\$ 350,509

- (i) The aforementioned investments held by the Group were measured at cost less impairment as of December 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably and classified as financial assets measured at cost. These investments were classified as fair value through other comprehensive income and fair value through profit or loss as of December 31, 2018. Please refer to Notes 6(b) and (c) for further information.
 - (ii) After evaluating the carrying value and recoverable amount of these investments, impairment loss of \$20,573 was recognized for the year ended December 31, 2017. The accumulated impairment loss was \$275,384 as of December 31, 2017.
 - (iii) Please refer to Note 6(af) for credit risk and market risk.
 - (iv) The aforesaid financial assets were not pledged as collateral.
- (f) Notes and accounts receivable, net
- (i) The components of notes and accounts receivables were as follows :

	December 31, 2018	December 31, 2017
Notes receivables from operating activities	\$ 45,327	52,010
Accounts receivables-measured at amortized cost	185,261,685	151,085,518
Accounts receivables-fair value through other comprehensive income	15,357,500	-
Less : Allowance for impairment	1,780,928	1,723,316
	\$ 198,883,584	149,414,212

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group assesses its portion account receivables 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 receivables-fair value through other comprehensive income since January 1, 2018.

(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 on December 31, 2018. To measure the expected credit losses, notes and accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as forward looking information, including overall economic environment and related industrial information.

The loss allowance provision as of December 31, 2018 was determined as follows :

	<u>Gross carrying amount</u>	<u>Expected loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 196,093,745	0%~2%	(25,531)
Overdue 0 to 30 days	2,562,407	1%~30%	(53,095)
Overdue 31 to 120 days	302,892	1%~100%	(19,350)
Overdue 121 to 365 days	30,671	11%~100%	(8,155)
Over 365 days past due	<u>1,674,797</u>	100%	<u>(1,674,797)</u>
	<u>\$ 200,664,512</u>		<u>(1,780,928)</u>

As of December 31, 2017, the Group applies incurred loss model to consider the loss allowance provision of notes and accounts receivable. As of December 31, 2017, the aging analysis of notes and accounts receivable which were past due but not impaired was as follows :

	<u>December 31, 2017</u>
Current	\$ 146,378,342
Overdue 0 to 30 days	2,328,665
Overdue 31 to 120 days	151,096
Overdue 121 to 365 days	282,471
Over 365 days past due	<u>1,996,954</u>
	<u>\$ 151,137,528</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 :

	<u>For the years ended December 31</u>		
	<u>2018</u>	<u>2017</u>	
		<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>
Balance on January 1 (Under IAS 39)	\$ 1,723,316	57,571	1,838,151
Adjustment on initial application of IFRS 9	<u>1,348</u>		
Balance on January 1 (Under IFRS 9)	1,724,664		
Impairment losses recognized	55,523	53,993	9,461
Impairment losses reversed	(2,799)	-	(224,528)
Amounts written off	-	-	(1,223)
Foreign exchange losses (gains)	<u>3,540</u>	<u>(5,586)</u>	<u>(4,523)</u>
Balance on December 31	<u>\$ 1,780,928</u>	<u>105,978</u>	<u>1,617,338</u>

The aforesaid financial assets were not pledged as collateral.

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

Accounts receivable which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivable. As of December 31, 2018 and 2017, the Company sold its accounts receivable without recourse as follows :

<u>December 31, 2018</u>						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount (thousands)</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
ANZ (Note)	\$ <u>4,668,680</u>	USD <u>1,200,000</u>	USD <u>152,000</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>4,668,680</u>
<u>December 31, 2017</u>						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount (thousands)</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
ANZ (Note)	\$ <u>2,976,000</u>	USD <u>1,200,000</u>	USD <u>100,000</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>2,976,000</u>

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

For the years ended December 31, 2018 and 2017, the Group recognized a fee and interest on bank advance payment of \$156,295 and \$67,933, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows :

December 31, 2018						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>214,285</u>	USD <u>30,000</u>	\$ <u>-</u>	None	The accounts receivable factoring is without recourse	\$ <u>214,285</u>

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

(g) Other receivables

	December 31, 2018	December 31, 2017
Other receivables	\$ 1,490,955	1,504,367
Less : Allowance for impairment	<u>14,374</u>	<u>13,494</u>
	<u>\$ 1,476,581</u>	<u>1,490,873</u>

As of December 31, 2017, the aging analysis of other receivables which were past due but not impaired was as follows :

	December 31, 2017
Current	\$ 1,388,737
Overdue 0 to 30 days	100,739
Overdue 31 to 120 days	394
Overdue 121 to 365 days	1,020
Over 365 days past due	<u>13,477</u>
	<u>\$ 1,504,367</u>

The movement in the allowance for other receivables was as follows :

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2017	\$ 13,772	1,119	14,891
Reversal of impairment loss	(15)	(1,038)	(1,053)
Foreign exchange gain	<u>(280)</u>	<u>(64)</u>	<u>(344)</u>
Balance on December 31, 2017	<u>\$ 13,477</u>	<u>17</u>	<u>13,494</u>

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Inventories

	December 31, 2018	December 31, 2017
Merchandise	\$ 1,989,825	882,380
Finished goods	110,281,796	79,536,751
Work in process	21,178,778	16,687,884
Raw materials	<u>39,614,370</u>	<u>33,666,478</u>
Subtotal	173,064,769	130,773,493
Less: Allowance for inventory market decline and obsolescence	<u>(8,076,428)</u>	<u>(6,898,500)</u>
Total	<u>\$ 164,988,341</u>	<u>123,874,993</u>

For the years ended December 31, 2018 and 2017, the components of cost of goods sold were as follows :

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Cost of goods sold	\$ 1,289,713,516	1,134,712,441
Provision on inventory market price decline	1,177,928	1,962,986
Loss on disposal of inventory	5,849,573	9,263,307
Unallocated manufacturing overhead	2,489,255	1,177,097
Loss on physical inventory	<u>3,214</u>	<u>22,795</u>
	<u>\$ 1,299,233,486</u>	<u>1,147,138,626</u>

For the years ended December 31, 2018 and 2017, the Group recognized a provision on inventory market price decline of \$1,177,928, and \$1,962,986, respectively, which was charged to profit or loss under cost of goods sold.

As of December 31, 2018 and 2017, the aforesaid inventories were not pledged as collateral.

(i) Non-current assets held for sale

On May 8, 2018, KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD (“KAI HE”) was presented as a non-current assets held for sale, pursuant to the resolutions of the Board of Directors. Management of the Group planned to perform the disposal plan by selling the land use rights and plants of KAI HE. The sale was expected by December 2018, and was estimated to be highly possible. Thereafter, as of December 31, 2018, the abovementioned assets were recognized as non-current assets held for sale. The carrying amounts of long-term prepaid rentals-land use rights and plant amounted to \$36,750 and \$109,143, respectively. Please refer to Notes 6(l) and (m) for details.

In addition, no impairment loss was recognized after measuring at the lower of carrying amount and fair value less costs to sale.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Investments accounted for using equity method

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

	December 31, 2018	December 31, 2017
Individually insignificant associates	\$ <u>246,423</u>	<u>503,718</u>
	For the years ended December 31	
	2018	2017
The Group's share of profit (loss) of the associates		
Loss for the year	\$ (26,971)	(4,484)
Other comprehensive (loss) income	<u>(12,835)</u>	<u>167,389</u>
Total comprehensive (loss) income	\$ <u>(39,806)</u>	<u>162,905</u>

- (ii) As of December 31, 2018 and 2017, the aforesaid investments accounted for using equity method were not pledged as collateral.

(iii) Please refer to Note 6(ad) for gain or loss arising from disposal of investments.

(k) 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	
		December 31, 2018	December 31, 2017
KINSUS and its subsidiaries	Taiwan	61.42 %	61.00 %
ASROCK and its subsidiaries	Taiwan	44.13 %	44.13 %
CASETEK CAYMAN	Taiwan/ Cayman	40.59 %	39.53 %

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Information regarding KINSUS and its subsidiaries

	December 31, 2018	December 31, 2017
Current assets	\$ 19,294,569	18,774,402
Non-current assets	23,329,385	23,503,075
Current liabilities	(10,199,199)	(10,537,887)
Non-current liabilities	(2,676,233)	(1,824,592)
Net assets	<u>\$ 29,748,522</u>	<u>29,914,998</u>
Non-controlling interest	<u>\$ 17,989,981</u>	<u>17,744,607</u>
	For the years ended December 31	
	2018	2017
Operating revenue	<u>\$ 23,727,929</u>	<u>22,335,486</u>
Net income for the year	411,040	335,322
Other comprehensive loss	(37,638)	(110,417)
Comprehensive income	<u>\$ 373,402</u>	<u>224,905</u>
Net income attribute to non-controlling interest	<u>\$ 457,527</u>	<u>436,428</u>
Comprehensive income attribute to non-controlling interest	<u>\$ 443,353</u>	<u>388,981</u>
Cash flows from operating activities	\$ 4,102,579	6,002,634
Cash flows from investing activities	(4,910,117)	(6,805,361)
Cash flows from financing activities	595,177	(6,037)
Net decrease in cash and cash equivalents	<u>\$ (212,361)</u>	<u>(808,764)</u>

(ii) Information regarding ASROCK and its subsidiaries

	December 31, 2018	December 31, 2017
Current assets	\$ 8,664,042	8,605,071
Non-current assets	700,151	362,132
Current liabilities	(3,225,809)	(3,252,207)
Non-current liabilities	(26,896)	(23,003)
Net assets	<u>\$ 6,111,488</u>	<u>5,691,993</u>
Non-controlling interest	<u>\$ 2,751,861</u>	<u>2,534,768</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the years ended December 31	
	2018	2017
Operating revenue	\$ 10,193,155	9,211,647
Net income for the year	\$ 592,796	442,487
Other comprehensive income (loss)	117,068	(315,501)
Comprehensive income	\$ 709,864	126,986
Net income attribute to non-controlling interest	\$ 262,005	171,793
Comprehensive income attribute to non-controlling interest	\$ 314,538	41,793
Cash flows from operating activities	\$ (1,339,412)	404,572
Cash flows from investing activities	176,491	(745,570)
Cash flows from financing activities	(372,183)	(35,676)
Net decrease in cash and cash equivalents	\$ (1,535,104)	(376,674)

(iii) Information regarding CASETEK CAYMAN

	December 31, 2018	December 31, 2017
Current assets	\$ 27,647,773	24,532,609
Non-current assets	28,269,709	24,376,375
Current liabilities	(14,404,687)	(13,006,681)
Non-current liabilities	(8,680,913)	(7,348,521)
Net assets	\$ 32,831,882	28,553,782
Non-controlling interest	\$ 13,290,892	11,325,194

	For the years ended December 31	
	2018	2017
Operating revenue	\$ 30,494,458	33,253,215
Net (loss) income for the year	\$ (1,702,119)	1,656,491
Other comprehensive loss	(315,800)	(566,263)
Comprehensive (loss) income	\$ (2,017,919)	1,090,228
Net (loss) income attribute to non-controlling interest	\$ (695,700)	652,240
Comprehensive (loss) income attribute to non-controlling interest	\$ (907,955)	428,498
Cash flows from operating activities	\$ 3,307,385	4,926,571
Cash flows from investing activities	(8,638,308)	(6,458,042)
Cash flows from financing activities	6,829,603	(1,932,221)
Net increase (decrease) in cash and cash equivalents	\$ 1,498,680	(3,463,692)

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2018 and 2017 were as follows :

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2018	\$ 4,361,929	43,769,325	64,583,011	1,453,182	27,394,560	6,528,226	148,090,233
Additions	2,019,211	2,942,984	3,752,293	73,942	4,003,431	7,602,453	20,394,314
Disposals and obsolescence	-	(218,958)	(1,574,056)	(130,772)	(2,342,423)	-	(4,266,209)
Reclassifications	-	1,401,672	5,116,110	17,728	2,806,727	(3,598,095)	5,744,142
Effect of movement in exchange rate	3,746	584,675	(264,829)	30,498	333,496	(140,949)	546,637
Balance on December 31, 2018	<u>\$ 6,384,886</u>	<u>48,479,698</u>	<u>71,612,529</u>	<u>1,444,578</u>	<u>32,195,791</u>	<u>10,391,635</u>	<u>170,509,117</u>
Balance on January 1, 2017	\$ 4,320,454	41,981,188	55,592,564	1,471,421	22,666,711	6,140,308	132,172,646
Additions	-	2,296,433	7,757,178	80,065	5,357,531	4,854,351	20,345,558
Disposals and obsolescence	-	(304,006)	(3,297,134)	(120,600)	(2,566,241)	-	(6,287,981)
Reclassifications	47,287	1,693,046	6,032,557	106,673	3,080,897	(4,355,037)	6,605,423
Effect of movement in exchange rate	(5,812)	(1,897,336)	(1,502,154)	(84,377)	(1,144,338)	(111,396)	(4,745,413)
Balance on December 31, 2017	<u>\$ 4,361,929</u>	<u>43,769,325</u>	<u>64,583,011</u>	<u>1,453,182</u>	<u>27,394,560</u>	<u>6,528,226</u>	<u>148,090,233</u>
Depreciation and impairment loss :							
Balance on January 1, 2018	\$ -	14,863,199	37,893,522	1,230,272	16,027,969	-	70,014,962
Depreciation for the year	-	2,439,088	8,690,360	119,348	4,957,436	-	16,206,232
Impairment loss	-	-	38,545	16	24,606	-	63,167
Reclassifications	-	(24,994)	18,028	6,460	(94,309)	-	(94,815)
Disposals and obsolescence	-	(192,689)	(1,287,714)	(129,139)	(2,078,376)	-	(3,687,918)
Effect of movement in exchange rate	-	230,968	(115,407)	30,127	256,039	-	401,727
Balance on December 31, 2018	<u>\$ -</u>	<u>17,315,572</u>	<u>45,237,334</u>	<u>1,257,084</u>	<u>19,093,365</u>	<u>-</u>	<u>82,903,355</u>
Balance on January 1, 2017	\$ -	13,531,902	35,312,005	1,189,276	15,278,654	-	65,311,837
Depreciation for the year	-	2,156,554	6,685,271	178,271	3,852,111	-	12,872,207
Reversal of impairment loss	-	(4)	(44,650)	(7)	(10,386)	-	(55,047)
Reclassifications	-	100,870	(95,680)	59,255	58,071	-	122,516
Disposals and obsolescence	-	(296,890)	(2,816,532)	(118,285)	(2,321,982)	-	(5,553,689)
Effect of movement in exchange rate	-	(629,233)	(1,146,892)	(78,238)	(828,499)	-	(2,682,862)
Balance on December 31, 2017	<u>\$ -</u>	<u>14,863,199</u>	<u>37,893,522</u>	<u>1,230,272</u>	<u>16,027,969</u>	<u>-</u>	<u>70,014,962</u>
Carrying amounts :							
Balance on December 31, 2018	<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 January 1, 2017	<u>\$ 4,320,454</u>	<u>28,449,286</u>	<u>20,280,559</u>	<u>282,145</u>	<u>7,388,057</u>	<u>6,140,308</u>	<u>66,860,809</u>
Balance on December 31, 2017	<u>\$ 4,361,929</u>	<u>28,906,126</u>	<u>26,689,489</u>	<u>222,910</u>	<u>11,366,591</u>	<u>6,528,226</u>	<u>78,075,271</u>

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

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Impairment loss (reversal gain)	<u>\$ 63,167</u>	<u>(55,047)</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (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 year ended December 31, 2018, KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries had written the carrying amount of certain property, plant and equipment to their recoverable amount and recognized an impairment loss of \$49,770. For the year ended December 31, 2017, KINSUS and its subsidiaries reassessed their impairment following certain changes to their plans. The recoverable amount exceeded its carrying amount by \$19,598, which was reversed. The recoverable amount of individual asset was estimated based on its value-in-use.
- (iv) For the year ended December 31, 2017, CASETEK CAYMAN and its subsidiaries recognized an impairment loss of \$418 on damaged property, plant and equipment to be disposed. In addition, CASETEK CAYMAN and its subsidiaries sold damaged equipment at selling price exceeding the carrying amount by \$925, which was recognized as a reversal gain under non-operating income and expenses-other income, for the year ended December 31, 2017.
- (v) As of December 31, 2018, CASETEK CAYMAN and its subsidiaries reclassified partial assets to non-current assets held for sale, and the carrying amount amounted to \$109,143.
- (vi) Please refer to Note 6(ad) for gain and loss on disposal of property, plant and equipment.
- (vii) Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.
- (m) Investment property

	Buildings
Cost or deemed cost:	
Balance on January 1, 2018	\$ 63,763
Effect of movement in exchange rate	<u>(1,254)</u>
Balance on December 31, 2018	<u>\$ 62,509</u>
Balance on January 1, 2017	\$ 65,086
Effect of movement in exchange rate	<u>(1,323)</u>
Balance on December 31, 2017	<u>\$ 63,763</u>
Depreciation and impairment loss :	
Balance on January 1, 2018	\$ 10,893
Depreciation for the year	3,125
Effect of movement in exchange rate	<u>(221)</u>
Balance on December 31, 2018	<u>\$ 13,797</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Buildings
Balance on January 1, 2017	\$ 7,865
Depreciation for the year	3,149
Effect of movement in exchange rate	(121)
Balance on December 31, 2017	\$ 10,893
Carrying amounts :	
Balance on December 31, 2018	\$ 48,712
Balance on January 1, 2017	\$ 57,221
Balance on December 31, 2017	\$ 52,870

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

	For the years ended December 31	
	2018	2017
Rental income	\$ 1,917	1,987
Direct operating expenses arising from investment property that generate rental income	\$ 3,125	3,149

- (ii) As of December 31, 2018 and 2017, the fair value of investment property of the Group was \$78,855 and \$86,145, respectively. The fair value of investment property was based on the market price evaluation of the buildings located in the area.
- (iii) As of December 31, 2018 and 2017, the aforesaid investment properties were not pledged as collateral.

- (n) Intangible assets

The movements in the costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2018 and 2017 were as follows :

	Goodwill	Others	Total
Costs:			
Balance on January 1, 2018	\$ 1,712,671	1,374,753	3,087,424
Additions	-	212,569	212,569
Disposals	-	(113,137)	(113,137)
Reclassifications	-	466	466
Effect of movement in exchange rate	33,353	14,164	47,517
Balance on December 31, 2018	\$ 1,746,024	1,488,815	3,234,839

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Balance on January 1, 2017	\$ 1,799,633	1,090,054	2,889,687
Additions	-	366,923	366,923
Disposals	-	(49,423)	(49,423)
Reclassifications	-	14,663	14,663
Effect of movement in exchange rate	(86,962)	(47,464)	(134,426)
Balance on December 31, 2017	<u>\$ 1,712,671</u>	<u>1,374,753</u>	<u>3,087,424</u>
Amortization and impairment loss:			
Balance on January 1, 2018	\$ 671,792	918,398	1,590,190
Amortization for the year	-	266,716	266,716
Disposals	-	(113,137)	(113,137)
Effect of movement in exchange rate	-	15,198	15,198
Balance on December 31, 2018	<u>\$ 671,792</u>	<u>1,087,175</u>	<u>1,758,967</u>
Balance on January 1, 2017	\$ 671,792	778,709	1,450,501
Amortization for the year	-	233,799	233,799
Disposals	-	(49,423)	(49,423)
Effect of movement in exchange rate	-	(44,687)	(44,687)
Balance on December 31, 2017	<u>\$ 671,792</u>	<u>918,398</u>	<u>1,590,190</u>
Carrying amounts:			
Balance on December 31, 2018	<u>\$ 1,074,232</u>	<u>401,640</u>	<u>1,475,872</u>
Balance on January 1, 2017	<u>\$ 1,127,841</u>	<u>311,345</u>	<u>1,439,186</u>
Balance on December 31, 2017	<u>\$ 1,040,879</u>	<u>456,355</u>	<u>1,497,234</u>

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

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Operating costs	\$ 137,452	122,562
Operating expenses	129,264	111,237
	<u>\$ 266,716</u>	<u>233,799</u>

- (ii) Goodwill impairment

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Mechanics	\$ 1,029,978	997,954
Consumer electronic	42,732	41,403
Others	1,522	1,522
	<u>\$ 1,074,232</u>	<u>1,040,879</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

	December 31, 2018	December 31, 2017
Discount rate (before tax)	13.11 %	11.20 %

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

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

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

- 2) The recoverable amount of the customer electronic cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:
- a) Cash flow estimation was based on past experience, actual operating results and a five-year operating plan.
 - b) Projected revenue and gross profit ratio were extrapolated from management's forecast based on past operating results and future marketing development trends.
 - c) Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Group.
- (iii) For the years ended December 31, 2018 and 2017, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.
- (iv) As of December 31, 2018 and 2017, the intangible assets were not pledged as collateral.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Other financial assets and other assets

Other financial assets and other assets were as follows :

	December 31, 2018	December 31, 2017
Other financial assets-current	\$ 794,775	1,222,740
Other financial assets-noncurrent	650,896	300,700
Other current assets	7,334,875	8,741,935
Other noncurrent assets	<u>329,419</u>	<u>51,384</u>
	<u>\$ 9,109,965</u>	<u>10,316,759</u>

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

(ii) Other current assets consisted of prepayments, current tax asset, rights to the returned goods and others.

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

(p) Short-term loans

	December 31, 2018	December 31, 2017
Unsecured bank loans	\$ 86,846,756	46,058,620
Secured bank loans	<u>80,490</u>	<u>-</u>
Total	<u>\$ 86,927,246</u>	<u>46,058,620</u>
Interest rate	<u>0.51%~5.11%</u>	<u>0.5%~6.85%</u>

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

(q) Long-term loans

	December 31, 2018	December 31, 2017
Unsecured bank loans	\$ 11,900,203	7,961,112
Secured bank loans	<u>-</u>	<u>101,000</u>
	11,900,203	12,164,531
Less: current portion	<u>(2,388,522)</u>	<u>(1,107,312)</u>
Total	<u>\$ 9,511,681</u>	<u>11,057,219</u>
Interest rate	<u>1.074%~3.97%</u>	<u>1.02%~2.80%</u>

(i) Securities for bank loans

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) 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).

- 1) Current ratio (Current assets/Current liabilities): Not less than 100%.
- 2) Total liabilities 【 Total liabilities (including contingent liability, but excluding those of non-controlling interests)/Total assets less intangible assets 】 : Less than 100%.
- 3) Interest coverage ratio 【 (Profit before tax + depreciation + amortization + interest expenses)/ interest expenses 】 : Not lower than five.
- 4) Tangible net assets (Total assets - total liabilities - intangible assets): Not lower than \$15,000,000.

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

CASETEK CAYMAN was in compliance with the above financial covenants as of December 31, 2018 and 2017.

(r) Bonds payable

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

	December 31, 2018	December 31, 2017
Ordinary corporate bonds issued	\$ 15,000,000	7,000,000
Unamortized discount on bonds payable	(13,238)	(7,524)
Bonds payable, end of the year	<u>\$ 14,986,762</u>	<u>6,992,476</u>
	For the years ended December 31 2018	2017
Interest expense	<u>\$ 146,821</u>	<u>34,164</u>

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

<u>Item</u>	<u>2nd unsecured ordinary bonds issued in 2017</u>
1.Issuing amount	The Bonds are issued at \$8,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$1,000,000, \$4,500,000 and \$2,500,000, respectively.
2.Par value	Each unit is valued at \$1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from January 10, 2018 and matures on January 10, 2021. The issuance period of Tranche B commences from January 10, 2018 and matures on January 10, 2023. The issuance period of Tranche C commences from January 10, 2018 and matures on January 10, 2025.
5.Coupon rate	Tranche A, B and C bear annual coupon rates of 0.78%, 0.92% and 1.08%, respectively.
6.Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Item</u>	<u>2nd unsecured ordinary bonds issued in 2017</u>
7. Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8. Guarantee	The Bonds are unsecured ordinary corporate bonds.

(s) Provisions

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

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

The Group has applied IFRS 15 beginning January 1, 2018. The Group reclassifies allowance for sales return and allowance as refund liabilities (under other current liabilities) and rights to the returned goods (under other current assets).

(t) Operating leases

(i) Leasee

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Less than one year	\$ 2,127,311	2,331,263
Between one and five years	1,792,127	3,281,836
More than five years	74,491	120,346
	<u>\$ 3,993,929</u>	<u>5,733,445</u>

The Group leases a number of office, warehouse, factory facilities and staff dormitories under operating leases. The leases typically run for a period of 1 to 13 years, with an option to renew the lease after that date.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017, expenses recognized in profit or loss in respect of operating leases were as follows:

	For the years ended December 31	
	2018	2017
Cost of sales	\$ 2,105,524	1,899,926
Operating expenses	560,243	431,008
	\$ 2,665,767	2,330,934

(ii) Long-term prepaid rentals

	December 31, 2018	December 31, 2017
Long-term prepaid rentals	\$ 3,749,695	3,783,164

- 1) Long-term prepaid rentals represent land use rights under operating lease arrangement and is expensed equally over 38 to 67 years.
- 2) As of December 31, 2018, the Group reclassified the long-term prepaid rentals of KAI HE, amounted to \$36,750, to non-current assets held for sale.
- 3) As of December 31, 2018 and 2017, the aforesaid land use rights were not pledged as collateral.

(u) Employee benefits

(i) Defined benefit plans

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 243,843	234,479
Fair value of plan assets	(157,499)	(147,608)
Net defined benefit liabilities	\$ 86,344	86,871

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

1) Composition of plan assets

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

2) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Defined benefit obligation, January 1	\$ 234,479	230,574
Current service costs and interest	6,875	10,347
Re-measurements of the net defined benefit liability		
– Actuarial (losses) gains arose from changes in demographic assumptions	(2,851)	2,050
– Actuarial gains arose from changes in financial assumption	14,149	8,948
– Experience adjustments	(6,836)	(13,500)
Benefits paid by the plan	(1,973)	(3,940)
Defined benefit obligation, December 31	\$ 243,843	234,479

3) Movements in the fair value of plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Fair value of plan assets, January 1	\$ 147,608	143,849
Interests revenue	2,336	2,421
Re-measurements of the net defined benefit liability		
– Experience adjustments	3,581	(1,088)
Contributions made	5,947	6,241
Benefits paid by the plan	(1,973)	(3,940)
Expected return on plan assets	-	125
Fair value of plan assets, December 31	\$ 157,499	147,608

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Expenses recognized in profit or loss

The Group's pension expenses recognized in profit or loss for the years ended December 31, 2018 and 2017 were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Current service cost	\$ 3,236	6,318
Net interest on net defined benefit liability	1,303	1,608
	<u>\$ 4,539</u>	<u>7,926</u>
Operating costs	\$ 381	577
Operating expenses	4,158	7,349
	<u>\$ 4,539</u>	<u>7,926</u>

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

The Group's net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Cumulative amount, January 1	\$ 77,866	79,280
Recognized during the year	881	(1,414)
Cumulative amount, December 31	<u>\$ 78,747</u>	<u>77,866</u>

6) Actuarial assumptions

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.03%~1.50%	1.15%~1.63%
Future salary increase rate	2.00%~3.00%	2.00%~3.00%

Based on the actuarial report, the Group is expected to make a contribution payment of \$5,943 to the defined benefit plans for the one year period after the reporting date.

The weighted-average duration of the defined benefit plans is between 7 and 23 years.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

7) Sensitivity Analysis

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

As of December 31, 2018 and 2017, the changes in the principal actuarial assumptions will impact on the present value of defined benefit obligation as follows:

	Impact on the present value of defined benefit obligation	
	Increase by 0.50%	Decrease by 0.50%
December 31, 2018		
Discount rate	(21,841)	24,401
Future salary increase rate	23,723	(21,484)
December 31, 2017		
Discount rate	(21,733)	24,362
Future salary increase rate	23,767	(21,443)

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

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

(ii) Defined contribution plans

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

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2018 and 2017 amounted to \$6,612,946 and \$5,273,507, respectively.

(iii) Short-term employee benefits

As of December 31, 2018 and 2017, the Group's short-term employee benefits liabilities were \$245,407 and \$330,441, respectively.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Income Tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return.

- (i) The income tax expense for the years ended December 31, 2018 and 2017 was calculated as follows :

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Current income tax expense		
Current period incurred	\$ 4,160,093	5,630,157
Prior years income tax adjustment	50,600	(163,761)
Surtax on undistributed earnings	28,309	203,174
Deferred tax expense		
The origination and reversal of temporary differences	(216,553)	(1,271,292)
Adjustment in tax rate	(82,281)	-
Income tax expense	<u>\$ 3,940,168</u>	<u>4,398,278</u>

- (ii) The amount of income tax recognized in other comprehensive income (loss) for the years ended December 31, 2018 and 2017 was as follows :

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Items that will not be reclassified subsequently to profit or loss		
Re-measurements of the net defined benefit plans	<u>\$ (457)</u>	<u>(1,088)</u>
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign financial statements	<u>\$ 8,373</u>	<u>(10,392)</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iii) Income tax on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2018 and 2017 as follows:

	For the years ended December 31	
	2018	2017
Profit before income tax	\$ 15,056,267	20,413,050
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	4,887,456	6,129,532
Adjustment in tax rate	(82,281)	-
Permanent differences	364,294	(1,063,023)
Changes in unrecognized temporary differences	(1,269,812)	(1,409,781)
Overseas dividends received	372,738	480,802
Prior years income tax adjustment	50,600	(163,761)
Surtax on undistributed earnings	28,309	203,174
Others	(411,136)	221,335
Income tax expense	\$ 3,940,168	4,398,278

- (iv) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

As of December 31, 2018 and 2017, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Group has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	December 31, 2018	December 31, 2017
The aggregate temporary differences associated with investments in subsidiaries	\$ 50,034,721	43,076,877
Unrecognized deferred tax liabilities	\$ 10,006,944	7,323,069

2) Unrecognized deferred tax assets

	December 31, 2018	December 31, 2017
Deductible temporary differences	\$ 1,215,295	656,964
Tax losses	1,707,906	852,174
	\$ 2,923,201	1,509,138

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

As of December 31, 2018, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets, and the expiry years thereof were as follows:

<u>Company Name</u>	<u>Year of occurrence</u>	<u>Unused balance</u>	<u>Expiry year</u>
KINSUS and its subsidiaries	2012	\$ 96,878	2022
ASROCK and its subsidiaries	2013~2017	332,529	2023~2027
CASETEK CAYMAN and its subsidiaries	2015~2018	5,914,819	2020~2023
AZUREWAVE and its subsidiaries	2013~2018	441,911	2023~2028
AMA PRECISION	2009~2017	<u>122,195</u>	2019~2027
		<u>\$ 6,908,332</u>	

3) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

	<u>Gain on foreign investments</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:			
Balance on January 1, 2018	\$ 1,576,817	24,664	1,601,481
Recognized in (loss) profit	(149,944)	111,983	(37,961)
Recognized in other comprehensive income	8,334	-	8,334
Exchange differences on translation	<u>(35,462)</u>	<u>1,860</u>	<u>(33,602)</u>
Balance on December 31, 2018	<u>\$ 1,399,745</u>	<u>138,507</u>	<u>1,538,252</u>
Balance on January 1, 2017	\$ 1,766,001	37,243	1,803,244
Recognized in profit	(165,393)	(13,380)	(178,773)
Recognized in other comprehensive income	(9,387)	-	(9,387)
Exchange differences on translation	<u>(14,404)</u>	<u>801</u>	<u>(13,603)</u>
Balance on December 31, 2017	<u>\$ 1,576,817</u>	<u>24,664</u>	<u>1,601,481</u>

	<u>Provision for Contingent Service Cost</u>	<u>Gain on valuation of inventory</u>	<u>Unrealized expenses</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:					
Balance on January 1, 2018	\$ 108,565	1,253,559	1,686,754	297,114	3,345,992
Recognized in profit	13,235	(176,778)	324,970	99,446	260,873
Recognized in other comprehensive income	-	-	-	418	418
Exchange differences on translation	<u>-</u>	<u>20,611</u>	<u>(2,230)</u>	<u>2,017</u>	<u>20,398</u>
Balance on December 31, 2018	<u>\$ 121,800</u>	<u>1,097,392</u>	<u>2,009,494</u>	<u>398,995</u>	<u>3,627,681</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Provision for Contingent Service Cost	Gain on valuation of inventory	Unrealized expenses	Others	Total
Balance on January 1, 2017	\$ 84,387	752,469	1,337,980	173,097	2,347,933
Recognized in profit	24,178	542,971	403,502	121,868	1,092,519
Recognized in other comprehensive income	-	-	-	2,093	2,093
Exchange differences on translation	-	(41,881)	(54,728)	56	(96,553)
Balance on December 31, 2017	<u>\$ 108,565</u>	<u>1,253,559</u>	<u>1,686,754</u>	<u>297,114</u>	<u>3,345,992</u>

(v) Status of approval of income tax

- 1) The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- 2) The Group have income tax returns approved by the Tax Authority were as follows :

Years of Approval	Company Name
2015	KINSUS INTERCONNECT TECHNOLOGY CORP. (whose 2014 income tax return has not been approved yet), ASROCK RACK, INC., and RIH KUAN METAL.
2016	AZURE WAVE, AZURE LIGHTING, EZWAVE TECHNOLOGIES, ASUS INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, ASROCK INCORPORATION (whose 2014 income tax return has not been approved yet), PEGAVISION, KINSUS INVESTMENT, STARLINK, LUMENS OPTICS, ASFLY TRAVEL SERVICE LTD., HUA-YUAN INVESTMENT LTD, and FUYANG TECHNOLOGY CORPORATION
2017	AMA and PEGA INTERNATIONAL LIMITED

(w) Share capital and other interests

(i) Nominal ordinary shares

The movements in ordinary shares of stock outstanding for the years ended December 31, 2018 and 2017 were as follows:

Ordinary Shares (In thousands of shares)	For the years ended December 31	
	2018	2017
Beginning balance on January 1	2,614,090	2,575,169
Issuance of restricted shares of stock	-	40,000
Retirement of restricted shares of stock	(1,713)	(1,079)
Ending balance on December 31	<u>2,612,377</u>	<u>2,614,090</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

For the years ended December 31, 2018 and 2017, the Company had retired 1,713 and 1,079 thousand shares, respectively, of restricted stock to employees. Therefore, the authorized capital of the Company consisted of both 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,612,377 and 2,614,090 thousand common shares of stock, as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the restricted company shares of stock issued to employees have expired, of which 497 and 194 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

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

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Guidelines for Offering and Issuing by Issuer of Overseas Securities". As of December 31, 2018 and 2017, the Company has listed, in total, 1,594 and 10,945 thousand units of GDRs, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 7,971 and 54,724 thousand shares of stock, respectively.

Major terms and conditions for GDRs were as follows:

1) Voting Rights

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Capital surplus

The components of the capital surplus were as follows :

	December 31, 2018	December 31, 2017
From issuance of share capital	\$ 64,623,295	63,209,502
From conversion of convertible bonds	11,073,663	11,073,663
From treasury stock transactions	23,614	23,614
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	760,025	576,033
Employee stock options	1,304	1,304
Restricted stock to employees	1,401,456	2,220,662
Other	<u>409,917</u>	<u>409,917</u>
	<u>\$ 80,676,330</u>	<u>79,897,751</u>

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

(iv) Retained earnings

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

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

1) Legal reserve

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Special reserve

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

3) Earnings Distribution

On June 21, 2018, and June 20, 2017, the Company's shareholder's meeting resolved to appropriate the 2017 and 2016 earnings. These earnings were appropriated or distributed as follows :

	2017	2016
Common stock dividends per share (dollars)		
– Cash	\$ 4.00	5.00

(v) Other equity accounts (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	Available -for-sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2018	\$ (9,698,374)	-	883,161	(1,222,232)	(10,037,445)
Effects of retrospective application	11,223	(161,048)	(883,161)	-	(1,032,986)
Balance on January 1, 2018 after adjustments	(9,687,151)	(161,048)	-	(1,222,232)	(11,070,431)
Exchange differences on foreign operation	2,217,430	-	-	-	2,217,430
Losses reclassified to profit or loss on disposal of foreign operation	(10,750)	-	-	-	(10,750)
Exchange differences on associates accounted for using equity method	(2,085)	-	-	-	(2,085)
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	(225,274)	-	-	(225,274)
Deferred compensation cost arising from issuance of restricted stock	-	-	-	697,546	697,546
Balance on December 31, 2018	\$ (7,482,556)	(386,322)	-	(524,686)	(8,393,564)
Balance on January 1, 2017	\$ (3,552,939)	-	183,953	(429,882)	(3,798,868)
Exchange differences on foreign operation	(6,154,844)	-	-	-	(6,154,844)
Exchange differences on associates accounted for using equity method	9,409	-	-	-	9,409
Unrealized gain on available-for-sale financial assets	-	-	541,228	-	541,228
Unrealized gain on available-for-sale financial assets of associates accounted for using equity method	-	-	157,980	-	157,980
Deferred compensation cost arising from issuance of restricted stock	-	-	-	(792,350)	(792,350)
Balance on December 31, 2017	\$ (9,698,374)	-	883,161	(1,222,232)	(10,037,445)

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the years ended December 31	
	2018	2017
Balance on January 1	\$ 33,748,072	33,752,611
Profit attributable to non-controlling interests	1,233	1,331,784
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	(202,446)	(434,397)
Remeasurements of defined benefit plans	(2,994)	(1,798)
Changes in ownership interest in subsidiaries	(183,992)	165,279
Changes in non-controlling interests	<u>3,058,072</u>	<u>(1,065,407)</u>
Balance on December 31	<u>\$ 36,417,945</u>	<u>33,748,072</u>

(x) Share-based payment

Information on share-based payment transactions as of December 31, 2018 and 2017 were as follows:

	Equity-settled share-based payment	
	Restricted stock to employee	
	Issued in 2016	Issued in 2014
Thousand units granted	40,000	40,000
Contractual life	3 years	3 years
Vesting period	Note A	Note A
Actual turnover rate of employees	5.43%	8.34%
Estimated future turnover rate for each of the three years of employees	9.26%、17.12%	-

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

On June 21, 2016, the shareholders approved a resolution passed during their meeting to award 40,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of the Company. The restricted stock has been declared effective by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On May 9, 2017, the Board of Directors approved to issue 38,191 thousand shares of restricted shares of stock with fair value of NT\$89.7 each at grant date. The record date for the capital increase through issuance of restricted shares of stock was July 11, 2017. The actual issuance number for the capital increase was 37,808 thousand shares. On July 27, 2017, the registration procedures were completed. On September 15, 2017, Board of Directors of the Company approved to issue secondary new restricted shares of stock totaling 2,192 thousand shares with fair value of \$88.5 each at grant date. The record date for the capital increase through issuance of restricted shares of stock was October 19, 2017. The actual issuance number for the capital increase was 2,192 thousand shares, and the registration procedures were completed.

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

(i) Determining the fair value of equity instruments granted

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

	Equity-settled share-based payment		
	Restricted stock to employee		
	Issued in 2016	Issued in 2016	Issued in 2014
Fair value at grant date	09/15/2017	05/09/2017	05/07/2015
Stock price at grant date	\$ 88.50	89.70	91.90
Exercise price	10.00	10.00	10.00
Expected life of the option	3 years	3 years	3 years
Current market price	88.50	89.70	91.90
Expected volatility	24.97%~28.84%	25.25%~25.64%	33.37%
Expected dividend yield	-%	-%	-%
Risk-free interest rate	(Note A)	(Note B)	(Note C)

Note A : The risk-free interest rate is 0.13% for the 2nd year, and 0.23% for the 3rd year.

Note B : The risk-free interest rate is 0.16% for the 2nd year, and 0.23% for the 3rd year.

Note C : The risk-free interest rate is 0.7992% for the 3rd year.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Restricted stock to employee

For the year ended December 31, 2017, the Company issued restricted shares of stock to employees of 40,000 thousand shares, which resulted in a capital surplus — restricted employee stock of \$1,702,900. Also, for the years ended December 31, 2018 and 2017, 2,017 and 1,049 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$20,165 and \$10,485, respectively. As of December 31, 2018 and 2017, the Company has deferred compensation cost arising from issuance of restricted stock of \$524,686, and \$1,222,232, respectively.

For the years ended December 31, 2018 and 2017, the Company recognized salary cost of \$43,617 and \$58,346 from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

(iii) Expenses resulting from share-based payments

The Company incurred expenses from share-based payment transactions for the years ended December 31, 2018 and 2017 were as follows :

	For the years ended December 31	
	2018	2017
Expenses resulting from issuance of restricted stock to employees	\$ <u>1,182,963</u>	<u>1,221,618</u>

(y) Subsidiary's share-based payments

(i) Restricted stock to employee of AZURE WAVE

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Employees with restricted stock awards are entitled to purchase shares at the price of NT\$10 per share provided that these employees continue to work for AZURE WAVE for the following three years. 20%, 40% and 40% of the restricted shares of stock is vested in year 1, 2 and 3, respectively. The restricted stock is kept by a trust, which is appointed by AZURE WAVE, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted, or by any other means of disposed to third parties during the custody period. These shares of stock are entitled to the same right as the holders of common stock once issued, except for those shares kept by a trust or shares that do not meet the vesting condition. If the shares remain unvested after the vesting period, AZURE WAVE will repurchase all the unvested shares at the issue price, and cancel the shares thereafter. As of December 31, 2018, AZURE WAVE retired 336 thousand shares of the restricted stock due to turnover of employees, and 308 thousand shares had been cancelled.

For the years ended December 31, 2018 and 2017, AZURE WAVE recognized share-based compensation cost of \$4,953 and \$5,715, respectively. As of December 31, 2018 and 2017, AZURE WAVE has deferred compensation cost arising from issuance of restricted stock of \$2,636 and \$7,589, respectively.

(ii) Restricted stock to employee of ASROCK

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

Employees with restricted stock awards are entitled to purchase shares at the price of NT\$10 per share provided that these employees continue to work for ASROCK for the following three years. 40%, 30% and 30% of the restricted shares of stock is vested in year 1, 2 and 3, respectively. The restricted stock is kept by a trust, which is appointed by ASROCK, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. These shares of stock are entitled to the same right as holders of common shares once issued, except for those shares kept by a trust or shares that do not meet the vesting condition.

The aforesaid information of restricted stock to employees was follows:

Vesting period	Restricted stock to employee			
	Year 1	Year 2	Year 3	Total
Original vested shares (In thousands)	2,282	1,711	1,711	5,704
Estimated employee turnover rate	-	5.00 %	11.00 %	
Vested shares after considering employee turnover rate (In thousands)	2,282	1,625	1,523	5,430
Embedded value	NT\$58.80	58.80	58.80	
Service costs	\$ 134,158	95,588	89,550	319,296

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

On September 22, 2017, ASROCK issued restricted shares of stock to employees totaling 5,704 thousand shares, which was charged to capital surplus of \$245,372. ASROCK adjusted its estimated turnover rate to actual rate in June, 2018, resulting in its capital surplus to increase by \$47,089. ASROCK then adjusted the estimated turnover rate in August, 2018, resulting in its capital surplus-restricted shares of stock to increase by \$26,835. Capital surplus-restricted shares of stock was charged to capital surplus-premium on capital stock due to vested shares of the year, resulting in its capital surplus-restricted shares of stock decreasing by \$134,158. As of December 31, 2018, ASROCK has capital surplus-restricted shares of stock and deferred compensation cost arising from issuance of restricted stock amounting to \$185,138 and \$82,494, respectively.

For the year ended December 31, 2018, ASROCK recognized salary cost of \$1,094 from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

- 1) ASROCK did not make any cancellation or amendment to share-based payment transactions for the year ended December 31, 2018.
- 2) The expenses resulting from share-based payment transactions were as follows :

	For the years ended December 31	
	2018	2017
Expense resulting from equity-settled share-based payment	<u>\$ 166,792</u>	<u>71,104</u>

(iii) Restricted stock to employee of CASETEK CAYMAN

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the years ended December 31	
	2018	2017
(In thousands of shares)		
Outstanding as of January 1	1,500	-
Granted during the year	-	1,500
Vested during the year	(750)	-
Expired during the year	(750)	-
Outstanding as of December 31	<u>-</u>	<u>1,500</u>

Capital surplus of \$135,000 was recognized from the issuance of restricted employee stock, amounted to \$15,000 at fair value of NT\$100 per share based on the closing price of CASETEK CAYMAN shares at grant date. On March 5, 2018, half of the aforementioned restricted shares of stock to employees has met certain vesting requirements, and 750 thousand shares was issued in total. Capital surplus-restricted shares of stock amounting to \$67,500 was charged to capital surplus-premium on capital stock.

As of December 31, 2018, CASETEK CAYMAN retired 750 thousand shares of the restricted stock, and all shares had been cancelled.

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Determining the fair value of equity instruments granted

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

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

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

2) Expenses resulting from share-based payments

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

	For the years ended December 31	
	2018	2017
Expenses resulting from issuance of restricted stock to employees	\$ 1,858	73,142
Expenses resulting from cash-settled share-based payment to employees	-	3,997
Total	\$ 1,858	77,139

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Employee stock option of FUYANG TECHNOLOGY CORPORATION

As of December 31, 2018 and 2017, FUYANG TECHNOLOGY CORPORATION had the following share-based payment transaction:

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

1) Determining the fair value of equity instruments granted

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

	<u>For the year ended</u> <u>December 31</u> <u>2018</u> <u>Employee stock option</u> <u>issued in 2017</u>
<u>Valuation model</u>	
Fair value at grant date	NT\$ 1.54
Stock price at grant date	NT\$ 8.05
Exercise price	NT\$ 10.00
<u>Assumptions</u>	
Dividend yield	-
Expected price volatility	32.81 %
Expected life of the option	4 years
Risk-free interest rate	0.73 %

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) Information on employee stock options was as follows :

	For the years ended December 31			
	2018		2017	
	Weighted- average exercise price	Units of stock option (In thousand units)	Weighted- average exercise price	Units of stock option (In thousand units)
Outstanding as of January 1	\$ 8.05	10,000	-	-
Granted during the year	-	-	8.05	10,000
Expired during the year	8.05	(2,010)	-	-
Outstanding as of December 31		<u>7,990</u>	8.05	<u>10,000</u>
Exercisable as of December 31		<u>-</u>		<u>-</u>

- 3) Expenses resulting from share-based payments

The expense resulting from share-based payment transactions for the years ended December 31, 2018 and 2017, were as follows :

	For the years ended December 31	
	2018	2017
Expenses resulting from employee stock option	<u>\$ 3,311</u>	<u>2,370</u>

- (v) Treasury stock transferred to employee of KINSUS

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

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

Information on aforesaid share-based payment was as follows:

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

	For the year ended December 31	
	2017	
Equity-settled share-based payment	\$ 8,371	

(vi) Compensated restricted stock to employee of KINSUS

- 1) On May 29, 2018, pursuant to the resolution of its shareholders during their meeting, KINSUS will issue 5,500 thousand new restricted shares of stock to those employees who meet certain requirement of KINSUS. The restricted shares of stock have been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On July 30, 2018, Board of Directors of KINSUS approved to issue 4,947 thousand shares of restricted stock. The record date for the capital increase through issuance of restricted shares of stock was August 28, 2018, and 4,841 thousand shares were actually issued for such award with fair value of NT\$49.1 each at grant date.

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

Vesting conditions	Vested percentage of restricted stock
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 %

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The restricted obligation before vested was as follows :

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

On August 28, 2018, KINSUS issued restricted shares of stock to employees totaling 4,841 thousand shares, which were charged to capital surplus of \$184,530. Also, for the year ended December 31, 2018, 74 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$738. As of December 31, 2018, KINSUS has deferred compensation cost arising from issuance of restricted stock of \$102,973.

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

	For the year ended December 31
	2018
Equity-settled share-based payment	\$ 82,525

- 3) KINSUS did not made any cancellation or amendment to share-based payment transactions for the year ended December 31, 2018.

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

On April 28, 2017, Board of Directors of FUYANG ELECTRONICS (SUZHOU) CO., LTD. approved to issue 5,000 thousand units of stock appreciation rights to employees with fair value of NT\$10 each. As of December 31, 2018, FUYANG ELECTRONICS (SUZHOU) CO., LTD. had two share-based payment arrangements as follows:

	Stock appreciation rights (employee)	
	6 years	7 years
Vesting period		
Original vested units (In thousand units)	2,500	2,500
Outstanding as of December 31	1,645	1,645
Expected employee turnover rate	88.91%	93.17%
Vested units after considering employee turnover rate (In thousand units)	182	112
Fair value (dollars)	\$ 2.67	2.67
Service costs	\$ 487	300

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the year ended December 31 2018
	Units of stock option (In thousand units)
Outstanding as of January 1	\$ 5,000
Expired during the year	(1,710)
Outstanding as of December 31	\$ 3,290
Exercisable as of December 31	3,290

(z) Earnings per share

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

	For the years ended December 31	
	2018	2017
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ 11,114,866	14,682,988
Weighted-average number of ordinary shares	2,612,769	2,592,882
	\$ 4.25	5.66
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ 11,114,866	14,682,988
Weighted-average number of ordinary shares	2,612,769	2,592,882
Effect of potentially dilutive ordinary shares		
Employee stock bonus	20,580	16,663
Weighted-average number of ordinary shares (diluted)	2,633,349	2,609,545
	\$ 4.22	5.63

(aa) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the year ended December 31, 2018		
	DMS	Strategic Investment Group	Total
Primary geographical markets			
Europe	\$ 540,507,707	3,373,813	543,881,520
U.S.A.	440,140,252	33,717,061	473,857,313
Taiwan	107,161,958	6,068,012	113,229,970
China	36,216,244	36,959,751	73,175,995
Japan	72,267,550	577,401	72,844,951
Other countries	61,760,632	1,251,650	63,012,282
	\$ 1,258,054,343	81,947,688	1,340,002,031

Please refer to Note 6(ab) for details on revenue for the year ended December 31, 2017.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Contract balances

	December 31, 2018	January 1, 2018
Notes receivable	\$ 45,327	52,010
Accounts receivable	200,619,185	151,085,518
Less: Allowance for impairment	<u>1,780,928</u>	<u>1,723,316</u>
Total	<u>\$ 198,883,584</u>	<u>149,414,212</u>
Contract liabilities	<u>\$ 1,363,197</u>	<u>1,854,707</u>

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

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$6,171,192.

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 year ended December 31, 2018.

(ab) Revenue

	For the year ended December 31 2017
Sale of goods	\$ 1,152,703,488
Others	<u>41,105,027</u>
	<u>\$ 1,193,808,515</u>

Please refer to Note 6(aa) for details on revenue for the year ended December 31, 2018.

(ac) Remuneration of employees and directors

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

For the years ended December 31, 2018 and 2017, remuneration of employees of \$896,000 and \$1,188,000, respectively, and remuneration of directors of \$89,000 and \$115,000, respectively, were estimated on the basis of the Company's net profit before tax, excluding the remuneration of employees and directors of each period, multiplied by the percentage of remuneration of employees and directors as specified in the Company's Articles of Incorporation. Such amounts were recognized as operating cost or operating expense for the years ended December 31, 2018 and 2017. 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The number of shares to be distributed were calculated based on the closing price of the Company's ordinary shares, one day prior to Board of Directors meeting. There was no difference between the amounts approved in Board of Directors meeting and recognized for the years ended December 31, 2018 and 2017. For further information, please refer to Market Observation Post System.

(ad) Non-operating income and expenses

(i) Other income

	For the years ended December 31	
	2018	2017
Interest income	\$ 2,309,814	1,499,714
Subsidy income	1,756,306	1,106,003
Rental income	292,675	235,994
Technical service income	540,224	393,739
Other income	467,176	938,169
	\$ 5,366,195	4,173,619

(ii) Other gains and losses

	For the years ended December 31	
	2018	2017
Reversal of expected credit loss/Reversal of provision for bad debt expense	\$ 12	198,966
Gains (losses) on disposal of property, plant and equipment	156,524	(46,833)
Gains from disposal of investments	42,098	38,091
Foreign exchange gains (losses)	567,045	(1,555,274)
Reversal of (Impairment loss)	(63,167)	34,474
Net (losses) gains on financial assets measured at fair value through profit or loss	(191,266)	146,321
Other losses	-	(470,924)
Compensation losses	(32,410)	-
	\$ 478,836	(1,655,179)

(iii) Finance costs

	For the years ended December 31	
	2018	2017
Interest expenses	\$ 2,596,132	951,706
Finance expense – bank fees	18,303	66,298
	\$ 2,614,435	1,018,004

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ae) Reclassification of other comprehensive income

	For the years ended	
	December 31	
	2018	2017
Available-for-sale financial assets		
Net change in fair value	\$ -	541,228
Share of other associates accounted for using equity method	-	157,980
Net fair value change recognized in other comprehensive income	\$ -	699,208
Cumulative adjustment		
Cumulative foreign exchange difference from current period	\$ 2,014,984	(6,589,241)
Share of other associates accounted for using equity method	(2,085)	9,409
Loss reclassified to profit or loss on disposal of other associates accounted for using equity method	(10,750)	-
Net change in fair value recognized in other comprehensive income	\$ 2,002,149	(6,579,832)

(af) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Credit risk concentrations

As of December 31, 2018 and 2017, the accounts receivable from the Group's top three customers amounted to \$129,779,524 and \$92,809,599, representing 65% and 61% of accounts receivable, respectively, which exposes the Group to credit risk.

3) Accounts receivable of credit risk

Please refer to Note 6(f) for notes and accounts receivable of credit risk exposure. Please refer to Note 6(g) for the detail of other receivables and allowance for impairment during 2017.

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).

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The loss allowance provision as of December 31, 2018 was determined as follows :

	Other receivables
Balance on January 1, 2018 (Under IAS39)	\$ 13,494
Adjustment on initial application of IFRS 9	<u>-</u>
Balance on January 1, 2018 (Under IFRS 9)	13,494
Impairment loss recognized	1,113
Foreign exchange loss	<u>(233)</u>
Balance on December 31, 2018	<u>\$ 14,374</u>

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
December 31, 2018					
Non-derivative financial liabilities					
Secured bank loans	\$ 80,490	80,490	80,490	-	-
Unsecured bank loans	98,746,959	98,746,959	89,235,278	6,707,806	2,803,875
Unsecured ordinary corporate bond	15,000,000	15,000,000	-	3,000,000	12,000,000
Non-interest bearing liabilities	<u>261,781,132</u>	<u>261,781,132</u>	<u>261,781,132</u>	<u>-</u>	<u>-</u>
	<u>\$ 375,608,581</u>	<u>375,608,581</u>	<u>351,096,900</u>	<u>9,707,806</u>	<u>14,803,875</u>
December 31, 2017					
Non-derivative financial liabilities					
Secured bank loans	\$ 101,000	101,000	54,625	28,375	18,000
Unsecured bank loans	54,019,732	54,019,732	47,111,307	640,700	6,267,725
Unsecured ordinary corporate bond	7,000,000	7,000,000	-	-	7,000,000
Non-interest bearing liabilities	<u>226,268,684</u>	<u>226,268,684</u>	<u>226,268,684</u>	<u>-</u>	<u>-</u>
	<u>\$ 287,389,416</u>	<u>287,389,416</u>	<u>273,434,616</u>	<u>669,075</u>	<u>13,285,725</u>

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Market risk

1) Currency risk

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

(Unit: Foreign currency / NTD in Thousands)

	December 31, 2018			December 31, 2017		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 16,701,074	30.7150	512,973,488	11,672,655	29.760	347,378,213
USD:CNY	402,783	6.8632	12,371,431	339,735	6.5342	10,110,518
CNY:USD	2,346,521	0.1457	10,501,427	1,223,321	0.1530	5,571,613
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	16,926,775	30.7150	519,905,894	11,389,063	29.760	338,938,515
USD:CNY	361,240	6.8632	11,095,443	262,842	6.5342	7,822,182
CNY:USD	2,702,709	0.1457	12,095,481	2,840,274	0.1530	12,936,022

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation or depreciation of each major foreign currency against the Group's functional currency as of December 31, 2018 and 2017 would have increased (decreased) the before-tax net income for the years ended December 31, 2018 and 2017 by \$58,492 and \$13,442, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2018 and 2017, the foreign exchange gains (losses), including both realized and unrealized, amounted to \$567,045 and \$(1,555,274), respectively.

(iv) Interest rate analysis

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 \$261,450 and \$127,943 for the years ended December 31, 2018 and 2017, 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.

(v) 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 years ended December 31			
	2018		2017	
	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%	\$ 24,378	37,798	46,308	10,554
Decrease 3%	\$ (24,378)	(37,798)	(46,308)	(10,554)

(vi) Fair value of financial instruments

The Group measured its financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income (available-for-sale financial assets) 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 for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

1) Categories of financial instruments and fair value hierarchy

	December 31, 2018				
	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	\$ 3,532,973	2,930,402	399,600	202,971	3,532,973

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Receivables-Financial assets at fair value through other comprehensive income	\$ 15,357,500	15,357,500	-	-	15,357,500
Stock of listed companies	530,518	530,518	-	-	530,518
Stock of unlisted companies	174,167	-	-	174,167	174,167
Stock of overseas unlisted companies	<u>107,908</u>	<u>-</u>	<u>-</u>	<u>107,908</u>	<u>107,908</u>
Subtotal	<u>16,170,093</u>	<u>15,888,018</u>	<u>-</u>	<u>282,075</u>	<u>16,170,093</u>
Financial assets at amortized cost					
Cash and cash equivalents	\$106,068,046	-	-	-	-
Notes and accounts receivable	183,526,084	-	-	-	-
Other receivables	1,476,581	-	-	-	-
Other financial assets	<u>1,445,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>292,516,382</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Bank loans	\$ 98,827,449	-	-	-	-
Non-interest bearing liabilities	261,781,132	-	-	-	-
Unsecured ordinary corporate bond	<u>14,986,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>375,595,343</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2017					
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ 2,824,913	2,824,913	-	-	2,824,913
Financial assets carried at cost	<u>71,015</u>	<u>-</u>	<u>-</u>	<u>71,015</u>	<u>71,015</u>
Subtotal	<u>2,895,928</u>	<u>2,824,913</u>	<u>-</u>	<u>71,015</u>	<u>2,895,928</u>
Available-for-sale financial assets					
Stock of listed companies	\$ 721,071	721,071	-	-	721,071
Equity securities—common stock	437,760	-	437,760	-	437,760
Stock of overseas listed companies	384,782	384,782	-	-	384,782
Financial assets carried at cost	<u>279,494</u>	<u>-</u>	<u>-</u>	<u>279,494</u>	<u>279,494</u>
Subtotal	<u>1,823,107</u>	<u>1,105,853</u>	<u>437,760</u>	<u>279,494</u>	<u>1,823,107</u>
Deposits and receivables					
Cash and cash equivalents	\$107,444,124	-	-	-	-
Notes and accounts receivable	149,414,212	-	-	-	-
Other receivables	1,490,873	-	-	-	-
Other financial assets	<u>1,523,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>259,872,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at amortized cost					
Bank loans	\$ 54,120,732	-	-	-	-
Non-interest bearing liabilities	226,268,684	-	-	-	-
Unsecured ordinary corporate bond	<u>6,992,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>287,381,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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.

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

b) Derivative financial instruments

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the years ended December 31, 2018 and 2017.

5) 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" and "financial assets measured at fair value through other comprehensive income(available-for-sale financial assets) – equity investments".

Most of the Group's financial assets in Level 3 have only one significant unobservable input, while its financial assets at fair value through other comprehensive income-equity investments without an active market have more than one significant unobservable inputs. The significant unobservable inputs of financial assets at fair value through other comprehensive income-equity 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>
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 December 31, 2018 and December 31, 2017, were 0.9) ·Market illiquidity discount (As of December 31, 2018 and December 31, 2017, were 20%) 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).
Fair value through other comprehensive income (Available-for-sale financial assets)- equity investments without an active market	Market Approach	<ul style="list-style-type: none"> ·The multiplier of price-to-book ratio (As of December 31, 2018 and December 31, 2017, were 1.8~6.1) ·Market illiquidity discount (As of December 31, 2018 and December 31, 2017, were 20%) 	"
Fair value through profit or loss-private fund	Net Asset Value Method	·Net Asset Value	Not applicable

6) 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income :

	Inputs	Fluctuation in inputs	Profit or loss		Other comprehensive income	
			Favor- able	Unfavor- able	Favor- able	Unfavor- able
December 31, 2018						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	797	(797)	-	-
Equity investments without an active market	Market illiquidity discount	1%	797	(797)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,821	(2,821)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,821	(2,821)
December 31, 2017						
Financial assets carried at cost						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	(3,505)	-	-
Equity investments without an active market	Market illiquidity discount	1%	-	(3,505)	-	-

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.

(vii) Offsetting of financial assets and financial liabilities

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

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

	December 31, 2018					
	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	\$ 30,241,749	22,562,671	7,679,078	-	-	7,679,078

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018						
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	\$ 22,562,671	22,562,671	-	-	-	-

December 31, 2017						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 31,766,866	22,767,959	8,998,907	-	-	8,998,907

December 31, 2017						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 22,767,959	22,767,959	-	-	-	-

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

(ag) Financial risk management

(i) Overview

The Group has exposures to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The following discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying non-consolidated financial statements.

(ii) Risk management framework

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(iii) Credit risk

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

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

1) Accounts receivables and other receivables

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

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

The major customers of the Group are concentrated in the high-tech computer industry. As the customers of the Group have good credits and profit records, the Group evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Group also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Investment

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

3) Guarantee

The Group's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies. Please refer to Notes 9 and 13 Table 2 for details of endorsements and guarantees provided by the Group as of December 31, 2018 and 2017.

(iv) Liquidity risk

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

The capital and working funds of the Group are sufficient to meet its entire contractual obligations and non-hedging forward exchange contracts; therefore, management is not expecting any significant issue on liquidity risk.

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (NTD), US Dollars (USD) and Chinese Yuan (CNY). The currencies used in these transactions are denominated in NTD, EUR, USD, and CNY.

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

2) Interest rate risk

The Group's interest rate risk arises from part of the short-term and long-term loans bearing floating interest rates and cash advances for accounts receivable factoring. Future cash flow will be affected by a change in market interest rate. The Group decreases the interest rate risk through negotiating with banks aperiodically.

3) Price floating risk on equity instruments

The equity securities held by the Group are classified as financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income. As these assets are measured at fair value, the Group is exposed to the market price fluctuation risk in the equity securities market.

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

(ah) Capital management

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

The Group uses the debt-to-equity ratio, interest bearing liability-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

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

	December 31, 2018	December 31, 2017
Total liabilities	\$ 397,903,832	308,511,809
Less: cash and cash equivalents	<u>106,068,046</u>	<u>107,444,124</u>
Net debt	<u>\$ 291,835,786</u>	<u>201,067,685</u>
Total capital (Note)	<u>\$ 478,282,569</u>	<u>380,791,495</u>
Debt to equity ratio	<u>61.02%</u>	<u>52.80%</u>

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

Management believes that there were no changes in the Group's approach to capital management for the year ended December 31, 2018.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ai) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the years ended December 31, 2018, were as follows :

Reconciliation of liabilities arising from financing activities were as follows :

	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Foreign exchange movement	Other	
Long-term loans	\$ 8,062,112	3,635,750	202,341	-	11,900,203
Short-term loans	46,058,620	40,868,626	-	-	86,927,246
Bonds payable	6,992,476	7,992,000	-	2,286	14,986,762
Other payables-restricted employee stock	259,771	(23,525)	-	(44,363)	191,883
Non-controlling interests	<u>33,748,072</u>	<u>4,240,037</u>	<u>(202,446)</u>	<u>(1,367,718)</u>	<u>36,417,945</u>
Total liabilities from financing activities	<u>\$ 95,121,051</u>	<u>56,712,888</u>	<u>(105)</u>	<u>(1,409,795)</u>	<u>150,424,039</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
HONGJIE (SUZHOU) PACKING LIMITED	Other related party (Note)

Note : On June 29, 2018, the Group disposed common stocks of HONGJIE (SUZHOU) PACKING LIMITED, so that the Group lost its significant influence. Consequently, HONGJIE (SUZHOU) PACKING LIMITED was not related party of the Group from that date on.

(b) Significant transactions with related parties

(i) Purchase of Goods from Related Parties

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

	<u>Purchases</u>		<u>Payables to Related Parties</u>	
	<u>For the years ended December 31</u>		<u>December 31, 2018</u>	<u>December 31, 2017</u>
	<u>2018</u>	<u>2017</u>		
Other related parties	\$ <u>-</u>	<u>88</u>	<u>-</u>	<u>14</u>

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Key management personnel compensation :

	For the years ended December 31	
	2018	2017
Short-term employee benefits	\$ 428,094	488,481
Post-employment benefits	3,492	3,371
Share-based payments	<u>270,516</u>	<u>286,538</u>
	<u>\$ 702,102</u>	<u>778,390</u>

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

(8) Pledged assets:

As of December 31, 2018 and 2017, pledged assets were as follows :

Asset	Purpose of pledge	December 31, 2018	December 31, 2017
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, rental deposits, short-term loans, travel agency guarantee, etc.	\$ 144,954	73,297
Property, plant and equipment	Bank loans	-	143,554
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	37,318	35,348
		<u>\$ 182,272</u>	<u>252,199</u>

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	December 31, 2018	December 31, 2017
EUR	\$ 2,273	2,589
JPY	961,880	2,968,349
USD	6,718	5,853

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

	December 31, 2018	December 31, 2017
NTD	<u>\$ 60,780</u>	<u>78,998</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iii) As of December 31, 2018 and 2017 the significant contracts for purchase of properties by the Group amounted to \$18,655,532 and \$24,033,496, of which \$3,786,909 and \$10,860,011, respectively, were unpaid.
- (iv) As of December 31, 2018 and 2017, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$1,290,031 and \$3,779,520, respectively.
- (v) As of December 31, 2018 and 2017, the Group issued a tariff guarantee of \$2,185,813 and \$1,689,442, 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. The outcome of this lawsuit depends on court proceedings and is not expected to have a material effect on the Group's operation.

(10) Losses due to major disasters: None.

(11) Subsequent events: None

(12) Other:

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

By function	For the years ended December 31					
	2018			2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 55,716,331	14,486,548	70,202,879	50,119,863	14,779,941	64,899,804
Health and labor insurance	4,930,542	944,050	5,874,592	5,103,857	934,649	6,038,506
Pension	5,723,251	894,234	6,617,485	4,433,255	848,178	5,281,433
Others	1,385,852	912,627	2,298,479	1,773,415	858,011	2,631,426
Depreciation	14,559,380	1,646,852	16,206,232	11,157,465	1,714,742	12,872,207
Amortization	137,452	129,264	266,716	122,562	111,237	233,799

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the years ended December 31	
	2018	2017
Depreciation in investment property	\$ 3,125	3,149

(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 December 31, 2018 (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 year ended December 31, 2018.

(Continued)

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

- (c) Information on investment in mainland China:
 - (i) Please refer to Table 9 for names of investee, main businesses and products, total amount of capital surplus, method of investment, investment flows, net income (losses) of the investee, percentage of ownership and the upper limit on investment.
 - (ii) Please refer to information on significant transactions for either directly or indirectly through a third area, with investee companies in the Mainland Area. The transactions were eliminated in the consolidated financial statements.

(14) Segment information:

(a) General Information

The Group's operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Group assesses performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated interim financial report.

(b) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, excluding any extraordinary activity and foreign exchange gains or losses, because taxation, extraordinary activity and foreign exchange gains or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 "Significant accounting policies" except for the recognition and measurement of pension cost, which is on a cash basis. The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Please refer to Note 6(aa) for information on revenue for the year ended December 31, 2018. The Group's operating segment information and reconciliation were as follows :

	For the year ended December 31			
	2018			
	DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue :				
Revenue from external customers	\$ 1,257,909,952	82,092,079	-	1,340,002,031
Intersegment revenues	940,370	5,778,494	(6,718,864)	-
Total revenue	<u>\$ 1,258,850,322</u>	<u>87,870,573</u>	<u>(6,718,864)</u>	<u>1,340,002,031</u>
Share of profit (loss) of associates and joint ventures accounted for using equity method	<u>\$ (531,447)</u>	<u>4,546,469</u>	<u>(4,041,993)</u>	<u>(26,971)</u>
Other significant non-monetary items:				
Goodwill	<u>\$ -</u>	<u>1,074,232</u>	<u>-</u>	<u>1,074,232</u>
Reportable segment profit or loss	<u>\$ 13,535,561</u>	<u>5,560,870</u>	<u>(4,040,164)</u>	<u>15,056,267</u>
Assets:				
Investments accounted for using equity method	<u>\$ 44,318,848</u>	<u>105,017,344</u>	<u>(149,089,769)</u>	<u>246,423</u>
Reportable segment assets	<u>\$ 503,839,168</u>	<u>229,784,573</u>	<u>(149,273,126)</u>	<u>584,350,615</u>
Reportable segment liabilities	<u>\$ 353,810,330</u>	<u>44,276,859</u>	<u>(183,357)</u>	<u>397,903,832</u>
	For the year ended December 31			
	2017			
Revenue :				
Revenue from external customers	\$ 1,114,498,123	79,310,392	-	1,193,808,515
Intersegment revenues	598,538	5,337,413	(5,935,951)	-
Total revenue	<u>\$ 1,115,096,661</u>	<u>84,647,805</u>	<u>(5,935,951)</u>	<u>1,193,808,515</u>
Share of profit of associates and joint ventures accounted for using equity method	<u>\$ 964,610</u>	<u>10,175,786</u>	<u>(11,144,880)</u>	<u>(4,484)</u>
Other significant non-monetary items:				
Goodwill	<u>\$ -</u>	<u>1,040,879</u>	<u>-</u>	<u>1,040,879</u>
Reportable segment profit or loss	<u>\$ 17,617,935</u>	<u>13,932,664</u>	<u>(11,137,549)</u>	<u>20,413,050</u>
Assets:				
Investments accounted for using equity method	<u>\$ 41,824,169</u>	<u>98,099,017</u>	<u>(139,419,468)</u>	<u>503,718</u>
Reportable segment assets	<u>\$ 411,234,014</u>	<u>216,441,900</u>	<u>(139,440,295)</u>	<u>488,235,619</u>
Reportable segment liabilities	<u>\$ 265,258,276</u>	<u>43,274,359</u>	<u>(20,826)</u>	<u>308,511,809</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

(i) External Sales

<u>Region</u>	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Europe	\$ 543,881,520	453,169,704
USA	473,857,313	407,742,938
Taiwan	113,229,970	149,381,904
China	73,175,995	71,290,164
Japan	72,844,951	67,788,946
Others	<u>63,012,282</u>	<u>44,434,859</u>
	<u>\$ 1,340,002,031</u>	<u>1,193,808,515</u>

(ii) Non-current assets

<u>Region</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Taiwan	\$ 28,108,628	24,801,356
China	65,895,149	60,560,120
Others	<u>711,944</u>	<u>778,442</u>
Total	<u>\$ 94,715,721</u>	<u>86,139,918</u>

Non-current assets include property, plant and equipment, investment property, intangible assets and other non-current assets, excluding financial instruments, deferred tax assets, pension fund assets, and rights arising from an insurance contract (non-current).

(d) Major Customer

Major customers from DMS in 2018 and 2017 were as follows:

<u>Customer</u>	<u>2018</u>	<u>2017</u>
A	\$ 844,032,246	733,049,391
B	79,615,762	111,201,206
C	<u>62,651,088</u>	<u>60,744,975</u>
	<u>\$ 986,299,096</u>	<u>904,995,572</u>

Notes to the Consolidated Financial Statement

According to our PROTEK (SHANGHAI) LTD.) policy for loans granted, the ceiling on total loans granted to a single party is 15% of our PROTEK (SHANGHAI) LTD.) net assets.

According to our STARLINK ELECTRONICS CORPORATION policy for loans granted, the ceiling on total loans granted to a single party is 40% of our STARLINK ELECTRONICS CORPORATION net assets.

According to our AZWAVE HOLDING (SAMOA) INC.) policy for loans granted to a foreign subsidiary whose voting shares are directly or indirectly wholly-owned by the Company is as follows: ceiling on total loans granted to a subsidiary is 40% of our AZWAVE HOLDING (SAMOA) INC.) net assets.

According to our RHLI International Limited policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED(CAYMAN), the ceiling on total loans granted to which is 100% of our RHLI International Limited net assets.

According to our RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED(CAYMAN), the ceiling on total loans granted to which is 100% of our RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) net assets.

According to our PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED(CAYMAN), the ceiling on total loans granted to which is 100% of our PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) net assets.

According to our KAIHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.) policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED(CAYMAN), the ceiling on total loans granted to which is 100% of our KAIHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets.

According to our ASAROCK TECHNOLOGY LIMITED policy for loans granted, the ceiling on total loans granted to other single party is 40% of our ASAROCK TECHNOLOGY LIMITED net assets.

While granting loans to the foreign subsidiaries which are wholly-owned by ASAROCK TECHNOLOGY LIMITED is as follows: there is no limit on total loans granted.

According to our KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.) policy for loans granted, the ceiling on total loans granted to a single party is 50% of our KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.) net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are not wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.'s net assets.

Note 7 : If the amount is based on foreign currency, please refer to the spot exchange rate on the financial statement date. (exchange rate on December 31, 2018 is USD/NTD30.715; CNY/NTD4.753)

Notes to the Consolidated Financial Statement

Table 2 Guarantees and endorsements for other parties
December 31, 2018

No. (Note 1)	Endorser/ Guarantor (Note 2)	Party being endorsed/ guaranteed (Note 2)	Relationship (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018 (Note 4) (Note 5)	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Expressed in thousands of RMB
0	PEGATRON CORPORATION	PROTEK COMPUTER (SUZHOU) CO., LTD.	(6)	30,005,767	451,511	451,511	141,097	-	0.30%	75,014,419	Y	N	Provision of endorsements/ guarantees to the party in Mainland China
0	PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	(2)	30,005,767	2,457,200	-	-	-	0.00%	75,014,419	Y	N	Y
1	KINSUS INTERCONNECT TECHNOLOGY CORP.	PIOTEK COMPUTER (SUZHOU) CO., LTD.	(6)	5,586,430	469,940	469,940	146,856	-	1.69%	13,891,075	Y	N	Y
2	AZURE WAVE TECHNOLOGIES, INC.	AZURE LIGHTING TECHNOLOGIES, INC.	(2)	874,863	522,155	368,580	-	-	21.07%	874,863	Y	N	Y

Note 1 : The number column is organized as follow:

- (1) Number 0 represents the issuer.
- (2) Subsidiaries are numbered in order from number 1.

Note 2 : Relationship with the endorser / guarantor:

- (1) Having business relationship.
- (2) The endorser / guarantor parent company directly and indirectly holds more than 50% of voting shares of the endorsed / guaranteed subsidiary.
- (3) The endorser / guarantor subsidiary which directly and indirectly be held more than 50% voting shares by the endorsed / guaranteed parent company.
- (4) The endorser / guarantor company and the endorsed / guaranteed party both be held more than 99% by the parent company.
- (5) Company that is mutually protected under contractual requirements based on the needs of the contractor.
- (6) Company that is endorsed by its shareholders in accordance with its shareholding ratio because of the joint investment relationship.
- (7) Performance guarantees for pre-sale contracts under the Consumer Protection Act.

Note 3 : Ceiling on total endorsements / guarantees

According to KINSUS INTERCONNECT TECHNOLOGY CORP.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 50% of the Company's net assets.
According to AZURE WAVE TECHNOLOGIES, INC.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 50% of the Company's net assets.

According to PEGATRON CORPORATION's policy of endorsements and guarantees, the total endorsements and guarantees provided for a single party

According to KINSUS INTERCONNECT TECHNOLOGY CORP.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 20% of the Company's net assets.
According to AZURE WAVE TECHNOLOGIES, INC.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 50% of the Company's net assets.

Note 4 : If the amount is based on foreign currency, please refer to the spot exchange rate on the financial statement date. (exchange rate on December 31, 2018 is USD/RMB70.715; CNY/RMB6.753)

Note 5 : The amount is adopted by the Board of Directors.

Notes to the Consolidated Financial Statement

Table 3 Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2018

Securities held by		Marketable securities				As of December 31, 2018				Expressed in thousands of NTD	
		Category	Item	Relationship (Note 2)	General ledger account	Number of shares	Book value	Ownership	Fair value		
PEGATRON CORPORATION	Stock	WAI-GIN INDUSTRIAL CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	1,500,000	-	4.41%	-	4.41%		
"	Stock	ABILITY ENTERPRISE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	33,135,300	477,148	11.73%	477,148	11.73%		
"	Stock	Fubon Financial Holding Co., Ltd. Preferred Shares B	-	financial asset measured at fair value through profit or loss-Non current	3,500,000	217,000	0.28%	217,000	0.28%		
"	Fund	China Renewable Energy Fund, LP(CREF)	-	financial asset measured at fair value through profit or loss-Non current	-	123,320	13.46%	123,320	13.46%		
PROTEK (SHANGHAI) LTD.	Stock	LUXSHARE ICT CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	4,685,574	294,820	0.11%	294,820	0.11%		
ASUSPOWER INVESTMENT CO., LTD.	Stock	SPORTON INTERNATIONAL INC.	-	financial asset measured at fair value through profit or loss-Current	289,300	40,936	0.31%	40,936	0.32%		
"	Stock	LOTES CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	73,819	15,613	0.07%	15,613	0.07%		
"	Stock	Topoint Technology Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	1,735,891	31,072	1.21%	31,072	1.21%		
"	Stock	ABILITY ENTERPRISE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,495	94	- %	94	- %		
"	Stock	ZOWIE Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	90,937	-	0.54%	-	0.80%		
"	Stock	Syntronix CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,162	-	0.02%	-	0.02%		
"	Stock	FRESCO LOGIC INC.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	45,745	8.18%	45,745	8.18%		
"	Stock	Valens Semiconductor Ltd.	-	financial asset measured at fair value through profit or loss-Non current	4,667,570	79,651	4.18%	79,651	4.95%		
"	Stock	MedicusTek International Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	1,136,363	2,853	1.52%	2,853	2.13%		
ASUS INVESTMENT CO., LTD.	Stock	SPEED TECH CORPORATION	-	financial asset measured at fair value through profit or loss-Current	8,000,000	399,600	4.77%	399,600	4.77%		
"	Stock	Lightel Technologies Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	59,310	7.66%	59,310	7.67%		

Notes to the Consolidated Financial Statement

Securities held by	Marketable securities				As of December 31, 2018				Expressed in thousands of NTD	
	Category	Item	Relationship (Note 2)	General ledger account	Number of shares	Book value	Ownership	Fair value	Maximum Ownership	Footnote
KINSUS INTERCONNECT TECHNOLOGY CORP.	Fund	Taishin Ta-Chong Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	18,812,748	266,850	- %	266,850	- %	
"	Fund	FSITC Money Market	-	financial asset measured at fair value through profit or loss-Current	1,168,258	208,097	- %	208,097	- %	
"	Fund	Mega Diamond Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	21,355,432	267,411	- %	267,411	- %	
KINSUS INTERCONNECT TECHNOLOGY CORP.	Fund	Jih Sun Money Market	-	financial asset measured at fair value through profit or loss-Current	17,776,549	262,977	- %	262,977	- %	
KINSUS INVESTMENT CO., LTD.	Fund	Taishin Ta-Chong Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	829,070	11,760	- %	11,760	- %	
"	Stock	Eihos Original Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	5,000,000	50,000	7.49%	50,000	7.49%	
Lumens Digital Optics Inc. (Lumens Optics)	Fund	Fuh Hwa Money Market	-	financial asset measured at fair value through profit or loss-Current	71,684,487	1,033,583	- %	1,033,583	- %	
"	Fund	The RSIT Enhanced Money Market	-	financial asset measured at fair value through profit or loss-Current	8,288,620	99,056	- %	99,056	- %	
HUA-YUAN INVESTMENT LIMITED	Stock	Nuwoon Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	450,000	17,865	0.22%	17,865	0.22%	
"	Stock	Chicony Power Technology Co. Ltd.	-	financial asset measured at fair value through profit or loss-Current	726,644	32,699	0.19%	32,699	0.19%	
"	Stock	Chunghwa Precision Test Tech. Co., Ltd.	-	financial asset measured at fair value through profit or loss-Current	100,000	52,000	0.30%	52,000	0.32%	
"	Stock	Jim Yeeh Ding Enterprise CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	311,027	4,339	0.32%	4,339	0.33%	
"	Stock	Eihos Original Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	5,000,000	50,000	7.49%	50,000	7.49%	
"	Stock	Fusheng Precision CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	800,000	127,600	0.61%	127,600	0.68%	
RIH KUAN METAL CORPORATION	Stock	Eihos Original Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	5,000,000	50,000	7.49%	50,000	7.49%	
RI KAI COMPUTER ACCESSORY CO., LTD.	Stock	JIANG SU KAI JIE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	-	24,167	10.00%	24,167	10.00%	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instruments : recognition and measurement'.

Note 2: If the issuer of the security isn't a related party, the cell is blank.

Note 3: The account balance for securities measured at fair value has deducted accumulated impairment.

Notes to the Consolidated Financial Statement

Table 4: Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD300 million or 20% of the capital stock December 31, 2018

Investor	Marketable securities		Relationship with the investor	Balance as at January 1, 2018		Addition		Disposal		Balance as of December 31, 2018			
	Category	Item		General ledger account	Counterparty	Number of shares	Amount	Number of shares	Amount	Book Value	Gain (loss) on disposal	Number of shares	Amount
PEGATRON CORPORATION	Stock	CASETEK HOLDINGS LIMITED(CAYMAN)	-	-	442,409 (Note 4)	-	4,808,794	-	17,337 (Note 2)	-	4,808,794	408,538	
ASUSPOWER CORPORATION	Stock	CASETEK HOLDINGS LIMITED(CAYMAN)	-	-	206,318,033	17,781,453	38,698,955	3,649,120 (Note 4)	1,021,838 (Note 2)	-	245,016,988	19,132,452	
CASETEK HOLDINGS LIMITED(CAYMAN)	Stock	RH LI International Limited	-	-	520,499,000	35,010,768	195,000,000	5,989,425 (Note 4)	2,823,795 (Note 2)	-	715,499,000	36,773,194	
RH LI International Limited	Capital	KALHA COMPUTER ACCESSORY CO., LTD.	-	-	-	3,503,900	-	2,150,050 (Note 4)	4,207,057 (Note 2)	-	-	1,343,674	
RH LI International Limited	Capital	RI KAI COMPUTER ACCESSORY CO., LTD.	-	-	-	276,240	-	1,225,146 (Note 4)	108,219 (Note 3)	-	-	1,943,104	
ASUSPOWER INVESTMENT CO., LTD.	Stock	Lumens Digital Optics Inc. (Lumens Optics)	-	-	46,870,980	1,034,611	4,915,337	462,042 (Note 4)	417,428 (Note 10)	-	10,043,490	1,096,450	
Lumens Digital Optics Inc. (Lumens Optics)	Fund	Fuh Hwa Money Market	-	-	56,413,206	810,268	82,485,517	1,187,000 (Note 4)	962,206 (Note 6)	4,794	71,684,487	1,033,383	
PEGAVISION CORPORATION	Fund	Yaama Wan Tai Money Market	-	-	6,965,260	104,908	47,483,038	716,141 (Note 4)	821,041 (Note 6)	129	-	-	

Note 1 : If the securities is invested in foreign currency, the amount in the table has been transferred to NTD. (The exchange rate as of December 31, 2018: USD/NTD: 30.715, CN¥/NTD: 4.755)

Note 2 : The investment profit or loss related to the investee is measured by equity method.

Note 3 : The amount is exchange gains or losses.

Note 4 : Which is investment added this year.

Note 5 : Which is adjustments related to financial assets based on the fair value method.

Note 6 : Which is investment disposed this year.

Note 7 : Which is effect amount of participating capital increase not based on shareholding ratio in the year-end.

Note 8 : Which is additional paid-in capital of the investee.

Note 9 : Which is dividend distributed this year.

Note 10 : Which is shares returned by the investee.

Note 11 : Which is pension actuarial gains and losses of the investee measured by equity method.

Notes to the Consolidated Financial Statement

Table 5: Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock December 31, 2018

Real estate acquired by	Item	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount	Basis or reference used in setting the price	Purpose and situation	Other commitments
PEGATRON CORPORATION	Plant	2018/2/8	2,232,000	The amount was fully paid	ARRIS TAIWAN LTD.	N/A	N/A	N/A	N/A	N/A	Negotiated price is approved by the Chairman	For operation use	By contract
PEGAVISION CORPORATION	Land / Plant	2018/6/26	1,380,000	By contract	Invence Corporation	N/A	N/A	N/A	N/A	N/A	Refer to amount valued by pricing agency	Increasing production capacity for raising demand	None
KALJIA COMPUTER ACCESSORY CO., LTD.	Plant	2018/4/17	802,658	Paid 354,068 as of December 31, 2018	China Construction First Building(Group) Corporation Limited	N/A	N/A	N/A	N/A	N/A	Negotiated price is approved by the Chairman	Building new plant for operation use	None
KALJIA COMPUTER ACCESSORY CO., LTD.	Plant	2018/1/15	1,431,384	Paid 938,592 as of December 31, 2018	Suzhou Jianxin Construction Group Co., Ltd.	N/A	N/A	N/A	N/A	N/A	Negotiated price is approved by the Chairman	Building new plant for operation use	None

Notes to the Consolidated Financial Statement

Table 6 Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock
December 31, 2018

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction		Differences in transaction terms compared to third party transactions			Expressed in thousands of NT\$		
			Purchases (sales)	Amount	Percentage of total	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note2	Purchase	1,642,207	0.13%	(Note4)	Open Account 90 days	-	(601,861)	(0.14%)
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note2	Sale	(2,126,689)	(0.17%)	(Note4)	Open Account 90 days	-	76,277	0.16%
PEGATRON CORPORATION	PEGATRON Czech s.r.o.	Note2	Sale	(3,090,771)	(0.25%)	(Note4)	120 days on delivery	-	908,745	0.18%
PEGATRON CORPORATION	PEGATRON TECHNOLOGIES, INC.	Note2	Sale	(391,815)	(0.03%)	(Note4)	Open Account 60 days	-	174,036	0.04%
PEGATRON CORPORATION	AZURE WAVE TECHNOLOGIES, INC.	Note2	Purchase	488,692	0.04%	(Note4)	Open Account 60 days	-	(66,743)	(0.02%)
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note2	Purchase	35,584,540	2.90%	(Note4)	Open Account 60 days	-	(80,465,491)	(18.14%)
PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note2	Purchase	22,313,522	1.82%	(Note4)	Open Account 60 days	-	-	-
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note2	Sale	(485,569)	(0.04%)	(Note4)	Open Account 60 days	-	29,415,873	5.97%
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note2	Purchase	2,195,857	0.18%	(Note4)	Open Account 60 days	-	(20,468,290)	(4.61%)
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note2	Purchase	2,064,206	0.17%	(Note4)	Open Account 60 days	-	(5,613,028)	(1.27%)
PEGATRON CORPORATION	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Note2	Purchase	1,479,418	0.12%	(Note4)	Open Account 60 days	-	(343,583)	(0.08%)
PEGATRON CORPORATION	CASETEK COMPUTER (SUZHOU) CO., LTD.	Note2	Purchase	2,597,959	0.21%	(Note4)	Open Account 60 days	-	(96,870)	(0.02%)
PEGATRON CORPORATION	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note2	Purchase	489,680	0.04%	(Note4)	Open Account 60 days	-	(164,128)	(0.04%)
PEGATRON CORPORATION	ASRock Rack Incorporation	Note2	Purchase	273,602	0.02%	(Note4)	Open Account 60 days	-	(55,689)	(0.01%)
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note2	Purchase	181,904	0.01%	(Note4)	Open Account 90 days	-	(19,556)	(0.00%)
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note2	Purchase	12,504,152	1.02%	(Note4)	Open Account 60 days	-	(1,36,085,432)	(30.67%)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Purchase	(12,504,152)	(2.17%)	(Note4)	Open Account 60 days	-	1,36,085,432	91.07%
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note1	Sale	(181,904)	(15.38%)	(Note4)	Open Account 90 days	-	19,556	5.10%
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Purchase	3,090,771	65.04%	(Note4)	120 days on delivery	-	(908,745)	(91.74%)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Purchase	391,815	90.46%	(Note4)	90 days on delivery	-	(174,036)	(80.00%)
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note3	Sale	(144,507)	(100.00%)	(Note4)	Open Account 60 days	-	242,233	100.00%
PEGATRON CORPORATION	CORE-TEK (SHANGHAI) LIMITED	Note3	Purchase	144,507	0.03%	(Note4)	Open Account 60 days	-	(242,233)	(0.01%)
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note3	Sale	(66,325,212)	(11.50%)	(Note4)	Open Account 90 days	-	12,586,902	8.42%
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note3	Purchase	33,507,762	6.06%	(Note4)	Open Account 60 days	-	(158,960)	(0.09%)
PEGATRON CORPORATION	KAJIA COMPUTER ACCESSORY CO., LTD.	Note3	Purchase	582,142	0.10%	(Note4)	Open Account 60 days	-	(209,138)	(0.12%)
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note3	Purchase	101,043	0.02%	(Note4)	Open Account 60 days	-	(503,594)	(0.03%)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note3	Sale	(35,584,540)	(10.44%)	(Note4)	Open Account 60 days	-	80,465,491	95.74%
PEGATRON CORPORATION	GRAND UPRIGHT TECHNOLOGY LTD.	Note3	Sale	(16,098,987)	(4.73%)	(Note4)	Open Account 60 days	-	3,418,321	4.07%
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note3	Sale	(33,507,762)	(9.84%)	(Note4)	Open Account 60 days	-	158,960	0.19%
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note3	Purchase	66,325,212	19.80%	(Note4)	Open Account 90 days	-	(12,586,902)	(10.62%)
PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note3	Purchase	4,316,366	1.54%	(Note4)	Open Account 60 days	-	(1,955)	(0.00%)
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note3	Sale	(1,362,388)	(0.46%)	(Note4)	Open Account 60 days	-	82,324	0.15%
PEGATRON CORPORATION	CASETEK COMPUTER (SUZHOU) CO., LTD.	Note3	Purchase	2,301,699	0.82%	(Note4)	Open Account 60 days	-	(679,973)	(1.08%)
PEGATRON CORPORATION	MAINTEK CORPORATION	Note1	Sale	(22,313,522)	(7.53%)	(Note4)	Open Account 60 days	-	-	-
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note3	Purchase	102,516	0.04%	(Note4)	Open Account 60 days	-	(75,303)	(0.12%)
PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(4,316,366)	(18.43%)	(Note4)	Open Account 60 days	-	1,235,778	17.40%
PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note3	Purchase	1,362,388	7.24%	(Note4)	Open Account 60 days	-	(82,324)	(0.89%)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(2,064,206)	(8.81%)	(Note4)	Open Account 60 days	-	5,613,028	79.02%
PEGATRON CORPORATION	CHONGQING ZUANSILUO TRADING CO., LTD.	Note3	Sale	(108,078)	(0.46%)	(Note4)	Open Account 90 days	-	1,054	0.01%
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note3	Sale	(159,572)	(0.68%)	(Note4)	Open Account 60 days	-	(1,054)	-
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note3	Purchase	108,078	0.05%	(Note4)	Open Account 60 days	-	280,258	-
PEGATRON CORPORATION	CHONGQING ZUANSILUO TRADING CO., LTD.	Note3	Purchase	(658,480)	(0.74%)	(Note4)	Open Account 90 days	-	(280,258)	(1.35%)
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note3	Sale	658,480	75.63%	(Note4)	Open Account 60 days	-	(201,160)	(77.35%)
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note3	Purchase	(599,873)	(80.03%)	(Note4)	Open Account 60 days	-	201,160	75.97%
PEGATRON CORPORATION	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Note3	Purchase	569,873	0.64%	(Note4)	Open Account 60 days	-	(201,160)	(0.97%)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Purchase	455,569	0.51%	(Note4)	Open Account 60 days	-	(29,415,873)	(68.60%)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(2,195,857)	(2.46%)	(Note4)	Open Account 60 days	-	20,468,290	(98.40%)
PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(2,301,699)	(43.20%)	(Note4)	Open Account 60 days	-	679,973	71.36%
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note3	Purchase	496,901	14.41%	(Note4)	Open Account 60 days	-	(136,068)	(10.84%)
PEGATRON CORPORATION	CASETEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(2,597,959)	(48.76%)	(Note4)	Open Account 60 days	-	96,870	10.17%
PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(102,516)	(2.01%)	(Note4)	Open Account 60 days	-	136,068	10.17%
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note3	Sale	(101,043)	(8.54%)	(Note4)	Open Account 60 days	-	75,303	34.81%
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(1,479,418)	(44.08%)	(Note4)	Open Account 60 days	-	50,394	19.26%
PEGATRON CORPORATION	PIOTEK (HKS) TRADING LIMITED	Note3	Sale	(293,446)	(8.74%)	(Note4)	Open Account 60 days	-	343,583	12.94%
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(488,692)	(9.70%)	(Note4)	Open Account 60 days	-	55,318	6.68%
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(273,602)	(19.67%)	(Note4)	Open Account 60 days	-	66,743	1.58%
PEGATRON CORPORATION	KUNSHU INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Note2	Purchase	2,228,772	27.80%	(Note4)	Open Account 30-90 days	-	(163,500)	(10.90%)
PEGATRON CORPORATION	KUNSHU INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Note1	Sale	(2,228,772)	(98.78%)	(Note4)	Open Account 30 days	-	163,500	93.81%
PEGATRON CORPORATION	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(101,676)	(55.68%)	(Note4)	Open Account 60 days	-	14,939	96.63%
PEGATRON CORPORATION	KUNSHU TRADING (SUZHOU) CORP.	Note3	Purchase	101,676	4.48%	(Note4)	Open Account 60 days	-	(14,939)	(2.37%)

Notes to the Consolidated Financial Statement

Differences in transaction terms compared to third party transactions

Transaction

Notes/accounts receivable (payable)

Purchase/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
MEGA MERIT LIMITED	RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Purchase	910,629	4.24%	Open Account 30-60 days	-	Open Account 30-60 days	(145,221)	(2.239%)	
MEGA MERIT LIMITED	RI-MING (SHANGHAI) CO., LTD.	Note3	Purchase	4,821,870	22.46%	Open Account 90 days	-	Open Account 90 days	(2,643,640)	(41.611%)	
MEGA MERIT LIMITED	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Purchase	13,115,896	61.09%	Open Account 30-60 days	-	Open Account 30-60 days	(1,677,930)	(26.411%)	
MEGA MERIT LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Purchase	2,618,524	12.20%	Open Account 30-60 days	-	Open Account 30-60 days	(1,886,116)	(29.699%)	
RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	PEGATRON CORPORATION	Note1	Sale	(489,680)	(3.46%)	Open Account 60 days	-	Open Account 60 days	164,128	17.44%	
RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(913,700)	(25.14%)	Open Account 30-60 days	-	Open Account 30-60 days	145,221	15.44%	
RI-MING (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(4,951,220)	(44.13%)	Open Account 90 days	-	Open Account 90 days	2,643,640	79.42%	
RI-MING (SHANGHAI) CO., LTD.	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Sale	(1,096,946)	(9.78%)	Open Account 30-60 days	-	Open Account 30-60 days	95,647	2.87%	
RI-MING (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(391,844)	(3.49%)	Open Account 30-60 days	-	Open Account 30-60 days	190,279	5.72%	
RI-MING (SHANGHAI) CO., LTD.	RIH KUAN METAL CORPORATION	Note3	Purchase	120,648	4.11%	Open Account 30-60 days	-	Open Account 30-60 days	(6,020)	(0.45%)	
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(13,070,159)	(96.19%)	Open Account 30-60 days	-	Open Account 30-60 days	1,677,930	84.30%	
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Note3	Purchase	659,968	12.90%	Open Account 30-60 days	-	Open Account 30-60 days	(72,672)	(5.229%)	
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RIH KUAN METAL CORPORATION	Note3	Purchase	120,046	2.35%	Open Account 30-60 days	-	Open Account 30-60 days	-	-	
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(442,548)	(3.26%)	Open Account 30-60 days	-	Open Account 30-60 days	291,608	14.65%	
RI KAI COMPUTER ACCESSORY CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Note3	Sale	(168,854)	(5.69%)	Open Account 30-60 days	-	Open Account 30-60 days	246	0.01%	
RI KAI COMPUTER ACCESSORY CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Note3	Purchase	177,796	15.48%	Open Account 30-60 days	-	Open Account 30-60 days	(106,796)	(10.07%)	
RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(2,739,052)	(92.32%)	Open Account 30-60 days	-	Open Account 30-60 days	1,886,116	99.99%	
RIH KUAN METAL CORPORATION	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Sale	(121,382)	(33.97%)	Open Account 30-60 days	-	Open Account 30-60 days	-	-	
RIH KUAN METAL CORPORATION	RI-MING (SHANGHAI) CO., LTD.	Note3	Sale	(120,739)	(33.73%)	Open Account 30-60 days	-	Open Account 30-60 days	6,020	54.13%	
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	KAIJIA COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(100,596)	(28.11%)	By contract / Open Account 30-60 days	-	Open Account 30-60 days	4,454	40.12%	
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	Note3	Sale	(1,682,333)	(76.72%)	Open Account 30-60 days	-	Open Account 30-60 days	2,665,545	77.47%	
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Sale	(328,313)	(14.97%)	Open Account 30-60 days	-	Open Account 30-60 days	65,239	18.96%	
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(181,560)	(8.28%)	Open Account 30-60 days	-	Open Account 30-60 days	12,286	3.57%	
KAIJIA COMPUTER ACCESSORY CO., LTD.	PROFEK (SHANGHAI) LTD.	Note3	Sale	(82,142)	(6.732%)	Open Account 60 days	-	Open Account 60 days	209,138	75.18%	
FUYANG TECHNOLOGY CORPORATION	PEGAGLOBE(KUNSHAN) CO., LTD.	Note2	Purchase	(107,611)	(12.89%)	Open Account 60 days	-	Open Account 60 days	49,758	17.88%	
FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Note2	Sale	10,847,060	55.38%	Open Account 60 days	-	Open Account 60 days	(3,959,018)	(86.50%)	
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Note1	Purchase	7,993,406	(67.82%)	Open Account 60 days	-	Open Account 60 days	4,070,760	65.01%	
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Note1	Sale	(10,847,060)	(97.25%)	Open Account 60 days	-	Open Account 60 days	(4,070,760)	(90.74%)	
ASROCK INCORPORATION	ASIAAROCK TECHNOLOGY LIMITED	Note2	Purchase	6,819,371	98.34%	Open Account 90 days	No comparable client	Open Account 90 days	(959,452)	(99.77%)	
ASROCK INCORPORATION	ASROCK AMERICA, INC.	Note2	Sale	(1,571,465)	(18.75%)	Open Account 45 days	-	Open Account 45 days	981,616	66.58%	
ASROCK INCORPORATION	ASROCK EUROPE B.V.	Note2	Sale	(2,297,226)	(27.41%)	Open Account 60 days	-	Open Account 60 days	172,523	11.70%	
ASROCK INCORPORATION	ASRock Industrial Computer Corporation	Note1	Purchase	101,779	(1.21%)	Open Account 60 days	-	Open Account 60 days	5,818	0.39%	
ASRock Industrial Computer Corporation	ASROCK INCORPORATION	Note1	Sale	178,882	37.30%	Open Account 60 days	No comparable client	Open Account 60 days	(5,818)	(3.49%)	
ASRock Industrial Computer Corporation	ASIAAROCK TECHNOLOGY LIMITED	Note3	Purchase	2,126,689	65.55%	Open Account 45 days	No comparable client	Open Account 45 days	(160,946)	(96.10%)	
ASIAAROCK TECHNOLOGY LIMITED	PEGATRON CORPORATION	Note1	Purchase	(1,642,207)	19.42%	Open Account 90 days	-	Open Account 90 days	(767,277)	(33.98%)	
ASIAAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	Note1	Sale	(6,819,371)	(66.38%)	Open Account 60 days	-	Open Account 60 days	601,861	24.06%	
ASIAAROCK TECHNOLOGY LIMITED	ASRock Industrial Computer Corporation	Note3	Sale	(178,882)	(1.74%)	Open Account 60 days	-	Open Account 60 days	959,452	38.16%	
ASROCK AMERICA, INC.	ASROCK INCORPORATION	Note1	Purchase	1,571,465	100.00%	Open Account 90 days	-	Open Account 90 days	160,946	6.40%	
ASROCK EUROPE B.V.	ASROCK INCORPORATION	Note1	Purchase	2,297,226	100.00%	Open Account 45 days	-	Open Account 45 days	(981,616)	(100.00%)	
AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	ASROCK INCORPORATION	Note1	Sale	(1,246,621)	(19.00%)	Open Account 30-60 days	-	Open Account 30-60 days	(172,523)	(100.00%)	
PIOTEK (HK) TRADING LIMITED	PEGATRON CORPORATION	Note3	Purchase	293,446	100.00%	Open Account 60 days	-	Open Account 60 days	37,444	(100.00%)	
PEGAVISION CORPORATION	Pegavision Japan Inc.	Note2	Sale	(423,423)	(13.24%)	Open Account 90 days	No comparable client	Open Account 90 days	(55,318)	(100.00%)	
Pegavision Japan Inc.	PEGAVISION CORPORATION	Note2	Sale	(281,593)	(8.80%)	Open Account 180 days	same as other clients	Open Account 180 days	105,879	24.10%	
PEGAVISION (SHANGHAI) LIMITED	PEGAVISION CORPORATION	Note1	Purchase	423,423	100.00%	Open Account 90 days	No comparable client	Open Account 90 days	201,315	45.82%	
Lumens Integration Inc.	PEGAVISION CORPORATION	Note1	Purchase	281,593	100.00%	Open Account 180 days	No comparable client	Open Account 180 days	(105,879)	(100.00%)	
Lumens Digital Optics Inc. (Lumens Optics)	Lumens Integration Inc.	Note2	Sale	(226,378)	(22.00%)	Open Account 75-90 days	-	Open Account 75-90 days	(43,522)	24.07%	
Lumens Integration Inc.	Lumens Digital Optics Inc. (Lumens Optics)	Note2	Purchase	226,378	92.00%	Open Account 75-90 days	-	Open Account 75-90 days	(43,522)	(96.60%)	
ASRock Rack Incorporation	ASIAAROCK TECHNOLOGY LIMITED	Note3	Purchase	1,187,438	95.31%	Open Account 60 days	-	Open Account 60 days	(746,473)	(96.95%)	
ASIAAROCK TECHNOLOGY LIMITED	ASRock Rack Incorporation	Note3	Sale	(1,187,438)	(11.56%)	Open Account 60 days	-	Open Account 60 days	746,473	29.85%	

Note1 : Parent company

Note2 : Subsidiary measured by equity method.

Note3 : Affiliate

Note4 : To avoid counting the sales revenue twice, the Company has subtracted the repeated part of purchase and sales.

Notes to the Consolidated Financial Statement

Table 7 Receivables from related parties with amounts exceeding the lower of NTS100 million or 20% of capital stock
December 31, 2018

Creditor	Counterparty	Relationship with the counterparty	Balance as at		Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
			December 31, 2018	December 31, 2017		Amount	Action taken		
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Subsidiary measured by equity method	7,898,530	-	3.54 Times	-	-	-	-
"	PROTEK (SHANGHAI) LTD.	Subsidiary measured by equity method	168,759,313	-	4.72 Times	-	30,715,000	-	-
"	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Subsidiary measured by equity method	5,333,209	(Note 1)	6.60 Times	-	-	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Subsidiary measured by equity method	100,694,964	-	4.68 Times	-	8,914,355	-	-
"	DIGITEK (CHONGQING) LTD.	Subsidiary measured by equity method	29,415,873	-	4.47 Times	-	-	-	-
"	PEGATRON Czech s.r.o.	Subsidiary measured by equity method	908,745	-	4.72 Times	-	5,326	-	-
"	ASIA ROCK TECHNOLOGY LIMITED	Subsidiary measured by equity method	767,277	-	4.64 Times	-	145,230	-	-
"	PEGATRON TECHNOLOGY SERVICE INC.	Subsidiary measured by equity method	174,036	-	4.25 Times	-	-	-	-
ASIA ROCK TECHNOLOGY LIMITED	PEGATRON CORPORATION	Parent Company	601,861	-	4.57 Times	-	200,370	-	-
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Parent Company	20,468,290	-	7.05 Times	-	4,657,749	-	-
"	CHONGQING ZUANSUO TRADING CO., LTD.	Affiliate	280,258	-	4.70 Times	-	-	-	-
"	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Affiliate	1,235,778	-	4.25 Times	-	-	-	-
"	PEGATRON CORPORATION	Parent Company	5,613,028	-	5.20 Times	-	3,488,619	-	-
COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	80,465,491	-	6.88 Times	-	23,134,791	-	-
PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	Affiliate	158,960	-	14.54 Times	-	-	-	-
"	GRAND UPRIGHT TECHNOLOGY LTD.	Affiliate	3,418,321	-	9.50 Times	-	-	-	-
PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Parent Company	136,085,432	-	5.96 Times	-	27,633,653	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Affiliate	12,586,902	-	5.28 Times	-	-	-	-
CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	679,973	-	6.47 Times	-	-	-	-
PHOTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	343,583	-	5.86 Times	-	110,173	-	-
CASETEK HOLDINGS LIMITED(CAYMAN)	KINSUS INTERCONNECT TECHNOLOGY CORP.	Parent Company	163,500	-	12.24 Times	-	-	-	-
RI H LI International Limited	MEGA MERIT LIMITED	Subsidiary measured by equity method	730,925	-	N/A (Note 2)	-	-	-	-
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	KAI JIA COMPUTER ACCESSORY CO., LTD.	Subsidiary measured by equity method	7,678,750	-	N/A (Note 2)	-	-	-	-
"	PEGATRON CORPORATION	Parent Company	164,128	-	2.07 Times	-	61,747	-	-
"	RI-MING (SHANGHAI) CO., LTD.	Affiliate	1,790,132	-	N/A (Note 2)	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	4,251,540	-	N/A (Note 2)	-	-	-	-
RI-MING (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	Affiliate	145,221	-	6.79 Times	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	2,643,640	-	3.52 Times	-	-	-	-
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Affiliate	190,279	-	4.05 Times	-	-	-	-
"	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Affiliate	313,262	-	N/A (Note 2)	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	1,677,930	-	5.48 Times	-	651,557	-	-
"	KAI JIA COMPUTER ACCESSORY CO., LTD.	Affiliate	2,685,197	-	N/A (Note 2)	-	-	-	-
"	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Affiliate	447,518	-	N/A (Note 2)	-	-	-	-
"	RI KAI COMPUTER ACCESSORY CO., LTD.	Affiliate	291,608	-	2.99 Times	-	338	-	-
RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	Affiliate	1,886,116	-	2.86 Times	-	595,042	-	-
KAI JIA COMPUTER ACCESSORY CO., LTD.	PROTEK (SHANGHAI) LTD.	Affiliate	209,138	-	1.82 Times	-	12,532	-	-
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	Affiliate	266,545	-	7.40 Times	-	-	-	-
KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	KAI JIA COMPUTER ACCESSORY CO., LTD.	Affiliate	223,759	-	N/A (Note 2)	-	-	-	-

Notes to the Consolidated Financial Statement

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
ASROCK INCORPORATION	ASROCK EUROPE B.V.	Subsidiary measured by equity method	172,523	12.52 Times	-	-	163,195	-
"	ASROCK AMERICA, INC.	Subsidiary measured by equity method	981,616	1.90 Times	327,404	-	267,186	-
ASIAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	Parent Company	959,452	3.99 Times	-	-	655,378	-
"	ASRock Rack Incorporation	Affiliate	746,473	1.63 Times	176,348	-	161,425	-
"	ASRock Industrial Computer Corporation	Affiliate	160,046	1.12 Times	3	-	58,269	-
FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Parent Company	4,070,760	2.07 Times	-	-	-	-
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Parent Company	3,959,018	3.16 Times	-	-	-	-
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	Affiliate	136,068	3.99 Times	-	-	-	-
KAL-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	DIGITEK (CHONGQING) LTD.	Affiliate	201,160	3.11 Times	-	-	-	-
PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	Subsidiary measured by equity method	201,315	2.45 Times	-	-	13,757	-
PEGAVISION CORPORATION	Pegavision Japan Inc.	Subsidiary measured by equity method	105,879	7.27 Times	-	-	23,242	-

Note 1 : The amount has offsetted payables and receivables.

Note 2 : Since the receivables are not caused by selling and purchasing transactions, the turnover rate is not applicable.

Notes to the Consolidated Financial Statement

Table 8 Information on investees
December 31, 2018

Investor	Investee	Location	Main business activities	Balance as at		Shares held as at December 31, 2018		Ownership	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				December 31, 2018	December 31, 2017	Number of shares	Percentage					
PEGATRON CORPORATION	ASUSPOWER INVESTMENT CO., LTD.	Taipei	Investment holding	13,033,429	13,033,429	932,844,700	100.00%	15,763,237	469,923	469,923		
	ASUS INVESTMENT CO., LTD.	Taipei	Investment holding	16,184,982	16,184,982	979,254,600	100.00%	16,274,719	(70,955)	(70,955)		
	ASUSTEK INVESTMENT CO., LTD.	Taipei	Investment holding	14,593,543	14,593,543	951,278,300	100.00%	15,185,517	(343,371)	(343,371)		
	Pegatron Holding Ltd.	Cayman Islands	Investment holding	33,462,716	33,462,716	961,996,463	100.00%	72,167,695	5,796,155	5,796,155		
	PEGATRON USA, INC.	CA, USA	Repairing and marketing center in Northern America	16,085	18,746	50,000	100.00%	18,746	624	624		
	PEGATRON HOLLAND HOLDING B.V.	Nijmegen, NETHERLANDS	Investment holding	1,278,287	1,278,287	-	100.00%	2,654,932	339,250	339,250		
	AMA PRECISION INC.	Taipei	Research and design of computer components	408,394	408,394	33,500,000	100.00%	423,699	27,499	27,499		
	AZURE WAVE TECHNOLOGIES, INC.	New Taipei City	Manufacture of office machine, electrical components, computer and related products. Sale of precision instrument and photographic equipment.	525,750	525,750	35,750,000	23.72%	413,877	(118,427)	(29,134)		
				6,659,684	6,659,684	199,110,010	100.00%	6,601,151	462,750	462,750	Note 1	
				442,409	-	4,808,794	1.14%	408,538	(1,714,727)	(17,337)		
ASUSPOWER INVESTMENT CO., LTD.	CASETEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	30,955	-	1,374,190	100.00%	29,005	(797)	(797)		
	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Australia	Investment holding	135,144	135,144	15,000,000	50.00%	238,316	22,016	Not required to disclose		
	STARLINK ELECTRONICS CORPORATION	New Taipei City	Manufacture of computer components and industrial plastics. Sale and manufacture of electronic materials.	727,473	727,473	55,556,221	12.32%	3,416,346	349,485	Not required to disclose		
	KINSUS INTERCONNECT TECHNOLOGY CORP.	Taoyuan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	82,626	82,626	2,791,000	2.31%	138,992	594,019	Not required to disclose		
	ASROCK INCORPORATION	Taipei	Manufacture of data processing equipment, storage equipment and wireless communication equipment. Installation and sale of computer and electronic materials.	154,000	154,000	7,000,000	4.65%	81,119	(118,427)	Not required to disclose		
	AZURE WAVE TECHNOLOGIES, INC.	New Taipei City	Manufacture of office machine, electrical components, computer and related products. Sale of precision instrument and photographic equipment.	508,932	464,318	10,043,490	50.22%	1,096,450	194,231	Not required to disclose		
	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	70,721	70,721	5,701,121	9.50%	190,783	541,157	Not required to disclose		
	PEGAVISION CORPORATION	Taoyuan	Manufacture of medical equipment	3,752,682	3,752,682	109,000,000	31.23%	7,986,627	(926,497)	Not required to disclose		
	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	94,475	94,475	2,800	100.00%	892,320	252,630	Not required to disclose		
	PEGATRON TECHNOLOGY SERVICE INC.	Kentucky, USA	Repairing and marketing center in Northern America	30	30	1,000	100.00%	12,220	17	Not required to disclose		
PEGATRON LOGISTIC SERVICE INC.	CA, USA	Transferring and marketing center in Northern America	48,780	48,780	-	48.78%	224,415	(22,652)	Not required to disclose			
Huawei Investment Co., Ltd.	Taipei	Investment holding	31,885	31,885	-	100.00%	31,742	(634)	Not required to disclose			
PEGA INTERNATIONAL LIMITED	Taipei	Design service and commercial affairs	27,287	27,287	-	100.00%	611,625	264,283	Not required to disclose			
PEGATRON JAPAN Inc.	Japan	Repairing and marketing center in Japan	231,424	231,424	-	40.51%	132,980	2,451	Not required to disclose			
PEGATRON Mexico, S.A. DE C.V.	Chihuahua, Mexico	Repairing and marketing center in Mexico	23,990	23,990	1,000,000	100.00%	556,792	139,809	Not required to disclose			
PEGATRON SERVICE SINGAPORE PTE. LTD.	Singapore	Repairing and marketing center in Singapore	90,000	90,000	9,000,000	30.00%	142,990	22,016	Not required to disclose			
STARLINK ELECTRONICS CORPORATION	New Taipei City	Manufacture of computer components and industrial plastics. Sale and manufacture of electronic materials.	938,098	938,098	60,128,417	13.34%	3,699,193	349,485	Not required to disclose			
KINSUS INTERCONNECT TECHNOLOGY CORP.	Taoyuan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	155,718	155,718	57,217,754	47.39%	2,849,454	594,019	Not required to disclose			
ASROCK INCORPORATION	Taipei	Manufacture of data storage, data processing equipment and communication equipment. Sale of computer equipment and electronic material.	7,338	6,350	587,079	2.94%	64,092	194,231	Not required to disclose			
Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	3,488,741	3,488,741	103,000,000	29.51%	7,546,761	(926,497)	Not required to disclose			
ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	6,000	6,000	-	100.00%	15,143	(2,035)	Not required to disclose			
ASFLY TRAVEL SERVICE LIMITED	Taipei	Travel industry	500,000	500,000	-	100.00%	462,520	(51,985)	Not required to disclose			
HUA-YUAN INVESTMENT LIMITED	Taipei	Investment holding	369,938	369,938	-	59.49%	195,285	2,451	Not required to disclose			
PEGATRON Mexico, S.A. DE C.V.	Chihuahua, Mexico	Repairing and marketing center in Mexico										

Notes to the Consolidated Financial Statement

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018				Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership	Number of shares	Ownership			
ASUSTEK INVESTMENT CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Hsinchu	Main business activities: Manufacture of wire, cable and electronic components. Sale of electronic material.	464,711	464,711	32,088,436	17.83%	367,701	(279,370)	Not required to disclose		
"	STARLINK ELECTRONICS CORPORATION	New Taipei City	Manufacture of computer components and industrial plastics. Sale and manufacture of electronic materials.	60,000	60,000	6,000,000	20.00%	95,327	22,016	Not required to disclose		
"	KINSUS INTERCONNECT TECHNOLOGY CORP.	Taoyuan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	794,252	794,252	58,233,091	12.92%	3,582,726	349,485	Not required to disclose		
"	ASROCK INCORPORATION	Taipei	Manufacture of data processing equipment, storage equipment and wire communication equipment. Installation and sale of computer and electronic materials.	223,939	223,939	7,453,405	6.17%	371,181	594,019	Not required to disclose		
"	AZURE WAVE TECHNOLOGIES, INC.	New Taipei City	Manufacture of office machine, electrical components, computer and related products. Sale of precision instrument and photographic equipment.	98,487	98,487	6,696,930	4.44%	77,455	(118,427)	Not required to disclose		
"	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	5,117	4,428	409,427	2.05%	44,697	194,231	Not required to disclose		
"	PEGAVISION CORPORATION	Taoyuan	Manufacture of medical equipment	64,292	64,292	5,133,434	8.56%	171,785	541,157	Not required to disclose		
"	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	4,652,885	4,652,885	137,000,000	39.26%	10,040,185	(926,497)	Not required to disclose		
"	FUYANG TECHNOLOGY CORPORATION	Hsinchu	Manufacture of wire, cable and electronic components. Sale of electronic materials.	929,422	929,422	64,176,872	35.65%	735,196	(279,370)	Not required to disclose		
PEGATRON SERVICE SINGAPORE PTE. LTD.	PEGATRON SERVICE KOREA LLC.	Korea	Repairing and marketing center in Korea	46,073	46,073	360,000	100.00%	274,017	65,409	Not required to disclose		
Pegatron Holding Ltd.	MAGNIFICENT BRIGHTNESS LIMITED	Virgin Islands	Investment holding and commercial affairs	7,997,598	7,997,598	177,961,090	100.00%	25,917,331	1,574,336	Not required to disclose		
"	PROTEK GLOBAL HOLDINGS LTD.	Virgin Islands	Investment holding and commercial affairs	9,196,026	9,196,026	308,100,000	100.00%	28,073,257	1,659,135	Not required to disclose		
"	ASLINK PRECISION CO., LTD.	Cayman Islands	Investment holding and commercial affairs	5,995,774	5,995,774	199,711,968	100.00%	9,409,444	930,946	Not required to disclose		
"	DIGITEK GLOBAL HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	1,506,525	1,506,525	49,050,000	100.00%	5,244,638	428,926	Not required to disclose		
"	COTEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	2,119,796	2,119,796	81,275,000	100.00%	1,269,774	719,296	Not required to disclose		
"	TOP QUARK LIMITED	HongKong	Investment holding	325,410	325,410	9,550,000	100.00%	178,370	(10,305)	Not required to disclose		
"	POWTEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	403,764	403,764	8,050,000	100.00%	959,884	5,893	Not required to disclose		
"	PIOTEK HOLDINGS LTD.(CAYMAN)	Cayman Islands	Investment holding	2,834,180	2,834,180	92,000,000	49.00%	697,708	(572,198)	Not required to disclose		
"	GRAND UPRIGHT TECHNOLOGY LTD.	Samoa	Investment holding and commercial affairs	40,735	40,735	1,000	100.00%	393,215	(136,304)	Not required to disclose		
KINSUS INTERCONNECT TECHNOLOGY CORP.	KINSUS INVESTMENT CO., LTD.	Taoyuan	Investment holding	1,600,000	1,600,000	160,000,000	100.00%	1,848,536	99,261	Not required to disclose		
"	KINSUS CORP. (USA)	CA, USA	Design substrate, analyze market strategy, development new customer and new technology.	15,358	15,358	500,000	100.00%	48,437	7,140	Not required to disclose		
"	KINSUS HOLDING (SAMOA) LIMITED	Samoa	Investment holding	5,108,172	5,108,172	166,308,720	100.00%	2,125,024	(182,216)	Not required to disclose		
KINSUS INVESTMENT CO., LTD.	PEGAVISION CORPORATION	Taoyuan	Manufacture of medical equipment	286,418	286,418	22,088,736	36.81%	739,178	541,157	Not required to disclose		
"	FUYANG TECHNOLOGY CORPORATION	Hsinchu	Manufacture of wire, cable and electronic components. Sale of electronic material.	929,422	929,422	64,176,872	35.65%	735,275	(279,370)	Not required to disclose		
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION	Samoa	Investment holding	65,423	65,423	2,130,000	100.00%	(45,900)	3,286	Not required to disclose		
"	PEGAVISION JAPAN INC.	Japan	Sale of medical equipment	2,754	2,754	198	100.00%	10,200	5,672	Not required to disclose		
KINSUS HOLDING (SAMOA) LIMITED	KINSUS HOLDING (CAYMAN) LIMITED	Cayman Islands	Investment holding	2,211,480	2,211,480	72,000,000	100.00%	1,398,853	109,598	Not required to disclose		
"	PIOTEK HOLDINGS LTD.(CAYMAN)	Cayman Islands	Investment holding	2,896,701	2,896,701	95,755,000	51.00%	726,195	(572,198)	Not required to disclose		
PIOTEK HOLDINGS LTD. (CAYMAN)	PIOTEK HOLDING LIMITED	Virgin Islands	Investment holding	4,295,210	4,295,210	139,840,790	100.00%	1,423,886	(572,199)	Not required to disclose		

Notes to the Consolidated Financial Statement

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018		Ownership	Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	2018					
PROTEK HOLDING LIMITED	PROTEK (HK) TRADING LIMITED	Hongkong	Commercial affairs	799	799	200,000	76,311	100.00%	76,311	3,101	Not required to disclose	
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD.	Cayman Islands	Investment holding and commercial affairs	1,357,292	1,357,292	44,100,000	1,056,494	100.00%	1,056,494	(153,134)	Not required to disclose	
ASROCK INCORPORATION	ASROCK Rack Incorporation	Taipei	Manufacture and sale of computer related products	98,302(Nota 3)	197,264	9,830,198(Nota 3)	(56,788)	65.97%	(56,788)	2,094	Not required to disclose	
"	ASIAROCK TECHNOLOGY LIMITED	Virgin Islands	Investment holding	1,320,886	1,320,886	40,000,000	3,750,163	100.00%	3,750,163	43,101	Not required to disclose	
"	Leader Insight Holdings Ltd.	Virgin Islands	Investment holding	71,559	71,559	2,100,000	(12,187)	100.00%	(12,187)	(18,303)	Not required to disclose	
"	ASRock Industrial Computer Corporation	Taipei	Manufacture and sale of computer related products	123,700	-	12,370,000	119,745	82.47%	119,745	(4,795)	Not required to disclose	
"	Yabo Trading Co., Ltd.	Hongkong	International trade	588	-	150,000	588	100.00%	588	-	Not required to disclose	
ASIAROCK TECHNOLOGY LIMITED	ASROCK EUROPE B.V.	Ninmegen, NETHERLANDS	Sale of data storage devices and electronic materials	5,959	5,959	200,000	479,336	100.00%	479,336	49,419	Not required to disclose	
"	CairRock Holdings, L.L.C.	CA, USA	Renting offices	61,430	61,430	2,000,000	69,375	100.00%	69,375	(1,153)	Not required to disclose	
"	Orbweb Inc. (BVI)	Virgin Islands	Installation of computer equipment and sale of computer related product	30,715	30,715	4,000,000	-	27.59%	-	(6,431)	Not required to disclose	
Leader Insight Holdings Ltd.	First phase International Ltd.	Virgin Islands	Investment holding	62,966	62,966	2,050,000	(12,234)	100.00%	(12,234)	(18,303)	Not required to disclose	
First phase International Ltd.	ASROCK AMERICA, INC.	CA, USA	Sale of data storage devices and electronic materials	61,430	61,430	2,000,000	(13,258)	100.00%	(13,258)	(18,307)	Not required to disclose	
Lumens Digital Optics Inc. (Lumens Optics)	Lumens Integration Inc.	CA, USA	Purchase and sale on computer product and computer related product	37,196	37,196	1,222,000	26,232	100.00%	26,232	(3,406)	Not required to disclose	
"	Lumens Digital Image Inc.	Samoa	Investment holding	7,679	7,679	250,000	20,143	100.00%	20,143	1,654	Not required to disclose	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	10,837,698	7,188,578	245,016,988	19,132,452	58.27%	19,132,452	(1,714,727)	Not required to disclose	Note 1
PEGATRON TECHNOLOGY SERVICE INC.	PEGATRON SERVICIOS DE INFORMÁTICA LTDA.	Brasil	Repairing service	19,965	19,965	-	(25,668)	100.00%	(25,668)	-	Not required to disclose	
Unilan Holding Ltd.	CASETEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	5,034,213	5,034,213	115,575,668	5,190,991	100.00%	5,190,991	430,622	Not required to disclose	
CASETEK HOLDINGS LIMITED	WILSON HOLDINGS LIMITED	Samoa	Investment holding and commercial affairs	83,729	83,729	-	-	-	-	-	Not required to disclose	
"	SILITEK HOLDINGS LIMITED	Samoa	Investment holding and commercial affairs	37,165	37,165	1,210,000	22,033	100.00%	22,033	(7,470)	Not required to disclose	
"	K.AEDAR HOLDINGS LIMITED	Hongkong	Investment holding and commercial affairs	767,875	767,875	25,000,000	1,108,441	100.00%	1,108,441	10,417	Not required to disclose	
"	K.AEDAR TRADING LTD.	Samoa	Investment holding and commercial affairs	153,575	153,575	5,000,000	564,883	100.00%	564,883	11,700	Not required to disclose	
AMA PRECISION INC.	AMA Holdings Limited	Samoa	Investment holding	169,744	169,744	5,131,948	122,166	100.00%	122,166	2,415	Not required to disclose	
AZURE WAVE TECHNOLOGIES, INC.	Azwave Holding (Samoa) Inc.	Samoa	Investment holding	1,585,683	1,585,683	50,177	977,412	100.00%	977,412	(114,249)	Not required to disclose	
"	EZWAVE TECHNOLOGIES, INC.	Taipei	Information product service industry	5,015	5,015	500	(20,968)	100.00%	(20,968)	(714)	Not required to disclose	
"	AZURE LIGHTING TECHNOLOGIES, INC.	New Taipei City	Sale of electronic materials	25,000	25,000	2,000	27,907	100.00%	27,907	4,974	Not required to disclose	
"	Azwave Technologies (USA) INC.	CA, USA	Market development	15,165	10,642	500	1,031	100.00%	1,031	(4,206)	Not required to disclose	
"	VENCE PRECISION & TOOLS CO., LTD.	New Taipei City	Sale of electronic materials	10,000	10,000	1,000	1,336	40.00%	1,336	(1,836)	Not required to disclose	

Note 1 : Because the foreign holding investee companies prepare consolidated financial statements only, the disclosure of the company's investments is only to the level of the holding company.

Note 2 : Income and expenses for each statement of comprehensive income are translated at average exchange rates of 2018, the others are translated at the spot exchange rate at the date of that balance sheet.

Note 3 : The Board of Directors of ASRock Rack Incorporation has passed a resolution to reduce capital in order to compensate for accumulated loss on August 6, 2018. The reduction ratio is 50.17%, and the total number of shares is 1,490,000 shares. The capital reduction is approved on October 17, 2018. Consequently, the investment was reduced from 197,264 thousands to 98,302 thousands. The number of shares held was reduced from 19,726,371 shares to 9,830,198 shares.

Notes to the Consolidated Financial Statement

Table 9 Information on investments in Mainland China
December 31, 2018

1. The names of investees in Mainland China, the main businesses and products, and other information

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Mainland China / Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note2, (2))	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018
					Remitted to Mainland China	Remitted back to Taiwan						
MAINTEK COMPUTER (SUZHOU) CO., LTD. (Note 5)	Manufacture, develop and research and sale of power supplier, new electronic component, computer case, and computer system. Repair of laptop, motherboard and related product.	7,021,142 USD 228,590,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	5,430,412 USD 176,800,000	-	-	5,430,412 USD 176,800,000	1,574,332 USD 52,287,075	100%	1,574,332 USD 52,287,075	26,009,109 USD 846,788,516	-
PROTEK (SHANGHAI) LTD.	Develop and research, manufacture, assemble, repair, sale and design of satellite communication equipment, satellite navigation receive equipment and essential component. Sale of cellphone, medium and large sized computer, portable computer, printing machine and electrical component.	9,460,220 USD 308,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	9,460,220 USD 308,000,000	-	-	9,460,220 USD 308,000,000	1,659,172 USD 55,104,782	100%	1,659,172 USD 55,104,782	27,964,813 USD 910,461,119	-
PROTEK COMPUTER (SUZHOU) (Note 7)	Develop and research, manufacture and sale of new type of precision electrical component, circuit board and related product. The company also provides after sale service.	5,120,191 USD 166,700,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,395,882 USD 45,446,280	-	-	1,395,882 USD 45,446,280	(675,052) (USD 19,098,769)	68.68%	(394,946) (USD 13,117,035)	925,143 USD 30,120,225	-
COTEK ELECTRONICS	Develop, manufacture and sale of new electrical component, plugs and corresponding precision mold. The company also provides after sale service.	2,487,915 USD 81,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	2,119,335 USD 69,000,001	-	-	2,119,335 USD 69,000,001	696,938 USD 23,146,841	100%	696,938 USD 23,146,841	1,298,426 USD 42,273,365	-
RUNTOP (SHANGHAI) CO., LTD.	Manufacture and sale of computer components, digital automatic data processing machine, accessories of multimedia computer, power supplier, network switch and data machine.	215,005 USD 7,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	323,874 USD 10,544,482	-	-	323,874 USD 10,544,482	(10,174) (USD 337,889)	100%	(10,174) (USD 337,889)	178,100 USD 5,798,454	-
POWTEK (SHANGHAI) LTD.	Sale of computer motherboard, computer, laptop, service machine and computer related items. The company also provides after sale services.	245,720 USD 8,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	403,764 USD 13,145,510	-	-	403,764 USD 13,145,510	5,947 USD 197,501	100%	5,947 USD 197,501	959,361 USD 31,234,271	-
DIGITEK (CHONGQING) LTD.	Research and development, manufacture, sale of satellite communication equipment, satellite navigation receive equipment, cellphone, internet related equipment, computer, video decoding equipment, car-used electrical equipment and component. The company also provides export, proxy, repair services.	1,505,035 USD 49,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,505,035 USD 49,000,000	-	-	1,505,035 USD 49,000,000	249,064 USD 8,271,979	100%	249,064 USD 8,271,979	5,239,634 USD 170,588,447	-
PEGAGLOBE (KUNSHAN) CO., LTD.	Manufacture of satellite navigation receiving equipment, cellphone, core equipment, internet detection equipment, large and medium sized computer, easy to carry computers, high end service equipment, large volume light driver and their component.	5,958,710 USD 194,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	5,958,710 USD 194,000,000	-	-	5,958,710 USD 194,000,000	930,208 USD 30,894,274	100%	930,208 USD 30,894,274	9,357,288 USD 304,648,819	-
CASATEK COMPUTER (SUZHOU) CO., LTD.	Manufacture, development and research and sale of computer, computer system and its component. The company also provides after sale service.	1,720,040 USD 56,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,720,040 USD 56,000,000	-	-	1,720,040 USD 56,000,000	352,947 USD 11,722,159	100%	352,947 USD 11,722,159	2,724,443 USD 88,700,724	-

Notes to the Consolidated Financial Statement

Expressed in thousands of NT\$/ other currency (dollars)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Mainland China /Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note 2, (2))	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018
					Remitted to Mainland China	Remitted back to Taiwan						
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Manufacture of plastic injection products.	537,513 USD 17,500,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	752,735 USD 24,507,092	-	-	752,735 USD 24,507,092	10,408 USD 345,687	100%	10,408 USD 345,687	1,092,798 USD 35,578,648	-
LIMITED	Research, manufacture and sale of laptop components and precision equipment. Design non-metal molds and electronic devices. The company also provides after sale service and consulting service.	368,580 USD 12,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	368,580 USD 12,000,000	-	-	368,580 USD 12,000,000	3,093 USD 102,741	100%	3,093 USD 102,741	203,880 USD 6,637,794	-
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Research and develop, manufacture and inspect computer and implication system. Manufacture molds, precision molds, plastic components. Sale of automatic products.	307,150 USD 10,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	307,150 USD 10,000,000	-	-	307,150 USD 10,000,000	21,404 USD 710,874	100%	21,404 USD 710,874	280,673 USD 9,137,974	-
Zhangjiagang East High-tech LTD.	Process, sale and transportation of steel.	184,290 USD 6,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	36,858 USD 1,200,000	-	-	36,858 USD 1,200,000	(37,261) (USD 1,237,516)	20%	(7,452) (USD 247,503)	20,672 USD 673,035	-
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Research and develop, manufacture, test, repair and sale of Multilayer flexible board and computer number signal processor.	1,351,460 USD 44,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,351,460 USD 44,000,000	-	-	1,351,460 USD 44,000,000	(153,107) (USD 5,085,023)	67.38%	(103,163) (USD 3,426,289)	709,697 USD 23,105,868	-
(Note 13)												
HONGJIE (SHANGHAI) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	153,575 USD 5,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	28,650 USD 932,769	-	-	28,650 USD 932,769	(884) (USD 29,368) (Note 15)	-	(265) (USD 8,810)	-	-
(Note 14)												
HONGJIE (SUZHOU) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	408,816 USD 13,309,984	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	185,081 USD 6,025,762	-	-	185,081 USD 6,025,762	(17,081) (USD 567,304) (Note 15)	-	(5,124) (USD 170,191)	-	-
(Note 14)												
Suzhou Esifite Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	156,647 USD 5,100,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	35,536 USD 1,156,954	-	-	35,536 USD 1,156,954	44 USD 1,465 (Note 15)	-	10 USD 316	-	-
(Note 14)												
HONGJIE (CHONGQING) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	15,358 USD 500,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	2,350 USD 76,500	-	-	2,350 USD 76,500	(60) (USD 1,996) (Note 15)	-	(9) (USD 305)	-	-
(Note 14)												
Hongruisheng (Chengde) packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	80,166 USD 2,610,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	19,443 USD 633,000	-	-	19,443 USD 633,000	-	-	-	-	-
(Note 12)												
Heilongjiang Hongjie Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	75,559 USD 2,460,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	13,601 USD 442,800	-	-	13,601 USD 442,800	-	-	-	-	-
(Note 11)												
Suzhou Lianshao Electronics LTD.	Manufacture of plugs	214,527 USD 6,984,441	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	235,161 USD 7,656,224	-	-	235,161 USD 7,656,224	-	-	-	-	-
(Note 6)												
Shanghai Yiding Electronics LTD.	Research and develop, manufacture and sale of portable micro computer, laptop and related products.	952,165 USD 31,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	602,014 USD 19,600,000	-	-	602,014 USD 19,600,000	-	-	-	-	-
(Note 8)												
Finhong Precision Mold (Suzhou) Co., Ltd.	Design, process, sale and manufacture of non-metal molds. Manufacture and sale of precision molds, standard molds, plastic and hardware.	27,644 USD 900,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	52,676 USD 1,715,000	-	-	52,676 USD 1,715,000	-	-	-	-	-
(Note 10)												

Notes to the Consolidated Financial Statement

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Mainland China /Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note2, (2))	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018
					Remitted to Mainland China	Remitted back to Taiwan						
Honghua Technology (Suzhou) LTD (Note 9)	Manufacture, research and develop, process non-metal molds, precision molds, standard molds, hardware components, new version of photoelectric trigger, disk driver and their components. Manufacture of number camera, essential components and providing after sale service.	196,576 USD 6,400,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	96,322 USD 3,136,000	-	96,322 USD 3,136,000	-	-	-	-	-	-

2. Limitation on investment in Mainland China

Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 4)
32,404,889 USD 1,055,018,374	34,026,334 USD 1,107,808,374	111,866,070

US dollar exchange rate : year end exchange rate 30.715 ; average exchange rate 30.1094

Note 1: Investment methods are classified into the following three categories:

- (1) Through company in the third area, the Company transferred money to invest in the investee in Mainland China.
- (2) Through setting up company in the third area, the Company then invest in the investee in Mainland China.
- (3) Through investing in the third area, the Company then invest in the investee in Mainland China.

Note 2 : The basis for investment income (loss) recognition:

- (1) If the company is under preparation status, there is no income or loss.
- (2) The basis for investment income (loss) recognition can be classified to three categories:
 1. Financial statements are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
 2. Financial statements which were based on the audited and attested by R.O.C. parent company's CPA.

Note 3 : The chart is expressed in NTD. Investment profit or loss is converted based on average exchange rate. Book value of the investment is converted based on year-end exchange rate.

Note 4 : Ceiling on investments is higher of its net asset or 60% of the consolidated net assets.

Note 5 : MAINTEK COMPUTER (SUZHOU) CO., LTD.'s paid-in capital includes capital increase by retained earnings of USD51,790,000.

Note 6 : Suzhou Limshao Electronics LTD. has completed liquidation process. As of December 31, 2018, the funds have not been remitted.

Note 7 : PIOTEK COMPUTER (SUZHOU) CO., LTD.'s paid-in capital includes capital increase by retained earnings of USD27,000,000. The ownership percentage includes shares held by other subsidiaries.

Note 8 : The Consolidated Company has disposed of shares of Induced Holdings Limited (indirectly invested in Shanghai Yiding Electronics LTD.). As of December 31, 2018, the funds have not been remitted.

Note 9 : Honghua Technology (Suzhou) LTD. has completed liquidation process. As of December 31, 2018, the funds have not been remitted.

Note 10 : The Consolidated Company has disposed shares of Jinhong Precision Mold Industrial (Suzhou) Co., Ltd.. As of December 31, 2018, the funds have not been remitted.

Note 11 : The Consolidated Company has disposed shares of Heilongjiang Hongjie Packaging LTD. As of December 31, 2018, the funds have not been remitted.

Note 12 : Hongguisheng (Chengdao) packaging LTD. has completed liquidation process. As of December 31, 2018, the funds have not been remitted.

Note 13 : Accumulated investment amount includes FUYANG TECHNOLOGY CORPORATION transferred out USD26,000,000.

Note 14 : The Consolidated Company has disposed all shares of E-Packaging. As of December 31, 2018, the funds have not been remitted.

Note 15 : The Consolidated Company has lost control in 2018 Q2. The investment income or loss measured under equity method is recognized till 2018 Q2.

Notes to the Consolidated Financial Statement

Table 10 Business relationships and significant intercompany transactions
December 31, 2018

No. (Note 1)	Company name	Counterparty	Transaction				Expressed in thousands of NTD
			Relationship (Note 2)	General ledger account	Amount	Transaction terms	
0	PEGATRON CORPORATION	ASIA ROCK TECHNOLOGY LIMITED	1	Sales	2,126,689	Open Account 90 days	0.16%
0	PEGATRON CORPORATION	ASIA ROCK TECHNOLOGY LIMITED	1	Account Receivables	767,277	Open Account 90 days	0.13%
0	PEGATRON CORPORATION	PEGATRON Czech s.r.o.	1	Sales	3,090,771	120 days on delivery	0.23%
0	PEGATRON CORPORATION	PEGATRON Czech s.r.o.	1	Account Receivables	908,745	120 days on delivery	0.16%
0	PEGATRON CORPORATION	PEGATRON TECHNOLOGY SERVICE INC.	1	Sales	391,815	90 days on delivery	0.03%
0	PEGATRON CORPORATION	PEGATRON TECHNOLOGY SERVICE INC.	1	Account Receivables	174,036	90 days on delivery	0.03%
0	PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	1	Account Receivables	7,898,530	Open Account 90 days	1.35%
0	PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	1	Account Receivables	168,759,313	Open Account 60 days	28.88%
0	PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	1	Account Receivables	5,333,209	Open Account 90 days	0.91%
0	PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	1	Account Receivables	100,694,964	Open Account 90 days	17.23%
0	PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	1	Account Receivables	29,415,873	Open Account 60 days	5.03%
0	PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	1	Sales	455,569	Open Account 60 days	0.03%
1	PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	2	Account Receivables	136,085,432	Open Account 60 days	23.29%
1	PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	2	Sales	12,504,152	Open Account 60 days	0.93%
1	PROTEK (SHANGHAI) LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Sales	66,325,212	Open Account 90 days	4.95%
1	PROTEK (SHANGHAI) LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Account Receivables	12,586,902	Open Account 60 days	2.15%
2	PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	2	Sales	35,564,540	Open Account 60 days	2.65%
2	PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	2	Account Receivables	80,465,491	Open Account 60 days	13.77%
2	PEGAGLOBE (KUNSHAN) CO., LTD.	GRAND UPRIGHT TECHNOLOGY LTD.	3	Sales	16,098,987	Open Account 60 days	1.20%
2	PEGAGLOBE (KUNSHAN) CO., LTD.	GRAND UPRIGHT TECHNOLOGY LTD.	3	Account Receivables	3,418,321	Open Account 60 days	0.58%
2	PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	3	Sales	33,507,762	Open Account 60 days	2.50%
2	PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	3	Account Receivables	158,960	Open Account 60 days	0.03%
3	MAINTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Sales	22,313,522	Open Account 60 days	1.67%
3	MAINTEK COMPUTER (SUZHOU) CO., LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	3	Sales	1,362,388	Open Account 60 days	0.10%
4	COTEK ELECTRONICS (SUZHOU) CO., LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	2	Other Receivables	2,457,200	Mutual Agreement	0.42%
4	COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Sales	2,064,206	Open Account 60 days	0.15%
4	COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Account Receivables	5,613,028	Open Account 60 days	0.96%
4	COTEK ELECTRONICS (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	4,316,366	Open Account 60 days	0.32%
4	COTEK ELECTRONICS (SUZHOU) CO., LTD.	CHONGQING ZUANSHUO TRADING CO., LTD.	3	Account Receivables	1,235,778	Open Account 60 days	0.21%
4	COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Sales	108,078	Open Account 90 days	0.01%
5	DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	2	Sales	159,572	Open Account 60 days	0.01%
5	DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	2	Account Receivables	2,195,857	Open Account 60 days	0.16%
5	DIGITEK (CHONGQING) LTD.	CHONGQING ZUANSHUO TRADING CO., LTD.	3	Sales	20,468,290	Open Account 60 days	3.50%
6	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	DIGITEK (CHONGQING) LTD.	3	Account Receivables	658,480	Open Account 60 days	0.05%
6	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	DIGITEK (CHONGQING) LTD.	3	Sales	280,258	Open Account 60 days	0.05%
7	CASETEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	2	Account Receivables	569,873	Open Account 60 days	0.04%
7	CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Sales	201,160	Open Account 90 days	0.03%
7	CASETEK COMPUTER (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Account Receivables	2,597,959	Open Account 60 days	0.19%
8	CORE-TEK (SHANGHAI) LIMITED	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	2,301,699	Open Account 60 days	0.17%
8	PIOTEK COMPUTER (SUZHOU) CO., LTD.	PROTEK (SHANGHAI) LTD.	3	Account Receivables	679,973	Open Account 60 days	0.12%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	PIOTEK (SHANGHAI) LTD.	2	Sales	144,507	Open Account 60 days	0.01%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Account Receivables	1,479,418	Open Account 60 days	0.11%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	PIOTEK (HK) TRADING LIMITED	3	Sales	343,583	Open Account 60 days	0.06%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	PIOTEK (HK) TRADING LIMITED	3	Account Receivables	293,446	Open Account 60 days	0.02%

Notes to the Consolidated Financial Statement

No. (Note 1)	Company name	Counterparty	Transaction				
			Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
10	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP	KINSUS INTERCONNECT TECHNOLOGY CORP.	2	Sales	2,228,772	Open Account 30 days	0.17%
10	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP	KINSUS INTERCONNECT TECHNOLOGY CORP.	2	Account Receivables	163,500	Open Account 30 days	0.03%
11	CASETEK HOLDINGS LIMITED(CAYMAN)	MEGA MERIT LIMITED	1	Other Receivables	730,925	Mutual Agreement	0.13%
12	RIH LI International Limited	KAI JIA COMPUTER ACCESSORY CO., LTD.	3	Long -term Receivables	7,678,750	Mutual Agreement	1.31%
13	RIH KUAN METAL CORPORATION	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO.,	3	Sales	121,582	Open Account 30-60 days	0.01%
13	RIH KUAN METAL CORPORATION	RI-MING (SHANGHAI) CO., LTD.	3	Sales	120,739	Open Account 30-60 days	0.01%
13	RIH KUAN METAL CORPORATION	KAI JIA COMPUTER ACCESSORY CO., LTD.	3	Sales	100,596	By Contract / Mutual agreed on price.	0.01%
14	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	PEGATRON CORPORATION	2	Sales	489,680	Open account of collection and payment period is 30-60 days	0.04%
14	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	PEGATRON CORPORATION	2	Account Receivables	164,128	Open Account 60 days	0.03%
14	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Sales	913,700	Open Account 60 days	0.07%
14	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Account Receivables	145,221	Open Account 30-60 days	0.02%
14	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	3	Long-term Receivables	4,251,540	Mutual Agreement	0.73%
14	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	KAI JIA COMPUTER ACCESSORY CO., LTD.	3	Other Receivables	1,790,132	Mutual Agreement	0.31%
15	RI-MING (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Sales	4,951,220	Open Account 90 days	0.37%
15	RI-MING (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Account Receivables	2,643,640	Open Account 90 days	0.45%
15	RI-MING (SHANGHAI) CO., LTD.	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	3	Sales	1,096,946	Open Account 30-60 days	0.08%
15	RI-MING (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Sales	391,844	Open Account 30-60 days	0.03%
15	RI-MING (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Account Receivables	190,279	Open Account 30-60 days	0.03%
16	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Sales	13,070,159	Open Account 30-60 days	0.98%
16	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Account Receivables	1,677,930	Open Account 30-60 days	0.29%
16	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	3	Long-term Receivables	313,262	Mutual Agreement	0.05%
16	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	KAI JIA COMPUTER ACCESSORY CO., LTD.	3	Long-term Receivables	2,685,197	Mutual Agreement	0.46%
16	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Sales	442,548	Open Account 30-60 days	0.03%
16	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Long-term Receivables	291,608	Mutual Agreement	0.05%
16	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	3	Long-term Receivables	447,518	Mutual Agreement	0.08%
17	RI KAI COMPUTER ACCESSORY CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	3	Sales	168,854	Open Account 30-60 days	0.01%
17	RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	3	Sales	2,739,052	Open Account 30-60 days	0.20%
18	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	MEGA MERIT LIMITED	3	Account Receivables	1,886,116	Open Account 30-60 days	0.32%
18	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	3	Sales	1,682,333	Open Account 30-60 days	0.13%
18	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	3	Account Receivables	266,545	Open Account 30-60 days	0.05%
18	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO.,	3	Sales	328,313	Open Account 30-60 days	0.02%
19	KAI JIA COMPUTER ACCESSORY CO., LTD.	PROTEK (SHANGHAI) LTD	3	Sales	181,560	Open Account 30-60 days	0.01%
19	KAI JIA COMPUTER ACCESSORY CO., LTD.	PROTEK (SHANGHAI) LTD	3	Account Receivables	562,142	Open Account 60 days	0.04%
19	KAI JIA COMPUTER ACCESSORY CO., LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Sales	107,611	Open Account 60 days	0.04%
20	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	KAI JIA COMPUTER ACCESSORY CO., LTD.	3	Long-term Receivables	223,759	Mutual Agreement	0.04%
21	FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	1	Sales	7,993,406	Open Account 60 days	0.60%
21	FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	1	Account Receivables	4,070,760	Open Account 60 days	0.70%
22	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	2	Sales	10,847,060	Open Account 60 days	0.81%
22	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	2	Account Receivables	3,959,018	Open Account 60 days	0.68%
23	ASROCK INCORPORATION	ASROCK AMERICA, INC.	1	Sales	1,571,465	Open Account 90 days	0.12%
23	ASROCK INCORPORATION	ASROCK AMERICA, INC.	1	Account Receivables	981,616	Open Account 90 days	0.17%
23	ASROCK INCORPORATION	ASROCK EUROPE B.V.	1	Sales	2,297,226	Open Account 45 days	0.17%
23	ASROCK INCORPORATION	ASROCK EUROPE B.V.	1	Account Receivables	172,523	Open Account 45 days	0.03%

Notes to the Consolidated Financial Statement

No. (Note 1)	Company name	Counterparty	Transaction				Percentage of consolidated total operating revenues or total assets (Note 3)
			Relationship (Note 2)	General ledger account	Amount	Transaction terms	
23	ASROCK INCORPORATION	ASRock Industrial Computer Corporation	1	Sales	101,779	Open Account 60 days	0.01%
24	ASIAROCK TECHNOLOGY LIMITED	PEGATRON CORPORATION	2	Sales	1,642,207	Open Account 90 days	0.12%
24	ASIAROCK TECHNOLOGY LIMITED	PEGATRON CORPORATION	2	Account Receivables	601,861	Open Account 60 days	0.10%
24	ASIAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	2	Sales	6,819,371	Open Account 60 days	0.51%
24	ASIAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	2	Account Receivables	959,452	Open Account 60 days	0.16%
24	ASIAROCK TECHNOLOGY LIMITED	ASRock Industrial Computer Corporation	3	Sales	178,882	Open Account 60 days	0.01%
24	ASIAROCK TECHNOLOGY LIMITED	ASRock Industrial Computer Corporation	3	Account Receivables	160,046	Open Account 60 days	0.03%
24	ASIAROCK TECHNOLOGY LIMITED	ASRock Rack Incorporation	3	Sales	1,187,438	Open Account 60 days	0.09%
24	ASIAROCK TECHNOLOGY LIMITED	ASRock Rack Incorporation	3	Account Receivables	746,473	Open Account 60 days	0.13%
25	AZURE WAVE TECHNOLOGIES, INC.	PEGATRON CORPORATION	2	Sales	488,692	Open Account 60 days	0.04%
26	ASRock Rack Incorporation	PEGATRON CORPORATION	2	Sales	273,602	90 days on delivery	0.02%
27	PEGAVISION CORPORATION	Pegavision Japan Inc.	1	Sales	423,423	Open Account 90 days	0.03%
27	PEGAVISION CORPORATION	Pegavision Japan Inc.	1	Account Receivables	105,879	Open Account 90 days	0.02%
27	PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	1	Sales	281,593	Open Account 180 days	0.02%
27	PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	1	Account Receivables	201,315	Open Account 180 days	0.03%
28	Lumens Digital Optics Inc. (Lumens Optics)	Lumens Integration Inc.	1	Sales	226,378	Open Account 75 days→90 days	0.02%
29	ASUSPOWER CORPORATION	PEGATRON CORPORATION	2	Other Receivables	4,607,250	Mutual Agreement	0.79%
30	STARLINK ELECTRONICS CORPORATION	FUYANG TECHNOLOGY CORPORATION	3	Other Receivables	160,000	Mutual Agreement	0.03%
31	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	AZURE WAVE TECHNOLOGIES, INC.	2	Sales	1,246,621	Open Account 30 days→60 days	0.09%
32	KINSUS TRADING (SUZHOU) CORP.	PIOTEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	101,676	Open Account 60 days	0.01%
33	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	2	Sales	181,904	Open Account 90 days	0.01%
33	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	3	Account Receivables	136,068	Open Account 60 days	0.02%
33	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	MAINTeK COMPUTER (SUZHOU) CO., LTD.	3	Sales	102,516	Open Account 60 days	0.01%
33	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	3	Sales	101,043	Open Account 60 days	0.01%
33	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	3	Other Receivables	358,024	Mutual Agreement	0.06%
33	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	496,901	Open Account 60 days	0.04%

Note 1: The information of transactions between the Company and the consolidated subsidiaries should be noted in "Number" column.

(1) Number 0 represents the Company.

(2) The consolidated subsidiaries are numbered in order from number 1.

Note 2: The transaction relationships with the counterparties are as follows:

(1) The Company to the consolidated subsidiary.

(2) The consolidated subsidiary to the Company.

(3) The consolidated subsidiary to another consolidated subsidiary.

Note 3: In calculating the ratio, the transaction amount is divided by consolidated total assets for balance sheet accounts and is divided by consolidated total revenues for income statement accounts.

Note 4: We only disclose Revenue and Accounts Receivables amount for significant inter-company transactions.

Note 5: All the transactions which amount is lower than materiality will not be disclosed.

Attachment II

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(With Independent Accountants' Audit Report Thereon)

Independent Auditors' Report

To the Board of Directors of Pegatron Corporation:

Opinion

We have audited the non-consolidated financial statements of Pegatron Corporation (“the Company”), which comprise the non-consolidated statement of financial position as of December 31, 2018 and 2017, and the non-consolidated statement of comprehensive income, non-consolidated statement of changes in equity and non-consolidated statement of cash flows for the years then ended, and notes to the non-consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Based on our professional judgment, key audit matters pertain to the most important matters in the audit of non-consolidated financial statements for the year ended December 31, 2018 of Pegatron Corporation. Those matters have been addressed in our audit opinion on the said non-consolidated financial statements and during the formation of our audit opinion. However, we do not express an opinion on these matters individually. The key audit matters that, in our professional judgment, should be communicated are as follows:

1. Revenue recognition

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

(a) Key audit matters:

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

Therefore, the test of sales and sales returns and allowances recognition was one of the key audit matters in the audit of non-consolidated financial reports for the years ended December 31, 2018 and 2017 of Pegatron Corporation.

(b) Auditing procedures performed:

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

2. Inventory valuation

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

(a) Key audit matters:

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

(b) Auditing procedures performed:

- Analyze the amount of obsolete inventory and inventory market price decline between 2018 and 2017 and understand reasons of the difference. Discuss and resolve those differences with management.
- Obtain an inventory aging analysis and randomly select items to verify the correctness for age of inventory.
- Obtain last selling price for finished goods and replacement cost for raw material, and recalculate net realizable value with selling expense rate to check whether or not the method of inventory measurement adopted by the Company is reasonable.

Other Matter

We did not audit the financial statements of certain equity-accounted investees. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain equity-accounted investees, are based solely on the reports of the other auditors. The amount of long-term investments in these investee companies represented 2.24% and 3.15% of the related total assets as of December 31, 2018 and 2017, respectively, and the related investment gain represented 2.09% and 1.12% of profit before tax for the years ended December 31, 2018 and 2017, respectively.

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

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

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

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

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

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

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

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

5. Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on Pegatron Corporation. We are responsible for the direction, supervision and performance of the audit.

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

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

For those matters that we have communicated with those charged with governance, we have considered those matters to be key audit matters as they were the most significant to the audit of the financial statements for the year ended December 31, 2018. We have included these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interests of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 14, 2019

Notes to Readers

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

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

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

PEGATRON CORPORATION

Non-Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
Assets					
Current assets:					
1100	Cash and cash equivalents (Note 6(a))	\$ 18,535,500	3	24,928,694	5
1170	Notes and accounts receivable, net (Note 6(f))	177,248,274	25	129,732,764	26
1180	Accounts receivable due from related parties, net (Notes 6(f) and 7)	313,983,330	45	190,257,570	37
1200	Other receivables, net (Notes 6(g) and 7)	118,063	-	112,286	-
130X	Inventories (Note 6(h))	49,765,612	7	35,260,719	7
1476	Other current financial assets (Note 6(l))	41,670	-	41,616	-
1479	Other current assets (Note 6(l))	452,584	-	129,665	-
		<u>560,145,033</u>	<u>80</u>	<u>380,463,314</u>	<u>75</u>
Non-current assets:					
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	340,320	-	-	-
1520	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	477,148	-	-	-
1523	Non-current available-for-sale financial assets (Note 6(d))	-	-	659,392	-
1550	Investments accounted for using equity method (Note 6(i))	129,941,116	19	122,190,881	24
1600	Property, plant and equipment (Note 6(j))	7,384,642	1	4,722,912	1
1780	Intangible assets (Note 6(k))	293,045	-	316,961	-
1840	Deferred tax assets (Note 6(r))	706,630	-	562,154	-
1980	Other non-current financial assets (Note 6(l))	22,722	-	33,349	-
1990	Other non-current assets (Note 6(l))	-	-	4,230	-
		<u>139,165,623</u>	<u>20</u>	<u>128,489,879</u>	<u>25</u>
Total assets		<u>\$ 699,310,656</u>	<u>100</u>	<u>508,953,193</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION

Non-Consolidated Balance Sheets (CONT'D)

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2018		December 31, 2017	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (Note 6(m))	\$ 59,433,525	9	22,034,400	4
2130	Current contract liabilities (Note 6(v))	609,002	-	-	-
2150	Notes and accounts payable	199,651,449	29	160,631,195	32
2180	Accounts payable to related parties (Note 7)	244,035,178	35	143,407,464	28
2219	Other payables (Note 7)	14,225,184	2	14,865,485	3
2230	Current tax liabilities	687,951	-	349,340	-
2250	Current provisions (Note 6(o))	-	-	114,050	-
2313	Deferred revenue	-	-	638,618	-
2399	Other current liabilities (Note 7)	15,566,177	2	13,893,442	3
		<u>534,208,466</u>	<u>77</u>	<u>355,933,994</u>	<u>70</u>
Non-Current liabilities:					
2530	Bonds payable (Note 6(n))	14,986,762	2	6,992,476	1
2570	Deferred tax liabilities (Note 6(r))	35,426	-	-	-
2670	Other non-current liabilities (Note 7)	51,164	-	50,985	-
		<u>15,073,352</u>	<u>2</u>	<u>7,043,461</u>	<u>1</u>
	Total liabilities	<u>549,281,818</u>	<u>79</u>	<u>362,977,455</u>	<u>71</u>
Equity (Note 6(s)):					
3100	Share capital	26,123,773	4	26,140,906	5
Capital surplus:					
3210	Capital surplus, premium on capital stock	75,696,958	10	74,283,165	15
3280	Capital surplus, others	4,979,372	1	5,614,586	1
		<u>80,676,330</u>	<u>11</u>	<u>79,897,751</u>	<u>16</u>
Retained earnings:					
3310	Legal reserve	10,662,823	2	9,194,524	2
3320	Special reserve	8,815,213	1	3,368,986	1
3350	Unappropriated retained earnings	32,149,237	4	37,412,958	7
		<u>51,627,273</u>	<u>7</u>	<u>49,976,468</u>	<u>10</u>
Other equity interest:					
3410	Exchange differences on translation of foreign financial statements	(7,482,556)	(1)	(9,698,374)	(2)
3420	Unrealized losses on financial assets measured at fair value through other comprehensive income	(386,322)	-	-	-
3425	Unrealized gains on available-for-sale financial assets	-	-	883,161	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(t))	(524,686)	-	(1,222,232)	-
		<u>(8,393,564)</u>	<u>(1)</u>	<u>(10,037,445)</u>	<u>(2)</u>
3500	Treasury stock	(4,974)	-	(1,942)	-
	Total equity	<u>150,028,838</u>	<u>21</u>	<u>145,975,738</u>	<u>29</u>
	Total liabilities and equity	<u>\$ 699,310,656</u>	<u>100</u>	<u>508,953,193</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION

Non-Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		For the years ended December 31			
		2018		2017	
		Amount	%	Amount	%
4110	Operating revenue (Notes 6(v), 6(w) and 7)	\$ 1,237,004,302	100	1,083,000,588	100
4170	Less: Sales returns and allowances	<u>2,671,004</u>	-	<u>2,425,593</u>	-
	Operating revenue, net	<u>1,234,333,298</u>	100	<u>1,080,574,995</u>	100
5000	Cost of sales (Notes 6(h), 6(p) and 7)	<u>1,216,545,408</u>	99	<u>1,061,785,925</u>	98
5900	Gross profit from operations	<u>17,787,890</u>	1	<u>18,789,070</u>	2
5920	Add: Realized profit from sales	<u>(2,453)</u>	-	<u>(1,131)</u>	-
5950	Gross profit from operations	<u>17,785,437</u>	1	<u>18,787,939</u>	2
6000	Operating expenses (Notes 6(p), 6(q) and 7):				
6100	Selling expenses	2,177,669	-	2,124,985	-
6200	General and administrative expenses	2,266,231	-	2,247,843	-
6300	Research and development expenses	<u>8,177,714</u>	1	<u>8,111,032</u>	1
6300	Total operating expenses	<u>12,621,614</u>	1	<u>12,483,860</u>	1
	Net operating income	<u>5,163,823</u>	-	<u>6,304,079</u>	1
	Non-operating income and expenses:				
7010	Other income (Notes 6(y) and 7)	1,052,471	-	942,280	-
7020	Other gains and losses (Note 6(y))	536,602	-	(1,575,558)	-
7050	Finance costs (Notes 6(f), 6(n) and 6(y))	(1,642,423)	-	(608,830)	-
7070	Share of profit of associates and joint ventures accounted for using equity method (Note 6(i))	6,634,627	1	10,140,629	1
7590	Miscellaneous disbursements (Note 7)	<u>(2,071)</u>	-	<u>(2,153)</u>	-
	Total non-operating income and expenses	<u>6,579,206</u>	1	<u>8,896,368</u>	1
	Profit before tax	<u>11,743,029</u>	1	<u>15,200,447</u>	2
7950	Less: Tax expense (Note 6(r))	<u>628,163</u>	-	<u>517,459</u>	-
	Profit for the year	<u>11,114,866</u>	1	<u>14,682,988</u>	2
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Gains on remeasurements of defined benefit plans	5,036	-	6,922	-
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(182,244)	-	-	-
8330	Share of other comprehensive loss of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(45,496)	-	(2,622)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	Total components of other comprehensive income that will not be reclassified to profit or loss	<u>(222,704)</u>	-	<u>4,300</u>	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8362	Unrealized gains on valuation of available-for-sale financial assets	-	-	102,719	-
8380	Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	2,204,595	-	(5,548,946)	(1)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Total components of other comprehensive income that will be reclassified to profit or loss	<u>2,204,595</u>	-	<u>(5,446,227)</u>	(1)
8300	Other comprehensive income for the year, net of tax	<u>1,981,891</u>	-	<u>(5,441,927)</u>	(1)
8500	Total comprehensive income for the year	<u>\$ 13,096,757</u>	1	<u>\$ 9,241,061</u>	1
	Earnings per share, net of tax (Note 6(u))				
9750	Basic earnings per share	<u>\$ 4.25</u>		<u>\$ 5.66</u>	
9850	Diluted earnings per share	<u>\$ 4.22</u>		<u>\$ 5.63</u>	

See accompanying notes to financial statements.

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

Non-Consolidated Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings				Total other equity interest				Total equity				
	Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income		Unrealized gains (losses) on available-for-sale financial assets	Deferred compensation cost	Total other equity interest	Treasury stock
Balance at January 1, 2017	\$ 25,751,695	78,214,259	7,260,543	-	40,844,207	48,104,750	(3,552,939)	-	183,953	(429,882)	(3,798,868)	(2,246)	148,269,590
Profit for the year	-	-	-	-	14,682,988	14,682,988	-	-	-	-	-	-	14,682,988
Other comprehensive income for the year	-	-	-	-	4,300	4,300	(6,145,435)	-	699,208	-	(5,446,227)	-	(5,441,927)
Total comprehensive income for the year	-	-	-	-	14,687,288	14,687,288	(6,145,435)	-	699,208	-	(5,446,227)	-	9,241,061
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	1,933,981	-	(1,933,981)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,368,986	(3,368,986)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(12,873,916)	(12,873,916)	-	-	-	-	-	-	(12,873,916)
Changes in ownership interests in subsidiaries	-	(165,279)	-	-	-	-	-	-	-	-	-	-	(165,279)
Share-based payment transactions	400,000	-	-	-	-	58,346	-	-	-	-	-	304	400,000
Expiration of restricted shares of stock issued to employees	-	1,838,286	-	-	-	-	-	-	-	(792,350)	(792,350)	-	58,346
Compensation cost arising from restricted shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2017	26,140,906	79,897,751	9,194,524	3,368,986	37,412,958	49,976,468	(9,698,374)	-	883,161	(1,222,232)	(10,037,445)	(1,942)	145,975,738
Effects of retrospective application	-	-	-	-	1,031,638	1,031,638	11,223	(161,048)	(883,161)	-	(1,032,986)	-	(1,348)
Balance at January 1, 2018 after adjustments	26,140,906	79,897,751	9,194,524	3,368,986	38,444,596	51,008,106	(9,687,151)	(161,048)	-	(1,222,232)	(11,070,431)	(1,942)	145,974,390
Profit for the year	-	-	-	-	11,114,866	11,114,866	-	-	-	-	-	-	11,114,866
Other comprehensive income for the year	-	-	-	-	2,570	2,570	2,204,595	(225,274)	-	-	1,979,321	-	1,981,891
Total comprehensive income for the year	-	-	-	-	11,117,436	11,117,436	2,204,595	(225,274)	-	-	1,979,321	-	13,096,757
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	1,468,299	-	(1,468,299)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	5,446,227	(5,446,227)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(10,454,652)	(10,454,652)	-	-	-	-	-	-	(10,454,652)
Changes in ownership interests in subsidiaries	-	183,992	-	-	-	-	-	-	-	-	-	-	183,992
Expiration of restricted shares of stock issued to employees	(17,133)	20,165	-	-	(43,617)	(43,617)	-	-	-	-	-	(3,032)	(43,617)
Compensation cost arising from restricted shares of stock	-	574,422	-	-	-	-	-	-	697,546	-	697,546	-	1,271,968
Balance at December 31, 2018	\$ 26,123,773	80,676,330	10,662,823	8,815,213	32,149,237	51,627,273	(7,482,556)	(386,322)	(824,686)	(8,393,564)	(4,974)	-	150,028,838

See accompanying notes to financial statements.

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

Non-Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2018	2017
Cash flows used in operating activities:		
Profit before tax	\$ 11,743,029	15,200,447
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	541,412	708,382
Amortization expense	181,072	131,407
Expected credit loss (Reversal of provision for bad debt expense)	47,364	(131,585)
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	1,895	(24)
Interest expense	1,631,036	551,494
Interest income	(364,268)	(310,843)
Dividend income	(26,508)	(29,827)
Compensation cost arising from employee stock options	1,182,963	1,221,618
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(6,634,627)	(10,140,629)
Gain on disposal of property, plant and equipment	(8)	(89)
Reversal of impairment loss on non-financial assets	(32)	-
Realized profit from sales	2,453	1,131
Amortization of issuance costs on bonds payable	2,286	476
Loss (gain) on foreign currency exchange	178,875	(455,860)
Other loss	-	470,924
Increase in provision	-	15,891
Increase in other current liabilities	39,598	-
Decrease in other current assets	4,981	-
Total adjustments to reconcile profit (loss)	<u>(3,211,508)</u>	<u>(7,967,534)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
(Increase) decrease in financial assets at fair value through profit or loss	(342,215)	24
Increase in notes and accounts receivable	(171,289,982)	(51,848,154)
(Increase) decrease in other receivables	(15,324)	39,050,565
Increase in inventories	(14,504,893)	(6,588,766)
(Increase) decrease in other current assets	(198,904)	32,199
Increase in other financial assets	(54)	(77)
Increase in other non-current assets	(350,718)	(229,695)
Total changes in operating assets	<u>(186,702,090)</u>	<u>(19,583,904)</u>
Changes in operating liabilities:		
Decrease in contract liabilities	(29,616)	-
Increase in accounts and notes payable	139,647,968	10,683,930
Decrease in other payables	(599,487)	(578,122)
Increase in deferred revenue	-	142,219
Increase (decrease) in other current liabilities	1,407,278	(312,740)
Increase in other non-current liabilities	5,215	9,394
Total changes in operating liabilities	<u>140,431,358</u>	<u>9,944,681</u>
Total changes in operating assets and liabilities	<u>(46,270,732)</u>	<u>(9,639,223)</u>
Total adjustments	<u>(49,482,240)</u>	<u>(17,606,757)</u>
Cash outflow generated from operations	(37,739,211)	(2,406,310)
Interest received	373,815	312,458
Dividends received	1,724,902	2,899,237
Interest paid	(1,488,264)	(511,606)
Income taxes paid	(664,036)	(1,832,123)
Net cash flows used in operating activities	<u>(37,792,794)</u>	<u>(1,538,344)</u>

PEGATRON CORPORATION

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

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the year ended December 31	
	2018	2017
Cash flows used in investing activities:		
Acquisition of investments accounted for using equity method	(473,364)	(3,018,000)
Acquisition of property, plant and equipment	(2,862,341)	(677,464)
Proceeds from disposal of property, plant and equipment	1,151	2,510
Acquisition of intangible assets	(157,156)	(264,318)
Decrease in other financial assets	10,627	2,034
Net cash flows used in investing activities	(3,481,083)	(3,955,238)
Cash flows from financing activities:		
Increase in short-term loans	37,363,500	6,706,810
Proceeds from issuing bonds	7,992,000	6,992,000
Repayments of long-term loans	-	(2,692,000)
Decrease in other payables to related parties	-	(4,149,450)
Cash dividends paid	(10,454,652)	(12,873,916)
Issuance of restricted stock	-	400,000
Redemption of restricted stock	(20,165)	(10,485)
Net cash flows from (used in) financing activities	34,880,683	(5,627,041)
Net decrease in cash and cash equivalents	(6,393,194)	(11,120,623)
Cash and cash equivalents, beginning of the year	24,928,694	36,049,317
Cash and cash equivalents, end of the year	\$ 18,535,500	24,928,694

See accompanying notes to financial statements.

PEGATRON CORPORATION

Notes to the Non-Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

(1) Company history

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

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

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

The accompanying non-consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2019.

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

- (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 Company has prepared its non-consolidated financial statements in conformity with the following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Company applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Company recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies :

1) Sales of goods

For the sale of products, revenue was recognized when the goods are delivered to the *customers’ premises*, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

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

Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the balance sheet.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Company's non-consolidated financial statements :

Impacted line items on the non-consolidated balance sheet	December 31, 2018			January 1, 2018		
	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15
Right to returned goods (under other current assets)	\$ -	<u>106,828</u>	106,828	-	<u>111,809</u>	111,809
Impact on assets		<u>106,828</u>			<u>111,809</u>	
Current provisions	\$ 158,629	(158,629)	-	114,050	(114,050)	-
Deferred revenue	609,002	(609,002)	-	638,618	(638,618)	-
Current contract liabilities	-	609,002	609,002	-	638,618	638,618
Refund liabilities (under other current liabilities)	-	<u>265,457</u>	265,457	-	<u>225,859</u>	225,859
Impact on liabilities		<u>106,828</u>			<u>111,809</u>	

Impacted line items on the non-consolidated statement of cash flows	For the year ended December 31, 2018		
	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15
Cash flows from operating activities:			
Profit before tax	\$ 11,743,029	-	11,743,029
Adjustments:			
Provision	44,579	(44,579)	-
Other current liabilities	-	39,598	39,598
Decrease in other current assets	-	4,981	4,981
Decrease in contract liabilities	-	(29,616)	(29,616)
Increase in unearned sales revenue	(29,616)	<u>29,616</u>	-
Impact on net cash flows from operating activities		<u>-</u>	

(ii) IFRS 9 “Financial Instruments”

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

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company’s approach was to include the impairment of trade receivables in operating expenses. Additionally, the Company adopted the consequential amendments to IFRS 7 “Financial Instruments: Disclosures” that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

The significant changes in accounting policies due to the application of IFRS 9 are as follows :

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Please refer to Note 4(f) for an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9.

The adoption of IFRS 9 did not have any significant impact on its accounting policies on financial liabilities. Please refer to Note 4(f) for accounting policies applied to financial liabilities beginning January 1, 2018.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please refer to Note 4(f).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity interest as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as of January 1, 2018. (There is no change in both categories and carrying value of financial liabilities.)

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables	24,928,694	Amortized cost	24,928,694
Equity instruments	Available-for-sale (Note 1)	659,392	FVOCI	659,392
	Carried at cost (Note 1)	-	FVOCI	-
Notes and accounts receivables	Loans and receivables (Note 2)	320,102,620	Amortized cost	320,101,272
Other financial assets	Loans and receivables	74,965	Amortized cost	74,965

Note 1: These equity securities (including financial assets carried at cost) represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of \$150,000 in other equity interest, as well as the increase of \$150,000 in retained earnings were recognized on January 1, 2018.

Note 2: Notes receivables, accounts receivables and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of \$1,348 in the allowance for impairment was recognized in opening retained earnings upon transition to IFRS 9 on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through other comprehensive income						
Beginning balance of available-for-sale (including carried at cost) (IAS 39)	\$ 659,392	-	-	-	-	-
Addition – equity instruments:						
From financial assets measured at cost	-	-	-	-	150,000	(150,000)
Total	<u>\$ 659,392</u>	<u>-</u>	<u>-</u>	<u>659,392</u>	<u>150,000</u>	<u>(150,000)</u>
Amortized cost						
Beginning balance of accounts receivables, and other financial asset (IAS 39)	\$ 345,106,279	-	-	-	-	-
Adjustments for allowance of impairment for financial assets measured at amortized cost	-	-	(1,348)	-	(1,348)	-
Total	<u>\$ 345,106,279</u>	<u>-</u>	<u>(1,348)</u>	<u>345,104,931</u>	<u>(1,348)</u>	<u>-</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Amendments to IAS 7 “Disclosure Initiative”

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

To satisfy the new disclosure requirements, the Company present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as Note 6(ad).

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- A practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Company can apply the standard using either of the following:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

On January 1, 2019, the Company plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- 3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of employees' dormitories, factory facilities, and warehouses. The Company estimated that both the right-of-use assets and the lease liabilities to increase by \$148,029 respectively, on January 1, 2019. No significant impact is expected for the Company's finance leases. Besides, the Company does not expect the adoption of IFRS 16 to have any impact on its loan covenants.

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	<p>The amendments address an acknowledged inconsistency between the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business.</p>

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value ;
- 2) Fair value through other comprehensive income (Available-for-sale financial assets)are measured at fair value ;
- 3) The net defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets.

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transaction

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

(ii) Foreign operations

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

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

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

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

An asset is classified as current when :

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

All other assets are classified as non-current.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

A liability is classified as current when :

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

All other liabilities are classified as non-current.

(e) Cash and cash equivalents

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

Time deposits are accounted under cash and cash equivalents if they 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.

(f) Financial assets (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

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 amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost, which has deducted impairment losses, using the effective interest method. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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 amount outstanding.

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Company, therefore, those receivables are measured at FVOCI and presented as accounts receivable.

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

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, derived from debt investments are recognized in profit or loss; whereas dividends derived from equity investments 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 of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

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 and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Company may irrevocably designate a financial asset, which otherwise 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.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

4) Business model assessment

The Company 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) the performance of the business model, and how the financial assets in the business model are evaluated and reported to the Company'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 Company's continuing recognition of the assets.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company 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 Company 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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- d) terms that limit the Company's claim to cash flows from specified assets (i.e. non-recourse features).
- 6) Impairment of financial assets

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

The Company measures loss allowances at an amount equal to lifetime expected credit loss (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 receivables is always measured at an amount equal to lifetime ECL.

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

12-month ECL is the portion of ECL that result from default events that is 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 ECL is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company 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 Company's historical experience, informed credit assessment and including forward-looking information.

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

At each reporting date, the Company 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 restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise ;
- 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 recognized in other comprehensive income, and the amount of loss allowances (or reversal) is charged to profit or loss.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

7) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash flows from the assets expire or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in “other equity – unrealized gains or losses on fair value through other comprehensive income”, in profit or loss, and presented it in the line item of non-operating income and expenses.

On derecognition of a debt instrument other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial instruments (applicable before January 1, 2018)

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

1) Financial assets at fair value through profit or loss

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

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

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss, and included in statement of comprehensive income.

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

2) Available-for sale financial assets

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on short-term receivables.

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

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

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

4) Impairment of financial assets

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

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

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

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

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

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

5) Derecognition of financial assets

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

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

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

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

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

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

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

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

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

5) Financial guarantee contract

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

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

(iv) Derivative financial instruments, including hedge accounting (applicable from January 1, 2018)

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

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

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

At initial designated hedging relationships, the Company documents the risk management objectives and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the fair value or cash flows of the hedged items and hedging instrument are expected to offset each other.

The Company shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

1) Fair value hedges

The gain or loss on the hedging instrument shall be recognized in profit or loss. But if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, the gain or loss shall be recognized in other comprehensive income.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

The hedged item of not measured at fair value is attributable to the hedged risk with any changes in the fair value. The change in the fair value of the hedging instrument is recognized in profit or loss. The hedged item is a debt instrument that is measured at fair value through other comprehensive income, the hedging gains or losses on the hedged item shall be recognized in profit or loss. However, the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. The hedging gains or losses on the hedged item shall be recognized in other comprehensive income.

When it discontinues hedge accounting for a fair value hedge for which the hedged item is a financial instrument measured at amortized cost that is attributable to the changes in the fair value. Amortized to profit or loss is based on over the period to maturity when hedge accounting is discontinued.

2) Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in “other equity —gains (losses) on hedging instruments”. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, and is presented in the line item of non-operating income and expenses.

The Company designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of the forward exchange contract is separately accounted for as a cost of hedging and accumulated in a separate component of equity as “other equity —gains (losses) on hedging instruments”.

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and is presented in the same accounting item with the hedged item recognized in the non-consolidated statement of comprehensive income. However, for a cash flow hedge of a forecast transaction recognized as a nonfinancial asset or liability, the amount accumulated in “ other equity — gains (losses) on hedging instruments” and retained in other comprehensive income is reclassified as the initial cost of the nonfinancial asset or liability. In addition, if that amount is a loss and the Company expects that all or a portion of that loss will not be recovered in future periods, it shall immediately reclassify the amount into profit or loss.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cash flow hedge reserve (and the costs of hedging reserve) remains in equity until the hedged future cash flows are no longer expected to occur. Otherwise, that amount would be adjusted within the carrying amount of the non-financial item. For other cash flow hedges, the amount is reclassified to profit or loss in the same period or in the periods as the hedged expected future cash flows affect the profit or loss. However, if the hedged future cash flows are no longer expected to occur, the amount shall immediately be reclassified from cash flow hedge reserve (and the cost of hedging reserve) to profit or loss.

- (v) Derivative financial instruments, including hedge accounting (applicable before January 1, 2018)

Except for the following items, the Company applies the same accounting policies as applicable from January 1, 2018.

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

For all cash flow hedges (including hedged forecast transactions which will recognize non-financial assets or liabilities), when the future cash flow of hedged item is expected to influence profit or loss, the amount originally recognized in other comprehensive income and accumulated in equity will be reclassified to profit or loss in the same period. In addition, cash flow hedge policy, which has been inapplicable before January 1, 2018, the fair value changes in the future are directly recognized to profit and loss.

- (g) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The replacement cost of raw material is its net realizable value.

- (h) Subsidiaries

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

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

Buildings	3-50 years
Machine	5-7 years
Instrument equipment	3-5 years
Miscellaneous equipment	1-10 years

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

(j) Leased assets

(i) Lessor

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

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

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

(ii) Lessee

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

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

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

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

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

At inception of an arrangement, the Company evaluates whether such an arrangement is or contains a lease, which involves the fulfillment of the arrangement is dependent on the use of a specific asset or assets and contains a right to transfer the asset. At inception or on reassessment of the arrangement, if an arrangement contains a lease, that lease is classified as a finance lease or an operating lease.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

(k) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

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

Computer software cost 0-5 years

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

(l) Impairment – Non-financial assets

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

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

(m) Provisions

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

Allowances for sales returns and allowances are applied in accordance with IFRS 15 beginning January 1, 2018. Please refer to Note 4(o) for details.

(n) Treasury stock

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

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

(o) Revenue

(i) Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company's main types of revenue are explained below.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Sale of good

The Company 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 Company has objective evidence that all criteria for acceptance have been satisfied.

The Company grants its main customers the right to return the product within certain period. Therefore, the Company 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 Company 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 Company has a right to an amount of consideration that is unconditional.

2) Services

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

3) Financing components

The Company 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 Company does not adjust any of the transaction prices for the time value of money.

(ii) Revenue (policy applicable before January 1, 2018)

1) Goods sold

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

2) Service

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

(p) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Short-term employee benefits

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

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

(q) Share-based payment

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

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

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

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

(r) Income Taxes

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

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

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

(s) Business combination

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

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

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

At the acquisition date, components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. Other non-controlling interest is measured at fair value at the acquisition date or other valuation techniques acceptable under the IFRS as endorsed by the FSC.

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

(t) Earnings per share

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

(u) Operating segments

Please refer to the consolidated financial report of Pegatron Corporation for the years ended December 31, 2018 and 2017 for operating segments information.

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

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

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

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the non-consolidated financial statements is as follows:

- Please refer to the consolidated financial statement for the years ended December 31, 2018 and 2017 for judgment regarding control of subsidiaries.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

- Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to Note 6(h) for further description of the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 150	180
Cash in banks	7,360,108	7,431,026
Time deposits	6,939,442	17,497,488
Cash equivalent-repurchase bonds	4,235,800	-
	\$ 18,535,500	24,928,694

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

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

	December 31, 2018	December 31, 2017
Non-current mandatorily measured at fair value through profit or loss :		
Non-derivative financial assets		
Shares of stock of listed companies	\$ 217,000	-
Beneficiary certificates	123,320	-
Total	\$ 340,320	-

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(c) Fair value through other comprehensive income

	December 31, 2018
Equity instruments at fair value through other comprehensive income :	
Shares of stock of listed companies	\$ 477,148
Shares of stock of unlisted companies	-
Total	\$ 477,148

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

The Company has applied IFRS 9 from January 1, 2018. The Company re-estimate and holds these equity instruments, which are not held for trading at designated fair value through other comprehensive income, for long-term strategic purposes. These investments were recognized as available-for-sale financial assets and financial assets carried at cost on December 31, 2017.

For the year ended December 31, 2018 the Company has recognized dividend income of \$26,508 from equity instruments designated at fair value through other comprehensive income. Please refer to Note 6 (y) for details.

No strategic investments were disposed for the year ended December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(ii) Please refer to Note 6(z) for credit risk and market risk.

(iii) The aforesaid financial assets were not pledged as collateral.

(d) Available-for-sale financial assets

	December 31, 2017
Non-current available-for-sale financial assets	
Shares of stock of listed companies	\$ 659,392

(i) For the year ended December 31, 2017, the unrealized gain on available-for-sale financial assets amounted to \$102,719.

(ii) The aforesaid investments were recognized as financial assets at fair value through other comprehensive income on December 31, 2018. Please refer to Note 6(c) for details.

(iii) Please refer to Note 6(z) for credit risk and market risk.

(iv) The aforesaid financial assets were not pledged as collateral.

(e) Financial assets carried at cost

	December 31, 2017
Equity securities-common stock	\$ -

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- (i) The aforementioned investments held by the Company were measured at cost less impairment as of December 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined ; therefore, the Company management had determined that the fair value cannot be measured reliably and classified as financial assets measured at cost. These investments were classified as fair value through other comprehensive income as of December 31, 2018. Please refer to Note 6(c) for further information.
 - (ii) The accumulated impairment loss was \$150,000 as of December 31, 2017.
 - (iii) Please refer to Note 6(z) for credit risk and market risk.
 - (iv) The aforesaid financial assets were not pledged as collateral.
- (f) Notes and accounts receivable, net
- (i) The components of notes and accounts receivables were as follows :

	December 31, 2018	December 31, 2017
Notes receivables from operating activities	\$ 14	-
Accounts receivables-measured at amortized cost	163,450,388	131,243,680
Accounts receivables-fair value through other comprehensive income	15,357,500	-
Accounts receivables-related parties	313,983,330	190,257,570
Less : Allowance for impairment	1,559,628	1,510,916
	\$ 491,231,604	319,990,334

The Company assesses its portion account receivables 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 receivables-fair value through other comprehensive income since January 1, 2018.

- (ii) Credit loss

The Company 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 on December 31, 2018. To measure the expected credit losses, notes and accounts receivables 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
Notes to the Non-Consolidated Financial Statements

The loss allowance provision as of December 31, 2018 was determined as follows :

	<u>Gross carrying amount</u>	<u>Expected loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 480,793,799	0%~0.001%	(1,792)
Overdue 0 to 30 days	10,366,522	0%~1%	(16,071)
Overdue 31 to 120 days	92,648	0%~50%	(3,502)
Overdue 121 to 365 days	-	50%~100%	-
Over 365 days past due	<u>1,538,263</u>	100%	<u>(1,538,263)</u>
	<u><u>\$ 492,791,232</u></u>		<u><u>(1,559,628)</u></u>

As of December 31, 2017, the Company applies incurred loss model to consider the loss allowance provision of notes and accounts receivable. As of December 31, 2017, the aging analysis of notes and accounts receivable which were past due but not impaired was as follows :

	<u>December 31, 2017</u>
Current	317,577,072
Overdue 0 to 30 days	1,693,434
Overdue 31 to 120 days	47,612
Overdue 121 to 365 days	240,202
Over 365 days past due	<u>1,942,930</u>
	<u><u>321,501,250</u></u>

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

	<u>For the years ended December 31</u>		
	<u>2018</u>	<u>2017</u>	
	<u>2018</u>	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>
Balance on January 1 (Under IAS 39)	\$ 1,510,916	-	1,642,501
Adjustment on initial application of IFRS 9	<u>1,348</u>		
Balance on January 1 (Under IFRS 9)	1,512,264		
Impairment losses recognized	47,364	-	-
Impairment losses reversed	-	-	<u>(131,585)</u>
Balance on December 31	<u><u>\$ 1,559,628</u></u>	<u>-</u>	<u><u>1,510,916</u></u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

The aforesaid financial assets were not pledged as collateral.

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

Accounts receivable which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivable. As of December 31, 2018 and 2017, the Company sold its accounts receivable without recourse as follows :

December 31, 2018						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount (thousands)</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
ANZ (Note)	\$ <u>4,668,680</u>	USD <u>1,200,000</u>	USD <u>152,000</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>4,668,680</u>
December 31, 2017						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount (thousands)</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
ANZ (Note)	\$ <u>2,976,000</u>	USD <u>1,200,000</u>	USD <u>100,000</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>2,976,000</u>

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

For the years ended December 31, 2018 and 2017, the Company recognized a fee and interest on bank advance payment of \$156,295 and \$67,933, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(g) Other receivables

	December 31, 2018	December 31, 2017
Other receivables	\$ 118,063	112,286
Less : Allowance for impairment	<u>-</u>	<u>-</u>
	<u>\$ 118,063</u>	<u>112,286</u>

As of December 31, 2017, the aging analysis of other receivables which were past due but not impaired was as follows :

	December 31, 2017
Current	\$ 111,205
Overdue 0 to 30 days	<u>1,081</u>
	<u>\$ 112,286</u>

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

(h) Inventories

	December 31, 2018	December 31, 2017
Merchandise	\$ 49,921,122	35,556,778
Finished goods	99,070	61,332
Work in process	148,129	145,566
Raw materials	<u>769,575</u>	<u>556,758</u>
Subtotal	50,937,896	36,320,434
Less: Allowance for inventory market decline and obsolescence	<u>(1,172,284)</u>	<u>(1,059,715)</u>
Total	<u>\$ 49,765,612</u>	<u>35,260,719</u>

For the years ended December 31, 2018 and 2017, the components of cost of goods sold were as follows :

	For the years ended December 31	
	2018	2017
Cost of goods sold	\$ 1,216,378,764	1,061,233,131
Provision on inventory market price decline	112,569	427,184
Loss on disposal of inventory	37,123	87,952
Unallocated manufacturing overhead	<u>16,952</u>	<u>37,658</u>
	<u>\$ 1,216,545,408</u>	<u>1,061,785,925</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

For the years ended December 31, 2018 and 2017, cost of goods sold and expenses amounting to \$1,216,545,408 and \$1,061,785,925 were recognized, respectively. For the years ended December 31, 2018 and 2017, the Company recognized a provision on inventory market price decline of \$112,569 and \$427,184, respectively, which was charged to cost of goods sold because of adjusting inventory value to net realize value.

As of December 31, 2018 and 2017, the aforesaid inventories were not pledged as collateral.

(i) Investments accounted for using equity method

	December 31, 2018	December 31, 2017
Subsidiary	\$ 129,941,116	122,190,881

(i) Subsidiaries

Please refer to the consolidated financial statement for the years ended December 31, 2018 and 2017.

(ii) For the years ended December 31, 2018 and 2017, the Company had participated in the capital increase of CASETEK HOLDINGS LIMITED (CAYMAN) of \$442,409, PEGATRON SERVICE AUSTRALIA PTY. LTD. of USD1,000 thousand (approximately NTD30,955) and PEGATRON HOLDING LTD. of USD100,000 thousand (approximately NTD3,018,000), respectively.

(iii) For the years ended December 31, 2018 and 2017, the Company received cash dividend of \$1,698,394 and \$2,869,410, respectively, from its investee companies accounted for under equity method.

(iv) As of December 31, 2018 and 2017, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(j) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2018 and 2017 were as follows :

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Cost or deemed cost:							
Balance on January 1, 2018	\$ 2,358,521	2,133,678	41,785	279,305	464,030	562,132	5,839,451
Additions	2,019,212	357,697	44,937	70,462	176,016	180,981	2,849,305
Disposals and obsolescence	-	(14,546)	(22,038)	(67,608)	(252,572)	-	(356,764)
Reclassifications	-	548,925	-	90	440,323	(634,390)	354,948
Balance on December 31, 2018	\$ 4,377,733	3,025,754	64,684	282,249	827,797	108,723	8,686,940
Balance on January 1, 2017	\$ 2,358,521	2,151,229	38,282	291,538	743,617	219,062	5,802,249
Additions	-	4,155	6,573	77,109	41,500	344,297	473,634
Disposals and obsolescence	-	(22,423)	(3,070)	(98,286)	(548,724)	-	(672,503)
Reclassifications	-	717	-	8,944	227,637	(1,227)	236,071
Balance on December 31, 2017	\$ 2,358,521	2,133,678	41,785	279,305	464,030	562,132	5,839,451

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Depreciation and impairment loss :							
Balance on January 1, 2018	\$ -	757,847	28,461	127,905	202,326	-	1,116,539
Depreciation for the year	-	65,720	7,882	89,900	377,910	-	541,412
(Reversal of) impairment loss	-	-	-	-	(32)	-	(32)
Disposals and obsolescence	-	(14,547)	(22,038)	(67,608)	(251,428)	-	(355,621)
Balance on December 31, 2018	<u>\$ -</u>	<u>809,020</u>	<u>14,305</u>	<u>150,197</u>	<u>328,776</u>	<u>-</u>	<u>1,302,298</u>
Balance on January 1, 2017	\$ -	724,915	25,475	126,292	201,557	-	1,078,239
Depreciation for the year	-	55,355	6,004	99,540	547,483	-	708,382
Disposals and obsolescence	-	(22,423)	(3,018)	(97,927)	(546,714)	-	(670,082)
Balance on December 31, 2017	<u>\$ -</u>	<u>757,847</u>	<u>28,461</u>	<u>127,905</u>	<u>202,326</u>	<u>-</u>	<u>1,116,539</u>
Carrying amounts :							
Balance on December 31, 2018	<u>\$ 4,377,733</u>	<u>2,216,734</u>	<u>50,379</u>	<u>132,052</u>	<u>499,021</u>	<u>108,723</u>	<u>7,384,642</u>
Balance on January 1, 2017	<u>\$ 2,358,521</u>	<u>1,426,314</u>	<u>12,807</u>	<u>165,246</u>	<u>542,060</u>	<u>219,062</u>	<u>4,724,010</u>
Balance on December 31, 2017	<u>\$ 2,358,521</u>	<u>1,375,831</u>	<u>13,324</u>	<u>151,400</u>	<u>261,704</u>	<u>562,132</u>	<u>4,722,912</u>

(i) Impairment loss and subsequent reversal

During the year 2018, the Company assessed the carrying amount and the recoverable amount of property, plant and equipment, and \$32 of the initially recognized impairment has been reversed (under non-operating income and expenses). Please refer to Note 6(y) for details.

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

(iii) As of December 31, 2018 and 2017, the property, plant and equipment were not pledged as collateral.

(k) Intangible assets

The intangible assets of the Company consisted of computer software and golf certificate. The components of the costs of intangible assets, amortization, and impairment loss thereon for the years ended December 31, 2018 and 2017 were as follows :

Costs:

Balance on January 1, 2018	\$ 464,692
Additions	157,156
Disposals	<u>(73,444)</u>
Balance on December 31, 2018	<u>\$ 548,404</u>
Balance on January 1, 2017	\$ 232,034
Additions	264,318
Disposals	<u>(31,660)</u>
Balance on December 31, 2017	<u>\$ 464,692</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Amortization and Impairment Loss:

Balance on January 1, 2018	\$	147,731
Amortization for the year		181,072
Disposals		<u>(73,444)</u>
Balance on December 31, 2018	\$	<u>255,359</u>
Balance on January 1, 2017	\$	47,984
Amortization for the year		131,407
Disposals		<u>(31,660)</u>
Balance on December 31, 2017	\$	<u>147,731</u>

Carrying amounts:

Balance on December 31, 2018	\$	<u>293,045</u>
Balance on January 1, 2017	\$	<u>184,050</u>
Balance on December 31, 2017	\$	<u>316,961</u>

- (i) The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.
 - (ii) As of December 31, 2018 and 2017, the intangible assets were not pledged as collateral.
- (l) Other financial assets and other assets

Other financial assets and other assets were as follows :

	December 31, 2018	December 31, 2017
Other financial assets-current	\$ 41,670	41,616
Other financial assets-noncurrent	22,722	33,349
Other current assets	452,584	129,665
Other noncurrent assets	<u>-</u>	<u>4,230</u>
	<u>\$ 516,976</u>	<u>208,860</u>

- (i) Other financial assets consist of restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.
- (ii) Other current assets consisted of prepayments, temporary payments, right to returned goods and others.
- (iii) Other noncurrent assets consisted of prepayments for business facilities.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(m) Short-term loans

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured bank loans	\$ <u>59,433,525</u>	<u>22,034,400</u>
Interest rate	<u>0.51%~5.11%</u>	<u>0.50%~6.85%</u>

(i) Collateral for short-term borrowings

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

(n) Bonds payable

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Ordinary corporate bonds issued	\$ 15,000,000	7,000,000
Unamortized discount on bonds payable	(13,238)	(7,524)
Bonds payable, end of the year	<u>\$ 14,986,762</u>	<u>6,992,476</u>
	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	<u>\$ 146,821</u>	<u>34,164</u>

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

<u>Item</u>	<u>1st unsecured ordinary bonds issued in 2017</u>
1.Issuing amount	The Bonds are issued at \$7,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$3,000,000, \$2,000,000 and \$2,000,000, respectively.
2.Par value	Each unit is valued at \$1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from July 13, 2017 and matures on July 13, 2020. The issuance period of Tranche B commences from July 13, 2017 and matures on July 13, 2022. The issuance period of Tranche C commences from July 13, 2017 and matures on July 13, 2024.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>Item</u>	<u>1st unsecured ordinary bonds issued in 2017</u>
5.Coupon rate	Tranche A, B and C bear annual coupon rates of 0.91%, 1.06% and 1.20%, respectively.
6.Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7.Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8.Guarantee	The Bonds are unsecured ordinary corporate bonds.

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(o) Provisions

	Allowance for sales returns and discounts
Balance on January 1, 2017	\$ 98,159
Provisions made during the year	15,891
Balance on December 31, 2017	\$ 114,050

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

The Company has applied IFRS 15 beginning January 1, 2018. The Company reclassifies allowance for sales return and allowance as refund liabilities (under other current liabilities) and rights to the returned goods (under other current assets).

(p) Operating leases

(i) Lessee

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

	December 31, 2018	December 31, 2017
Less than one year	\$ 84,781	130,043
Between one and five years	68,423	81,820
	\$ 153,204	211,863

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

For the years ended December 31, 2018 and 2017, expenses recognized in profit or losses in respect of operating leases were as follows:

	For the years ended December 31	
	2018	2017
Cost of sales	\$ 51,801	57,459
Operating expenses	101,146	120,037
	\$ 152,947	177,496

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(q) Employee benefits

(i) Defined benefit plans

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

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	\$ 32,800	34,614
Fair value of plan assets	<u>(10,827)</u>	<u>(9,984)</u>
Net defined benefit liabilities	<u>\$ 21,973</u>	<u>24,630</u>

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

1) Composition of plan assets

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

As of December 31, 2018, the Company's contributions to the pension funds which amounted to \$10,827 were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Defined benefit obligation, January 1	\$ 34,614	36,076
Current service costs and interest	2,987	5,533
Re-measurement of the net defined benefit liability		
— Actuarial losses arose from changes in demographic assumptions	(1,754)	(1,363)
— Actuarial gains arose from changes in financial assumption	1,366	1,641
— Experience adjustment	<u>(4,413)</u>	<u>(7,273)</u>
Defined benefit obligation, December 31	<u>\$ 32,800</u>	<u>34,614</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

3) Movements in the fair value of plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Fair value of plan assets, January 1	\$ 9,984	9,363
Interests revenue	160	169
Re-measurement of the net defined benefit liability		
— Experience adjustment	235	(73)
Benefits paid by the plan	448	525
Fair value of plan assets, December 31	\$ 10,827	9,984

4) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Current service cost	\$ 2,434	4,883
Net interest on net defined benefit liability	393	481
	\$ 2,827	5,364
Operating expense	\$ 2,827	5,364

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

The Company's net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Cumulative amount, January 1	\$ 7,798	876
Recognized during the year	5,036	6,922
Cumulative amount, December 31	\$ 12,834	7,798

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

6) Actuarial assumptions

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.42 %	1.60 %
Future salary increase rate	3.00 %	3.00 %

The Company is expected to make a contribution payment of \$448 to the defined benefit plans for the one year period after December 31, 2018.

The weighted-average duration of the defined benefit plans is 23 years.

7) Sensitivity Analysis

As of December 31, 2018 and 2017, the changes in the principal actuarial assumptions will impact on the present value of defined benefit obligation as follows:

	<u>Impact on the present value of defined benefit obligation</u>	
	<u>Increase by 0.50%</u>	<u>Decrease by 0.50%</u>
December 31, 2018		
Discount rate	(3,554)	4,030
Future salary increase rate	3,944	(3,519)
December 31, 2017		
Discount rate	(3,873)	4,404
Future salary increase rate	4,318	(3,841)

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

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

(ii) Defined contribution plans

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

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2018 and 2017 amounted to \$316,281 and \$317,321, respectively.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Short-term employee benefits

The Company's short-term employee benefit liabilities amounted to \$136,953 and \$117,635 as of December 31, 2018 and 2017, respectively.

(r) Income Tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return.

(i) The components of income tax expense for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Current income tax expense		
Current period incurred	\$ 472,062	1,087,229
Prior years income tax adjustment	265,151	(133,222)
10% surtax on undistributed earnings	-	119,995
Deferred tax expense		
The origination and reversal of temporary differences	(9,847)	(556,543)
Adjustment in tax rate	(99,203)	-
Income tax expense	\$ 628,163	517,459

(ii) Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2018 and 2017 as follows:

	For the years ended December 31	
	2018	2017
Profit before income tax	\$ 11,743,029	15,200,447
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	2,348,606	2,584,076
Adjustment in tax rate	(99,203)	-
Permanent differences	573,690	(654,626)
Changes in unrecognized temporary differences	(2,460,081)	(1,402,063)
Prior years income tax adjustment	265,151	(133,222)
10% surtax on undistributed earnings	-	119,995
Others	-	3,299
Income tax expense	\$ 628,163	517,459

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

As of December 31, 2018 and 2017, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
The aggregate temporary differences associated with investments in subsidiaries	\$ <u>44,614,150</u>	<u>38,016,169</u>
Unrecognized deferred tax liabilities	\$ <u>8,922,830</u>	<u>6,462,749</u>

2) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

	<u>Gain on foreign investments</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:			
Balance on January 1, 2018	\$ -	-	-
Recognized in loss	<u>-</u>	<u>35,426</u>	<u>35,426</u>
Balance on December 31, 2018	\$ <u>-</u>	<u>35,426</u>	<u>35,426</u>
Balance on January 1, 2017	\$ 225,261	-	225,261
Recognized in profit	<u>(225,261)</u>	<u>-</u>	<u>(225,261)</u>
Balance on December 31, 2017	\$ <u>-</u>	<u>-</u>	<u>-</u>
Deferred tax assets:			
Balance on January 1, 2018	\$ 180,151	382,003	562,154
Recognized in profit	<u>54,306</u>	<u>90,170</u>	<u>144,476</u>
Balance on December 31, 2018	\$ <u>234,457</u>	<u>472,173</u>	<u>706,630</u>
Balance on January 1, 2017	\$ 107,530	123,342	230,872
Recognized in profit	<u>72,621</u>	<u>258,661</u>	<u>331,282</u>
Balance on December 31, 2017	\$ <u>180,151</u>	<u>382,003</u>	<u>562,154</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iv) Status of approval of income tax

The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

Share capital and other interests

As of December 31, 2018 and 2017, the authorized capital of the Company consisted of 3,000,000 thousand shares, with par value of \$10 per share. The outstanding shares consisted of 2,612,377 and 2,614,090 thousand common shares, respectively, and the capital that rose from the shares had all been retrieved.

(i) Nominal ordinary shares

The movements in ordinary shares of stock outstanding for the years ended December 31, 2018 and 2017 were as follows:

Ordinary Shares (In thousands of shares)	For the years ended December 31	
	2018	2017
Beginning balance on January 1	2,614,090	2,575,169
Issuance of restricted shares of stock	-	40,000
Retirement of restricted shares of stock	(1,713)	(1,079)
Ending balance on December 31	<u>2,612,377</u>	<u>2,614,090</u>

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

For the years ended December 31, 2018 and 2017, the Company had retired 1,713 and 1,079 thousand shares, respectively, of restricted stock to employees. Therefore, the authorized capital of the Company consisted of both 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,612,377 and 2,614,090 thousand common shares of stock, as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the restricted Company shares of stock issued to employees have expired, of which 497 and 194 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Guidelines for Offering and Issuing by Issuer of Overseas Securities". As of December 31, 2018 and 2017, the Company has listed, in total, 1,594 and 10,945 thousand units of GDRs, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 7,971 and 54,724 thousand shares of stock, respectively. Major terms and conditions for GDRs were as follows:

1) Voting Rights

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

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

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

(iii) Capital surplus

The components of the capital surplus were as follows :

	December 31, 2018	December 31, 2017
From issuance of share capital	\$ 64,623,295	63,209,502
From conversion of convertible bonds	11,073,663	11,073,663
From treasury stock transactions	23,614	23,614
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	760,025	576,033
Employee stock options	1,304	1,304
Restricted stock to employees	1,401,456	2,220,662
Other	<u>409,917</u>	<u>409,917</u>
	<u>\$ 80,676,330</u>	<u>79,897,751</u>

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-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.

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

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

2) Special reserve

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

3) Earnings Distribution

On June 21, 2018, and June 20, 2017, the Company's shareholder's meeting resolved to appropriate the 2017 and 2016 earnings. These earnings were appropriated or distributed as follows :

	2017	2016
Common stock dividends per share (dollars)		
— Cash	\$ 4.00	5.00

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(v) Other equity accounts (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	Available -for-sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2018	\$ (9,698,374)	-	883,161	(1,222,232)	(10,037,445)
Effects of retrospective application	11,223	(161,048)	(883,161)	-	(1,032,986)
Balance on January 1, 2018 after adjustments	(9,687,151)	(161,048)	-	(1,222,232)	(11,070,431)
Exchange differences on subsidiaries accounted for using equity method	2,204,595	-	-	-	2,204,595
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	(225,274)	-	-	(225,274)
Deferred compensation cost arising from issuance of restricted stock	-	-	-	697,546	697,546
Balance on December 31, 2018	<u>\$ (7,482,556)</u>	<u>(386,322)</u>	<u>-</u>	<u>(524,686)</u>	<u>(8,393,564)</u>
Balance on January 1, 2017	\$ (3,552,939)	-	183,953	(429,882)	(3,798,868)
Exchange differences on subsidiaries accounted for using equity method	(6,145,435)	-	-	-	(6,145,435)
Unrealized gain on available-for-sale financial assets	-	-	102,719	-	102,719
Unrealized gain on available-for-sale financial assets of subsidiaries accounted for using equity method	-	-	596,489	-	596,489
Deferred compensation cost arising from issuance of restricted stock	-	-	-	(792,350)	(792,350)
Balance on December 31, 2017	<u>\$ (9,698,374)</u>	<u>-</u>	<u>883,161</u>	<u>(1,222,232)</u>	<u>(10,037,445)</u>

(t) Share-based payment

Information on share-based payment transactions as of December 31, 2018 and 2017 were as follows:

	<u>Equity-settled share-based payment</u>	
	<u>Restricted stock to employee</u>	
	<u>Issued in 2016</u>	<u>Issued in 2014</u>
Thousand units granted	40,000	40,000
Contractual life	3 years	3 years
Vesting period	Note A	Note A
Actual turnover rate of employees	5.43%	8.34%
Estimated future turnover rate for each or the three years of employees	9.26%、17.12%	-

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

On June 21, 2016, the shareholders approved a resolution passed during their meeting to award 40,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of the Company. The restricted stock has been declared effective by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On May 9, 2017, the Board of Directors approved to issue 38,191 thousand shares of restricted shares of stock with fair value of NT\$89.7 each at grant date. The record date for the capital increase through issuance of restricted shares of stock was July 11, 2017. The actual issuance number for the capital increase was 37,808 thousand shares. On July 27, 2017, the registration procedures were completed. On September 15, 2017, Board of Directors of the Company approved to issue secondary new restricted shares of stock totaling 2,192 thousand shares with fair value of \$88.5 each at grant date. The record date for the capital increase through issuance of restricted shares of stock was October 19, 2017. The actual issuance number for the capital increase was 2,192 thousand shares, and the registration procedures were completed.

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(i) Determining the fair value of equity instruments granted

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

	Equity-settled share-based payment		
	Restricted stock to employee		
	Issued in 2016	Issued in 2016	Issued in 2014
	09/15/2017	05/09/2017	05/07/2015
Fair value at grant date			
Stock price at grant date	\$ 88.50	89.70	91.90
Exercise price	10.00	10.00	10.00
Expected life of the option	3 years	3 years	3 years
Current market price	88.50	89.70	91.90
Expected volatility	24.97%~28.84%	25.25%~25.64%	33.37%
Expected dividend yield	-%	-%	-%
Risk-free interest rate	(Note A)	(Note B)	(Note C)

Note A : The risk-free interest rate is 0.13% for the 2nd year, and 0.23% for the 3rd year.

Note B : The risk-free interest rate is 0.16% for the 2nd year, and 0.23% for the 3rd year.

Note C : The risk-free interest rate is 0.7992% for the 3rd year.

(ii) Restricted stock to employee

For the year ended December 31, 2017, the Company issued restricted shares of stock to employees of 40,000 thousand shares, which resulted in a capital surplus — restricted employee stock of \$1,702,900. Also, for the years ended December 31, 2018 and 2017, 2,017 and 1,049 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$20,165 and \$10,485, respectively. As of December 31, 2018 and 2017, the Company has deferred compensation cost arising from issuance of restricted stock of \$524,686 and \$1,222,232, respectively.

For the years ended December 31, 2018 and 2017, the Company reversed and recognized salary cost of \$43,617 and \$58,346 from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

(iii) Expenses resulting from share-based payments

The Company incurred expenses from share-based payment transactions for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Expenses resulting from issuance of restricted stock to employees	\$ 1,182,963	1,221,618

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(u) Earnings per share

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

	For the years ended December 31	
	2018	2017
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ 11,114,866	14,682,988
Weighted-average number of ordinary shares	2,612,769	2,592,882
	\$ 4.25	5.66
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ 11,114,866	14,682,988
Weighted-average number of ordinary shares	2,612,769	2,592,882
Effect of potentially dilutive ordinary shares		
Employee stock bonus	20,580	16,663
Weighted-average number of ordinary shares (diluted)	2,633,349	2,609,545
	\$ 4.22	5.63

(v) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the years ended December 31, 2018	
Primary geographical markets		
Europe	\$	539,191,013
U.S.A.		440,529,466
Taiwan		102,927,767
China		19,571,350
Japan		71,375,381
Other countries		60,738,321
	\$	1,234,333,298

Please refer to Note 6(w) for details on revenue for the years ended December 31, 2017.

(ii) Contract balances

	December 31, 2018	January 1, 2018
Notes receivable	\$ 14	-
Accounts receivable	178,807,888	131,243,680
Less: Allowance for impairment	1,559,628	1,510,916
Total	\$ 177,248,274	129,732,764
Contract liabilities	\$ 609,002	638,618

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$446,340.

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 year ended December 31, 2018.

(w) Revenue

	For the years ended December 31
	2017
Sale of goods	\$ 1,055,520,481
Others	25,054,514
	\$ 1,080,574,995

Please refer to Note 6(v) for details on revenue for the year ended December 31, 2018.

(x) Remuneration of employees and directors

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

For the years ended December 31, 2018 and 2017, remuneration of employees of \$896,000 and \$1,188,000, respectively, and remuneration of directors of \$89,000 and \$115,000, respectively, were estimated on the basis of the Company's net profit before tax, excluding the remuneration of employees and directors of each period, multiplied by the percentage of remuneration of employees and directors as specified in the Company's Articles of Incorporation. Such amounts were recognized as operating cost or operating expense for the years ended December 31, 2018 and 2017. Management is expecting that the differences, if any, between the actual distributed amounts and estimated amounts will be treated as changes in accounting estimates and charged to profit or loss. The number of shares to be distributed were calculated based on the closing price of the Company's ordinary shares, one day prior to Board of Directors meeting. There was no difference between the amounts approved in Board of Directors meeting and recognized for the years ended December 31, 2018 and 2017. For further information, please refer to Market Observation Post System.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(y) Non-operating income and expenses

(i) Other income

	For the years ended December 31	
	2018	2017
Interest income	\$ 364,268	310,843
Rental income	116,790	104,959
Technical service income	334,166	269,096
Other income	<u>237,247</u>	<u>257,382</u>
	<u>\$ 1,052,471</u>	<u>942,280</u>

(ii) Other gains and losses

	For the years ended December 31	
	2018	2017
Gains on disposal of property, plant and equipment	\$ 8	89
Foreign exchange gains (losses)	538,457	(1,236,332)
Gain on reversal of uncollectable account	-	131,585
Net (losses) gains on evaluation of financial assets measured at fair value through profit or loss	(1,895)	24
Reversal of impairment loss on property, plant and equipment	32	-
Other losses	<u>-</u>	<u>(470,924)</u>
	<u>\$ 536,602</u>	<u>(1,575,558)</u>

(iii) Finance costs

	For the years ended December 31	
	2018	2017
Interest expenses	\$ 1,631,036	551,494
Finance expense–bank fees	<u>11,387</u>	<u>57,336</u>
	<u>\$ 1,642,423</u>	<u>608,830</u>

(z) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

2) Credit risk concentrations

As of December 31, 2018 and 2017, the accounts receivable from the Company's top three customers amounted to \$366,583,720 and \$222,360,639, representing 75% and 69% of accounts receivable, respectively, which exposes the Company to credit risk.

3) Accounts receivable of credit risk

Please refer to Note 6(f) for notes and accounts receivable of credit risk exposure. Please refer to Note 6(g) for the detail of other receivables and allowance for impairment during 2017.

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(f) for the Company determines whether credit risk is to be low risk).

(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2018					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 59,433,525	59,433,525	59,433,525	-	-
Unsecured ordinary corporate bond	15,000,000	15,000,000	-	3,000,000	12,000,000
Non-interest bearing liabilities	<u>457,941,002</u>	<u>457,941,002</u>	<u>457,941,002</u>	<u>-</u>	<u>-</u>
	<u>\$ 532,374,527</u>	<u>532,374,527</u>	<u>517,374,527</u>	<u>3,000,000</u>	<u>12,000,000</u>
December 31, 2017					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 22,034,400	22,034,400	22,034,400	-	-
Issuance of unsecured ordinary corporate bonds	7,000,000	7,000,000	-	-	7,000,000
Non-interest bearing liabilities	<u>318,930,500</u>	<u>318,930,500</u>	<u>318,930,500</u>	<u>-</u>	<u>-</u>
	<u>\$ 347,964,900</u>	<u>347,964,900</u>	<u>340,964,900</u>	<u>-</u>	<u>7,000,000</u>

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

(Unit: Foreign currency / NTD in Thousands)

	December 31, 2018			December 31, 2017		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 16,289,400	30.715	500,328,921	11,348,709	29.760	337,737,580
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	16,579,638	30.715	509,243,581	11,106,338	29.760	330,524,619

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2018 and 2017 would have increased or decreased the before-tax net income by \$89,147 and \$72,130, respectively. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2018 and 2017, the foreign exchange losses, including both realized and unrealized, amounted to \$538,457 and \$1,236,332, respectively.

(iv) Interest rate analysis

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

The Company's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

The Company has financial assets and liabilities with fixed interest rates at the reporting date; this is mainly due to its time deposits and bank loans.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(v) 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 years ended December 31			
	2018		2017	
	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%	\$ 14,314	6,510	19,782	-
Decrease 3%	\$ (14,314)	(6,510)	(19,782)	-

(vi) Fair value of financial instruments

The Company measured its financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income (available-for-sale financial assets) on a recurring basis. The carrying amount and fair value of the Company'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 for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

1) Categories of financial instruments and fair value hierarchy

	December 31, 2018				
	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	\$ 340,320	217,000	-	123,320	340,320
Financial assets at fair value through other comprehensive income					
Receivables-Financial assets at fair value through other comprehensive income	\$ 15,357,500	15,357,500	-	-	15,357,500
Stock of listed companies	477,148	477,148	-	-	477,148
Stock of unlisted companies	-	-	-	-	-
Subtotal	15,834,648	15,834,648	-	-	15,834,648
Financial assets at amortized cost					
Cash and cash equivalents	\$ 18,535,500	-	-	-	-
Notes and accounts receivable	475,874,104	-	-	-	-
Other receivables	118,063	-	-	-	-
Other financial assets	64,392	-	-	-	-
Subtotal	494,592,059	-	-	-	-

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

	December 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at amortized cost					
Bank loans	\$ 59,433,525	-	-	-	-
Non-interest bearing liabilities	457,941,002	-	-	-	-
Unsecured ordinary corporate bond	<u>14,986,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>532,361,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Available-for-sale financial assets					
Stock of listed companies	\$ 659,392	659,392	-	-	659,392
Financial assets carried at cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>659,392</u>	<u>659,392</u>	<u>-</u>	<u>-</u>	<u>659,392</u>
Deposits and receivables					
Cash and cash equivalents	\$ 24,928,694	-	-	-	-
Notes and accounts receivable	319,990,334	-	-	-	-
Other receivables	112,286	-	-	-	-
Other financial assets	<u>74,965</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>345,106,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Bank loans	\$ 22,034,400	-	-	-	-
Non-interest bearing liabilities	318,930,500	-	-	-	-
Unsecured ordinary corporate bond	<u>6,992,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>347,957,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

a) Non-derivative financial instruments

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

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

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

b) Derivative financial instruments

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

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

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the years ended December 31, 2018 and 2017.

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

The Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – private fund".

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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>
Fair value through profit or loss-private fund	Net Asset Value Method	Net Asset Value	Not applicable

(vii) Offsetting of financial assets and financial liabilities

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

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

December 31, 2018						
<u>Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.</u>						
	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	\$ 89,871,072	76,858,784	13,012,288	-	-	13,012,288
December 31, 2018						
<u>Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.</u>						
	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	\$ 76,858,784	76,858,784	-	-	-	-
December 31, 2017						
<u>Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.</u>						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 82,977,604	70,068,442	12,909,162	-	-	12,909,162
December 31, 2017						
<u>Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.</u>						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 70,068,442	70,068,442	-	-	-	-

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(aa) Financial risk management

(i) Overview

The Company has exposures to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The following discusses the Company's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying non-consolidated financial statements.

(ii) Risk management framework

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

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

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

(iii) Credit risk

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Accounts receivables and other receivables

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

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

The major customers of the Company are concentrated in the high-tech computer industry. As the customers of the Company have good credits and profit records, the Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Company also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

2) Investment

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

3) Guarantee

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

(iv) Liquidity risk

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

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

(v) Market risk

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Currency risk

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

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

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

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

2) Interest rate risk

The Company's interest rate risk arises from short-term loans and accounts receivable factoring bearing floating interest rates. Future cash flow will be affected by a change in market interest rate. The Company decreases the interest rate risk through negotiating with banks aperiodically.

3) Price floating risk on equity instruments

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

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

(ab) Capital management

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total liabilities	\$ 549,281,818	362,977,455
Less: cash and cash equivalents	<u>(18,535,500)</u>	<u>(24,928,694)</u>
Net debt	530,746,318	338,048,761
Total capital (Note)	<u>150,028,838</u>	<u>145,975,738</u>
Adjusted capital	<u>\$ 680,775,156</u>	<u>484,024,499</u>
Debt to equity ratio	<u>77.96%</u>	<u>69.84%</u>

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

Management believes that there were no changes in the Company's approach to capital management for the year ended December 31, 2018.

(ac) Financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow in the year ended December 31, 2018, were as follows :

Reconciliation of liabilities arising from financing activities were as follows :

	<u>January 1, 2018</u>	<u>Cash flows</u>	<u>Non-cash changes</u>		<u>December 31, 2018</u>
			<u>Foreign exchange movement</u>	<u>Other</u>	
Short-term loans	\$ 22,034,400	37,363,500	35,625	-	59,433,525
Other payables-related parties	4,464,000	-	143,250	-	4,607,250
Other payables-restricted employee stock	252,461	(20,165)	-	(44,363)	187,933
Bonds payable	<u>6,992,476</u>	<u>7,992,000</u>	<u>-</u>	<u>2,286</u>	<u>14,986,762</u>
Total liabilities from financing activities	<u>\$ 33,743,337</u>	<u>45,335,335</u>	<u>178,875</u>	<u>(42,077)</u>	<u>79,215,470</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

The following are entities that have had transactions with related parties and the Company's subsidiaries during the periods covered in the non-consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Company</u>	<u>Notes</u>
CASETEK COMPUTER (SUZHOU) CO., LTD.	The Company's subsidiary	
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	The Company's subsidiary	
CORE-TEK (SHANGHAI) LIMITED	The Company's subsidiary	
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	The Company's subsidiary	
AZURE WAVE TECHNOLOGIES, INC.	The Company's subsidiary	
EZWAVE TECHNOLOGIES, INC.	The Company's subsidiary	

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>	<u>Notes</u>
AZURE LIGHTING TECHNOLOGIES, INC.	The Company's subsidiary	
AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	The Company's subsidiary	
AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	The Company's subsidiary	
AIGALE CORPORATION (SHANGHAI)	The Company's subsidiary	
AMA PRECISION INC.	The Company's subsidiary	
TOPTTEK PRECISION INDUSTRY (SUZHOU) CO., LTD.	The Company's subsidiary	
POWTEK (SHANGHAI) LTD.	The Company's subsidiary	
PIOTEK COMPUTER (SUZHOU) CO., LTD.	The Company's subsidiary	
PEGAGLOBE (KUNSHAN) CO., LTD.	The Company's subsidiary	
DIGITEK (CHONGQING) LTD.	The Company's subsidiary	
CHONGQING ZUANSHUO TRADING CO., LTD.	The Company's subsidiary	
MAINTEK COMPUTER (SUZHOU) CO., LTD.	The Company's subsidiary	
PROTEK (SHANGHAI) LTD.	The Company's subsidiary	
COTEK ELECTRONICS (SUZHOU) CO., LTD.	The Company's subsidiary	
RUNTOP (SHANGHAI) CO., LTD.	The Company's subsidiary	
ASUSPOWER INVESTMENT CO., LTD.	The Company's subsidiary	
ASUS INVESTMENT CO., LTD.	The Company's subsidiary	
ASUSTEK INVESTMENT CO., LTD.	The Company's subsidiary	
ASROCK INCORPORATION	The Company's subsidiary	
ASRock Rack Incorporation	The Company's subsidiary	
ASRock Industrial Computer Corporation	The Company's subsidiary	
Soaring Asia Limited	The Company's subsidiary	
KINSUS INTERCONNECT TECHNOLOGY CORP.	The Company's subsidiary	
KINSUS INVESTMENT CO., LTD.	The Company's subsidiary	
PEGAVISION CORPORATION	The Company's subsidiary	
FUYANG TECHNOLOGY CORPORATION	The Company's subsidiary	
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	The Company's subsidiary	
PEGAVISION (SHANGHAI) LIMITED	The Company's subsidiary	
KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	The Company's subsidiary	
KINSUS TRADING (SUZHOU) CORP.	The Company's subsidiary	
STARLINK ELECTRONICS CORPORATION	The Company's subsidiary	
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	The Company's subsidiary	
RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	The Company's subsidiary	
RI-MING (SHANGHAI) CO., LTD.	The Company's subsidiary	
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	The Company's subsidiary	
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	The Company's subsidiary	
KAI JIA COMPUTER ACCESSORY CO., LTD.	The Company's subsidiary	
RI KAI COMPUTER ACCESSORY CO., LTD.	The Company's subsidiary	
RIH KUAN METAL CORPORATION	The Company's subsidiary	
KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	The Company's subsidiary	
ASFLY TRAVEL SERVICE LIMITED	The Company's subsidiary	
PEGA INTERNATIONAL LIMITED	The Company's subsidiary	
Lumens Digital Optics Inc. (Lumens Optics)	The Company's subsidiary	
Lumens (Suzhou) Digital Image Inc.	The Company's subsidiary	
HUA-YUAN INVESTMENT LIMITED	The Company's subsidiary	
HONGJIE (SUZHOU) PACKING LIMITED	Other related party	Note 1
AMA Holdings Limited	The Company's subsidiary	
APEX SUN LIMITED	The Company's subsidiary	
APLUS PRECISION LIMITED	The Company's subsidiary	

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>	<u>Notes</u>
ASIAROCK TECHNOLOGY LIMITED	The Company's subsidiary	
ASLINK PRECISION CO., LTD.	The Company's subsidiary	
ASRock America, Inc.	The Company's subsidiary	
ASROCK EUROPE B.V.	The Company's subsidiary	
ASUSPOWER CORPORATION	The Company's subsidiary	
Azurewave Technologies (USA) Inc.	The Company's subsidiary	
Azwave Holding (Samoa) Inc.	The Company's subsidiary	
Calrock Holdings, LLC.	The Company's subsidiary	
CASETEK HOLDINGS LIMITED (CAYMAN)	The Company's subsidiary	
CASETEK HOLDINGS LIMITED	The Company's subsidiary	
COTEK HOLDINGS LIMITED	The Company's subsidiary	
DIGITEK GLOBAL HOLDINGS LIMITED	The Company's subsidiary	
First place International Limited	The Company's subsidiary	
FUYANG FLEX HOLDING LTD.	The Company's subsidiary	
GRAND UPRIGHT TECHNOLOGY LIMITED	The Company's subsidiary	
KAEDAR HOLDINGS LIMITED	The Company's subsidiary	
KAEDAR TRADING LTD.	The Company's subsidiary	
KINSUS CORP. (USA)	The Company's subsidiary	
KINSUS HOLDING (CAYMAN) LIMITED	The Company's subsidiary	
KINSUS HOLDING (SAMOA) LIMITED	The Company's subsidiary	
Leader Insight Holdings Limited	The Company's subsidiary	
Lumens Digit Image Inc.	The Company's subsidiary	
Lumens Integration Inc.	The Company's subsidiary	
MAGNIFICENT BRIGHTNESS LIMITED	The Company's subsidiary	
MEGA MERIT LIMITED	The Company's subsidiary	
PEGATRON Czech s.r.o.	The Company's subsidiary	
PEGATRON HOLDING LTD.	The Company's subsidiary	
PEGATRON HOLLAND HOLDING B.V.	The Company's subsidiary	
PEGATRON JAPAN INC.	The Company's subsidiary	
PEGATRON LOGISTIC SERVICE INC.	The Company's subsidiary	
PEGATRON Mexico, S.A. de C.V.	The Company's subsidiary	
PEGATRON SERVICE AUSTRALIA PTY. LTD.	The Company's subsidiary	
Pegatron Service Holland B.V.	The Company's subsidiary	Note 2
PEGATRON SERVICE KOREA LLC	The Company's subsidiary	
Pegatron Service Singapore Pte. Ltd.	The Company's subsidiary	
PEGATRON SERVICOS DE INFORMATICA LTDA.	The Company's subsidiary	
PEGATRON TECHNOLOGY SERVICE INC.	The Company's subsidiary	
PEGATRON USA, Inc.	The Company's subsidiary	
PEGAVISION HOLDINGS CORPORATION	The Company's subsidiary	
PEGAVISION JAPAN Inc.	The Company's subsidiary	
PIOTEK HOLDING LIMITED	The Company's subsidiary	
PIOTEK HOLDINGS LTD. (CAYMAN)	The Company's subsidiary	
PIOTEK(H.K.) TRADING LIMITED	The Company's subsidiary	
POWTEK HOLDINGS LIMITED	The Company's subsidiary	
PROTEK GLOBAL HOLDINGS LTD.	The Company's subsidiary	
RIH LI INTERNATIONAL LIMITED	The Company's subsidiary	
SLITEK HOLDINGS LIMITED	The Company's subsidiary	
TOP QUARK LIMITED	The Company's subsidiary	
UNIHAN HOLIDNG LTD.	The Company's subsidiary	

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>	<u>Notes</u>
UNITED NEW LIMITED	The Company's subsidiary	
GREEN PACKING LIMITED	Other related party	Note 1

Note 1: On June 29, 2018, the Company disposed common stocks, so that the Company lost its significant influence. Consequently, HONGJIE (SUZHOU) PACKING LIMITED and GREEN PACKING LIMITED were not related parties of the Company from that date on.

Note 2: It was liquidated in December 2017.

(b) Significant Transactions with related parties

(i) Sale of Goods to Related Parties

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

	<u>Sales</u>		<u>Receivables from related parties</u>	
	<u>For the years ended December 31</u>		<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ <u>6,203,760</u>	<u>6,035,026</u>	<u>313,983,330</u>	<u>190,257,570</u>

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

(ii) Purchase of Goods from Related Parties

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

	<u>Purchases</u>		<u>Payables to Related Parties</u>	
	<u>For the years ended December 31</u>		<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ 81,819,369	98,828,391	244,035,178	143,407,464
Other related parties	-	88	-	-
	<u>\$ 81,819,369</u>	<u>98,828,479</u>	<u>244,035,178</u>	<u>143,407,464</u>

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- (iii) Warranty repair expense paid to Related Parties

	For the years ended December 31	
	2018	2017
Subsidiaries	\$ 54,956	39,760

- (iv) Other income and losses from Related Parties

	For the years ended December 31	
	2018	2017
Subsidiaries	\$ 38,608	14,668

- (v) Rental revenue

For the years ended December 31, 2018 and 2017, the Company incurred other related party transactions of \$108,518 and \$89,498, respectively, which were accounted for as rental revenue. Lease terms with associates were not significantly different from those of non-related parties.

- (vi) Other related party transactions recorded as expenses

For the years ended December 31, 2018 and 2017, the Company incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$853,313 and \$1,312,025, respectively.

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

For the years ended December 31, 2018 and 2017, molds purchased from other related parties amounted to \$6,036 and \$2,299, respectively.

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

	December 31, 2018	December 31, 2017
Other receivables		
Subsidiaries	\$ 22,281	7,865
Other payables		
Subsidiaries	\$ 670,235	766,336
Other current liabilities		
Subsidiaries	\$ 30,731	162,198
Other non-current liabilities		
Subsidiaries	\$ 10,570	10,570

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(ix) Borrowings from related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries	\$ <u>4,607,250</u>	<u>4,464,000</u>
Interest rate	<u>1.3041%~1.9727%</u>	<u>0.6646%~1.3041%</u>
Interest expense	\$ <u>74,801</u>	<u>51,492</u>

(x) As of December 31, 2018, please refer to Note 13 for endorsements and guarantees for related party.

(c) Key management personnel compensation

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 152,577	146,786
Post-employment benefits	2,142	2,052
Share-based payments	<u>239,826</u>	<u>239,917</u>
	<u>\$ 394,545</u>	<u>388,755</u>

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

(8) Pledged assets:

As of December 31, 2018 and 2017, pledged assets were as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other financial asset-restricted deposits	Deposits for customs duties	\$ 41,670	41,616
Other financial asset-refundable deposits	Deposits for performance guarantee	<u>22,722</u>	<u>33,349</u>
		<u>\$ 64,392</u>	<u>74,965</u>

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
EUR	\$ <u>2,273</u>	<u>2,540</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

	December 31, 2018	December 31, 2017
NTD	\$ 60,780	78,998

(iii) As of December 31, 2017, the Company signed significant contract for purchase of properties amounting to \$878,800, of which \$335,362 was unpaid.

(b) Significant contingent liability :

In May 2017, QUALCOMM INCORPORATED filed a lawsuit against the Company for royalty payment under the license agreement in the U.S. District Court for the Southern District of California. In July 2017, the Company counterclaimed and the lawsuit has still been in cognizance. The outcome of this lawsuit depends on court proceedings and is not expected to have a material effect on the Company'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 years ended December 31					
	2018			2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
By item						
Employee benefit						
Salary	\$ 1,353,305	8,046,671	9,399,976	1,288,187	8,405,666	9,693,853
Health and labor insurance	95,583	491,155	586,738	88,854	495,992	584,846
Pension	46,310	272,798	319,108	44,274	278,411	322,685
Remuneration of directors	-	89,000	89,000	-	115,000	115,000
Others	136,810	590,091	726,901	98,800	467,389	566,189
Depreciation	230,651	310,761	541,412	422,642	285,740	708,382
Amortization	104,955	76,117	181,072	100,148	31,259	131,407

In 2018 and 2017, the Company had 7,187 and 7,159 employees, of which 7 and 5 directors were not in concurrent employment, respectively.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(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 Company:

No.	Item	Table
1	Loans to other parties	Table 1
2	Guarantees and endorsements for other parties	Table 2
3	Securities held as of December 31, 2018 (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

(b) Information on investees:

Please refer to Table 8 for the information on investees for the year ended December 31, 2018.

(c) Information on investment in mainland China:

- (i) Please refer to Table 9 for names of investee, main businesses and products, total amount of capital surplus, method of investment, investment flows, net income (losses) of the investee, percentage of ownership and the upper limit on investment.
- (ii) Please refer to information on significant transactions for either directly or indirectly through a third area, with investee companies in the Mainland Area. The transactions were eliminated in the consolidated financial statements.

(14) Segment information: None

Notes to the Parent Company Only Financial Statement

Table 1 : Loans to other parties
December 31, 2018

No. (Note 1)	Creditor	Borrower	General ledger Account (Note 2)	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest rate	Nature of loan (Note 3)	Amount of transactions with the borrower (Note 4)	Reason for short- term financing (Note 5)	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 6)	Expressed in thousands of RND Ceiling on total loans granted (Note 6)
													Item	Value		
1	MAINTeK COMPUTER (SUZHOU) CO., LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Other Receivables	Y	3,992,950	2,457,200	2,457,200	0.6339% - 2.2836%	2	-	Fund accommodation	-	-	13,004,555	26,009,109	
2	ASUSPOWER CORPORATION	PEGATRON CORPORATION SERVICE INC.	Other Receivables	Y	4,607,250	4,607,250	4,607,250	1.972%	2	-	Fund accommodation	-	-	7,672,072	15,344,144	
3	PROTEK (SHANGHAI) LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	Other Receivables	Y	2,764,330	-	-	0.2800%	2	-	Fund accommodation	-	-	4,194,722	8,389,444	
4	STARLINK ELECTRONICS CORPORATION	FUYANG TECHNOLOGY CORPORATION	Other Receivables	Y	160,000	160,000	160,000	0.6588%	2	-	Fund accommodation	-	-	190,653	190,653	
5	Azavea Holding (Samsa) Inc.	STARLINK ELECTRONICS CORPORATION	Other Receivables	Y	30,715	30,715	23,036	0.00%	2	-	Cash flow adequacy	-	-	390,965	390,965	
6	RHII International Limited	KAIJIA COMPUTER ACCESSORY CO., LTD.	Long-Term Accounts Receivable	Y	7,678,750	7,678,750	7,678,750	1.00%	3	-	Business operation	-	-	35,505,127	35,505,127	
7	RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Other Receivables	Y	268,518	-	-	1.00%	2	-	Business operation	-	-	10,406,536	10,406,536	
7	RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	KAIJIA COMPUTER ACCESSORY CO., LTD.	Other Receivables	Y	1,790,120	1,790,120	1,790,120	1.00%	2	-	Business operation	-	-	10,406,536	10,406,536	
7	RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Long-Term Accounts Receivable	Y	4,475,300	4,475,300	4,251,535	1.00%	3	-	Business operation	-	-	10,406,536	10,406,536	
8	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Long-Term Accounts Receivable	Y	313,271	313,271	313,271	1.00%	3	-	Business operation	-	-	5,410,848	5,410,848	
8	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	KAIJIA COMPUTER ACCESSORY CO., LTD.	Long-Term Accounts Receivable	Y	3,580,240	2,885,180	2,685,180	1.00%	3	-	Business operation	-	-	5,410,848	5,410,848	
8	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Long-Term Accounts Receivable	Y	447,530	447,530	447,530	1.00%	3	-	Business operation	-	-	5,410,848	5,410,848	
9	KAIHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	KAIJIA COMPUTER ACCESSORY CO., LTD.	Long-Term Accounts Receivable	Y	223,765	223,765	223,765	1.00%	3	-	Business operation	-	-	528,443	528,443	
10	ASHAROCK TECHNOLOGY LIMITED	CALROCK HOLDINGS LLC	Other Receivables	Y	107,503	107,503	-	2.50%	2	-	Fund accommodation	-	-	3,850,376	3,850,376	
11	KAEDAK ELECTRONICS (KUNSHAN) CO., LTD.	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Other Receivables	Y	358,024	358,024	358,024	3.0000%	2	-	Fund accommodation	-	-	420,025	420,025	

Note 1: The number column is organized as follows:
(1) Number 0 represents the issuer.
(2) Consolidated subsidiaries are organized in order from number 1.

Note 2: If the nature of accounts receivable (including affiliated enterprises and related parties), shareholder transactions, advance payments, etc., are loans, the amount will be disclosed in the table.

Note 3: Reference for the Nature of loan column

(01): the borrower has business contact with the creditor

(02): the borrower has short-term financing necessities

(03): the borrower has long-term financing necessities

Note 4: Fill in the business contact amount if nature of loan conforms to situation 1.

Note 5: Fill in the reasons and the use of the fund if nature of loan conforms to situation 2.

Note 6: Calculation for the ceiling on total loans granted.

Ceiling on total loans granted

According to our MAINTeK COMPUTER (SUZHOU) CO., LTD.) policy for loans granted, the ceiling on total loans granted to all parties is 100% of our MAINTeK COMPUTER (SUZHOU) CO., LTD.) net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are not wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of our MAINTeK COMPUTER (SUZHOU) CO., LTD.'s net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of ASUSPOWER CORPORATION's net assets.

According to our PROTEK (SHANGHAI) LTD.) policy for loans granted, the ceiling on total loans granted to all parties is 30% of our PROTEK (SHANGHAI) LTD.) net assets.

According to our STARLINK ELECTRONICS CORPORATION policy for loans granted, the ceiling on total loans granted to all parties is 40% of our STARLINK ELECTRONICS CORPORATION net assets.

According to our AZAVEA HOLDING (SAMOA) INC.) policy for loans granted to foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company is as follows: ceiling on total loans granted to which is 40% of our net assets.

According to our RHII International Limited policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to which is 100% of our RHII International Limited net assets.

According to our RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) policy for loans granted, except for subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to which is 40% of our RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) net assets.

According to our KAEDAK ELECTRONICS (KUNSHAN) CO., LTD.) policy for loans granted, the ceiling on total loans granted to which is 40% of our KAEDAK ELECTRONICS (KUNSHAN) CO., LTD.) net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are not wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of our MAINTeK COMPUTER (SUZHOU) CO., LTD.'s net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of ASUSPOWER CORPORATION net assets.

According to our KAIHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.) policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to which is 100% of our KAIHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets.

According to our ASHAROCK TECHNOLOGY LIMITED policy for loans granted, the ceiling on total loans granted to all parties is 40% of our ASHAROCK TECHNOLOGY LIMITED net assets.

While granting loans to the foreign subsidiaries which are wholly-owned by ASHAROCK TECHNOLOGY LIMITED is as follows: there is no limit on total loans granted.

According to our KAEDAK ELECTRONICS (KUNSHAN) CO., LTD.) policy for loans granted, the ceiling on total loans granted to all parties is 100% of our KAEDAK ELECTRONICS (KUNSHAN) CO., LTD.'s net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are not wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of our MAINTeK COMPUTER (SUZHOU) CO., LTD.'s net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of ASUSPOWER CORPORATION net assets.

According to our ASUSPOWER CORPORATION policy for loans granted, the ceiling on total loans granted to a single party is 30% of our ASUSPOWER CORPORATION net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are not wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of our MAINTeK COMPUTER (SUZHOU) CO., LTD.'s net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of ASUSPOWER CORPORATION net assets.

According to our ASUSPOWER CORPORATION policy for loans granted, the ceiling on total loans granted to a single party is 30% of our ASUSPOWER CORPORATION net assets.

Notes to the Parent Company Only Financial Statement

According to our PROTEK (SHANGHAI) LTD. policy for loans granted, the ceiling on total loans granted to a single party is 15% of our PROTEK (SHANGHAI) LTD. net assets.

According to our STARLINK ELECTRONICS CORPORATION policy for loans granted, the ceiling on total loans granted to a single party is 40% of our STARLINK ELECTRONICS CORPORATION net assets.

According to our AZWAVE HOLDING (SAMOA) INC. policy for loans granted to a foreign subsidiary whose voting shares are directly or indirectly wholly-owned by the Company is as follows: ceiling on total loans granted to a subsidiary is 40% of our AZWAVE HOLDING (SAMOA) INC. net assets.

According to our RHH LI International Limited policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to which is 100% of our RHH LI International Limited net assets.

According to our RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to other single party is 40% of our RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. net assets.

According to our PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD. policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to other single party is 40% of our RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. net assets.

According to our RUI COMPUTER ACCESSORY (SHANGHAI) CO., LTD. policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to other single party is 40% of our RUI COMPUTER ACCESSORY (SHANGHAI) CO., LTD. net assets.

According to our KAI THE COMPUTER ACCESSORY (SUZHOU) CO., LTD. policy for loans granted, except for foreign subsidiaries whose voting shares are directly or indirectly wholly-owned by the Company and CASETEK HOLDINGS LIMITED (CAYMAN), the ceiling on total loans granted to other single party is 40% of our KAI THE COMPUTER ACCESSORY (SUZHOU) CO., LTD. net assets.

According to our ASHAROCK TECHNOLOGY LIMITED policy for loans granted, the ceiling on total loans granted to a single party is 15% of our ASHAROCK TECHNOLOGY LIMITED net assets.

While granting loans to the foreign subsidiaries which are wholly-owned by ASHAROCK TECHNOLOGY LIMITED is as follows: there is no limit on total loans granted.

According to our KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. policy for loans granted, the ceiling on total loans granted to a single party is 50% of our KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. net assets.

While granting loans to the Company, Taiwan subsidiaries and subsidiaries which are not wholly-owned by the Company are as follows: ceiling on total loans granted to which is 40% of KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.'s net assets.

Note 7 : If the amount is based on foreign currency, please refer to the spot exchange rate on the financial statement date. (exchange rate on December 31, 2018 is USD/NTD30.715; CNY/NTD4.473)

Notes to the Parent Company Only Financial Statement

Table 2 Guarantees and endorsements for other parties
December 31, 2018

No. (Note 1)	Endorser/ Guarantor (Note 2)	Party being endorsed/ guaranteed (Note 2)	Relationship (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018 (Note 4) (Note 5)	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Expressed in thousands of RMB
0	PEGATRON CORPORATION	PROTEK COMPUTER (SUZHOU) CO., LTD.	(6)	30,005,767	451,511	451,511	141,097	-	0.30%	75,014,419	Y	N	Provision of endorsements/ guarantees to the party in Mainland China
0	PEGATRON CORPORATION	COTER ELECTRONICS (SUZHOU) CO., LTD.	(2)	30,005,767	2,457,200	-	-	-	0.00%	75,014,419	Y	N	Y
1	KINSUS INTERCONNECT TECHNOLOGY CORP.	PIOTEK COMPUTER (SUZHOU) CO., LTD.	(6)	5,556,430	469,940	469,940	146,856	-	1.69%	13,891,075	Y	N	Y
2	AZURE WAVE TECHNOLOGIES, INC.	AZURE LIGHTING TECHNOLOGIES, INC.	(2)	874,863	522,155	368,580	-	-	21.07%	874,863	Y	N	Y

Note 1 : The number column is organized as follow:

- (1) Number 0 represents the issuer.
- (2) Subsidiaries are numbered in order from number 1.

Note 2 : Relationship with the endorser / guarantor:

- (1) Having business relationship.
- (2) The endorser / guarantor parent company directly and indirectly holds more than 50% of voting shares of the endorsed / guaranteed subsidiary.
- (3) The endorser / guarantor subsidiary which directly and indirectly be held more than 50% voting shares by the endorsed / guaranteed parent company.
- (4) The endorser / guarantor company and the endorsed / guaranteed party both be held more than 99% by the parent company.
- (5) Company that is mutually protected under contractual requirements based on the needs of the contractor.
- (6) Company that is endorsed by its shareholders in accordance with its shareholding ratio because of the joint investment relationship.
- (7) Performance guarantees for pre-sale contracts under the Consumer Protection Act.

Note 3 : Ceiling on total endorsements / guarantees

According to KINSUS INTERCONNECT TECHNOLOGY CORP.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 50% of the Company's net assets.
According to AZURE WAVE TECHNOLOGIES, INC.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 50% of the Company's net assets.

According to PEGATRON CORPORATION's policy of endorsements and guarantees, the total endorsements and guarantees provided for a single party

According to KINSUS INTERCONNECT TECHNOLOGY CORP.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 20% of the Company's net assets.
According to AZURE WAVE TECHNOLOGIES, INC.'s policy of endorsements and guarantees, the total endorsements and guarantees of the Company to others should not exceed 50% of the Company's net assets.

Note 4 : If the amount is based on foreign currency, please refer to the spot exchange rate on the financial statement date. (exchange rate on December 31, 2018 is USD/RMB7.15; CNY/RMB4.753)

Note 5 : The amount is adopted by the Board of Directors.

Notes to the Parent Company Only Financial Statement

Table 3 Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2018

Securities held by December 31, 2018	Marketable securities			As of December 31, 2018					Expressed in thousands of NTD
	Category	Item	Relationship (Note 2)	General ledger account	Number of shares	Book value	Ownership	Fair value	
PEGATRON CORPORATION	Stock	WAI-GIN INDUSTRIAL CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	1,500,000	-	4.41%	-	4.41%
"	Stock	ABILITY ENTERPRISE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	33,135,300	477,148	11.73%	477,148	11.73%
"	Stock	Fubon Financial Holding Co., Ltd. Preferred Shares B	-	financial asset measured at fair value through profit or loss-Non current	3,500,000	217,000	0.28%	217,000	0.28%
"	Fund	China Renewable Energy Fund, LP(CREF)	-	financial asset measured at fair value through profit or loss-Non current	-	123,320	13.46%	123,320	13.46%
PROTEK (SHANGHAI) LTD.	Stock	LUXSHARE ICT CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	4,685,574	294,820	0.11%	294,820	0.11%
ASUSPOWER INVESTMENT CO., LTD.	Stock	SPORTON INTERNATIONAL INC.	-	financial asset measured at fair value through profit or loss-Current	289,300	40,936	0.31%	40,936	0.32%
"	Stock	LOTES CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	73,819	15,613	0.07%	15,613	0.07%
"	Stock	Topoint Technology Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	1,735,891	31,072	1.21%	31,072	1.21%
"	Stock	ABILITY ENTERPRISE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,495	94	- %	94	- %
"	Stock	ZOWIE Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	90,937	-	0.54%	-	0.80%
"	Stock	Syntromix CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,162	-	0.02%	-	0.02%
"	Stock	FRESCO LOGIC INC.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	45,745	8.18%	45,745	8.18%
"	Stock	Valens Semiconductor Ltd.	-	financial asset measured at fair value through profit or loss-Non current	4,667,570	79,651	4.18%	79,651	4.95%
"	Stock	MedicusTek International Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	1,136,363	2,853	1.52%	2,853	2.13%
ASUS INVESTMENT CO., LTD.	Stock	SPEED TECH CORPORATION	-	financial asset measured at fair value through profit or loss-Current	8,000,000	399,600	4.77%	399,600	4.77%
"	Stock	LighTel Technologies Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	59,310	7.66%	59,310	7.67%

Notes to the Parent Company Only Financial Statement

Securities held by	Marketable securities				General				As of December 31, 2018			Expressed in thousands of NTD	
	Category	Item	Relationship (Note 2)	ledger account	Number of shares	Book value	Ownership	Fair value	Maximum	Footnote	Ownership	Fair value	Maximum
	Fund	Taishin Ta-Chong Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	18,812,748	266,850	- %	266,850	- %				
KINSUS INTERCONNECT TECHNOLOGY CORP.	Fund	Taishin Ta-Chong Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	18,812,748	266,850	- %	266,850	- %				
"	Fund	FSITC Money Market	-	financial asset measured at fair value through profit or loss-Current	1,168,258	208,097	- %	208,097	- %				
"	Fund	Mega Diamond Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	21,355,432	267,411	- %	267,411	- %				
KINSUS INTERCONNECT TECHNOLOGY CORP.	Fund	Jih Sun Money Market	-	financial asset measured at fair value through profit or loss-Current	17,776,549	262,977	- %	262,977	- %				
KINSUS INVESTMENT CO., LTD.	Fund	Taishin Ta-Chong Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	829,070	11,760	- %	11,760	- %				
"	Stock	Eihos Original Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	5,000,000	50,000	7.49%	50,000	7.49%				
Lumens Digital Optics Inc. (Lumens Optics)	Fund	Fuh Hwa Money Market	-	financial asset measured at fair value through profit or loss-Current	71,684,487	1,033,583	- %	1,033,583	- %				
"	Fund	The RSIT Enhanced Money Market	-	financial asset measured at fair value through profit or loss-Current	8,288,620	99,056	- %	99,056	- %				
HUA-YUAN INVESTMENT LIMITED	Stock	Nuwoon Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	450,000	17,865	0.22%	17,865	0.22%				
"	Stock	Chicom Power Technology Co. Ltd.	-	financial asset measured at fair value through profit or loss-Current	726,644	32,699	0.19%	32,699	0.19%				
"	Stock	Chunghwa Precision Test Tech. Co., Ltd.	-	financial asset measured at fair value through profit or loss-Current	100,000	52,000	0.30%	52,000	0.32%				
"	Stock	Jim Yeeh Ding Enterprise CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	311,027	4,339	0.32%	4,339	0.33%				
"	Stock	Eihos Original Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	5,000,000	50,000	7.49%	50,000	7.49%				
"	Stock	Fusheng Precision CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	800,000	127,600	0.61%	127,600	0.68%				
RIH KUAN METAL CORPORATION	Stock	Eihos Original Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	5,000,000	50,000	7.49%	50,000	7.49%				
RI KAI COMPUTER ACCESSORY CO., LTD.	Stock	JIANG SU KAI JIE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	-	24,167	10.00%	24,167	10.00%				

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instruments : recognition and measurement'.

Note 2: If the issuer of the security isn't a related party, the cell is blank.

Note 3: The account balance for securities measured at fair value has deducted accumulated impairment.

Notes to the Parent Company Only Financial Statement

Table 4: Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD300 million or 20% of the capital stock December 31, 2018

Investor	Marketable securities		Relationship with the investor	Balance as at January 1, 2018		Addition		Disposal		Expressed in thousands of NTD		
	Category	Item		Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Balance as of December 31, 2018
PEGATRON CORPORATION	Stock	CASETEK HOLDINGS LIMITED(CAYMAN)	-	-	442,409 (Note 4)	-	-	-	-	17,337 (Note 2)	4,808,794	408,538
ASUSPOWER CORPORATION	Stock	CASETEK HOLDINGS LIMITED(CAYMAN)	-	17,781,453	38,698,955	3,649,120 (Note 4)	-	-	-	12,022 (Note 9)	245,016,988	19,132,452
CASETEK HOLDINGS LIMITED(CAYMAN)	Stock	RH LI International Limited	-	35,010,768	195,000,000	5,989,425 (Note 4)	-	-	-	820,055 (Note 3)	715,499,000	36,773,194
RH LI International Limited	Capital	KALHA COMPUTER ACCESSORY CO., LTD.	-	3,503,900	-	2,150,050 (Note 4)	-	-	-	627,453 (Note 9)	-	-
RH LI International Limited	Capital	RI KAI COMPUTER ACCESSORY CO., LTD.	-	276,240	-	1,225,146 (Note 4)	-	-	-	1,403,285 (Note 3)	-	1,343,674
ASUSPOWER INVESTMENT CO., LTD.	Stock	Lumens Digital Optics Inc. (Lumens Optics)	-	1,034,611	4,915,337	462,042 (Note 4)	-	-	-	4,207,057 (Note 2)	10,043,490	1,096,450
Lumens Digital Optics Inc. (Lumens Optics)	Fund	Fuh Hwa Money Market	-	810,268	82,485,517	1,187,000 (Note 4)	-	-	-	79,681 (Note 9)	71,684,487	1,033,383
PEGAVISION CORPORATION	Fund	Yaama Wan Tai Money Market	-	104,908	47,483,038	716,141 (Note 4)	-	-	-	2,074 (Note 7)	-	-
										62 (Note 11)		
										967,000 (Note 6)		
										1,479 (Note 5)		
										821,041 (Note 6)		
										8 (Note 5)		

Note 1 : If the securities is invested in foreign currency, the amount in the table has been transferred to NTD. (The exchange rate as of December 31, 2018: USD/NTD: 30.715, CNY/NTD: 4.4753)

Note 2 : The investment profit or loss related to the investee is measured by equity method.

Note 3 : The amount is exchange gains or losses.

Note 4 : Which is investment added this year.

Note 5 : Which is adjustments related to financial assets based on the fair value method.

Note 6 : Which is investment disposed this year.

Note 7 : Which is effect amount of participating capital increase not based on shareholding ratio in the year-end.

Note 8 : Which is additional paid-in capital of the investee.

Note 9 : Which is dividend distributed this year.

Note 10 : Which is shares returned by the investee.

Note 11 : Which is pension actuarial gains and losses of the investee measured by equity method.

Notes to the Parent Company Only Financial Statement

Table 5. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock
December 31, 2018

Expressed in thousands of NT\$

Real estate acquired by	Item	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	If the counterparty is a related party, information as to the list transaction of the real estate is disclosed below:		Amount	Basis or reference used in setting the price approved by the Chairman	Purpose and situation	Other commitments
								Relationship between the original owner and the acquirer	Date of the original transaction				
PEGA TRON CORPORATION	Plant	2018/2/8	2,232,000	The amount was fully paid	ARRIS TAIWAN LTD.	N/A	N/A	N/A	N/A	N/A	Negotiated price is approved by the Chairman	For operation use	By contract
PEGA VISION CORPORATION	Land / Plant	2018/6/26	1,380,000	By contract	Inventec Corporation	N/A	N/A	N/A	N/A	N/A	Refer to amount valued by pricing agency	Increasing production capacity for raising demand	None
KAI JIA COMPUTER ACCESSORY CO., LTD.	Plant	2018/4/17	802,658	Paid 354,068 as of December 31, 2018	China Construction First Building Group Corporation Limited	N/A	N/A	N/A	N/A	N/A	Negotiated price is approved by the Chairman	Building new plant for operation use	None
KAI JIA COMPUTER ACCESSORY CO., LTD.	Plant	2018/1/15	1,431,384	Paid 938,592 as of December 31, 2018	Suzhou Jianxin Construction Group Co., Ltd.	N/A	N/A	N/A	N/A	N/A	Negotiated price is approved by the Chairman	Building new plant for operation use	None

Notes to the Parent Company Only Financial Statement

Table 6 Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$10 million or 20% of the capital stock December 31, 2018

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Expressed in thousands of NTD
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note2	Purchase	1,642,207	0.13%	Open Account 90 days	-	-	(60,381)	(0.14%)	
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note2	Sale	(2,126,689)	(0.17%)	Open Account 90 days	-	-	767,277	0.16%	
PEGATRON CORPORATION	PEGATRON Czech s.r.o.	Note2	Sale	(3,090,771)	(0.25%)	120 days on delivery	-	-	908,745	0.18%	
PEGATRON CORPORATION	PEGATRON TECHNOLOGY SERVICE INC.	Note2	Sale	(391,815)	(0.03%)	90 days on delivery	-	-	174,036	0.04%	
PEGATRON CORPORATION	AZURE WAVE TECHNOLOGIES, INC.	Note2	Purchase	488,692	0.04%	Open Account 60 days	-	-	(66,743)	(0.02%)	
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note2	Purchase	35,564,540	2.90%	Open Account 60 days	-	-	(80,465,491)	(18.14%)	
PEGATRON CORPORATION	MAINTeK COMPUTER (SUZHOU) CO., LTD.	Note2	Purchase	22,313,522	1.82%	Open Account 60 days	-	-	-	-	
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note2	Sale	(455,569)	(0.04%)	Open Account 60 days	-	-	29,415,873	5.97%	
PEGATRON CORPORATION	COTEK (SHANGHAI) LTD.	Note2	Purchase	2,195,857	0.18%	Open Account 60 days	-	-	(20,468,290)	(4.61%)	
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note2	Purchase	2,064,206	0.17%	Open Account 60 days	-	-	(5,613,028)	(1.27%)	
PEGATRON CORPORATION	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Note2	Purchase	1,479,418	0.12%	Open Account 60 days	-	-	(343,583)	(0.08%)	
PEGATRON CORPORATION	CASITEK COMPUTER (SUZHOU) CO., LTD.	Note2	Purchase	2,597,959	0.21%	Open Account 60 days	-	-	(96,570)	(0.02%)	
PEGATRON CORPORATION	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note2	Purchase	489,680	0.04%	Open Account 60 days	-	-	(164,128)	(0.04%)	
PEGATRON CORPORATION	ASRock Rack Incorporation	Note2	Purchase	273,602	0.02%	90 days on delivery	-	-	(55,689)	(0.01%)	
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note2	Purchase	181,904	0.01%	Open Account 90 days	-	-	(19,956)	(0.00%)	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note2	Purchase	12,504,152	1.02%	Open Account 60 days	-	-	(136,085,432)	(30.67%)	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(12,504,152)	(2.17%)	Open Account 60 days	-	-	156,085,432	91.07%	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Purchase	3,090,771	(15.38%)	Open Account 90 days	-	-	19,956	5.10%	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Purchase	391,815	90.46%	120 days on delivery	-	-	(908,745)	(91.74%)	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note3	Sale	(144,507)	(100.00%)	Open Account 60 days	-	-	(174,036)	(80.00%)	
PEGATRON CORPORATION	CORE-TEK (SHANGHAI) LIMITED	Note3	Purchase	144,507	0.03%	Open Account 60 days	-	-	(24,223)	(0.01%)	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note3	Sale	(66,325,212)	(11.50%)	Open Account 90 days	-	-	(24,223)	(0.01%)	
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note3	Purchase	33,507,762	6.06%	Open Account 60 days	-	-	12,586,902	8.42%	
PEGATRON CORPORATION	KAJIA COMPUTER ACCESSORY CO., LTD.	Note3	Purchase	56,214	0.10%	Open Account 60 days	-	-	(158,960)	(0.09%)	
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note1	Purchase	101,043	0.02%	Open Account 60 days	-	-	(209,138)	(0.12%)	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(35,564,540)	(10.44%)	Open Account 60 days	-	-	(50,594)	(0.03%)	
PEGATRON CORPORATION	GRAND UPRIGHT TECHNOLOGY LTD.	Note3	Sale	(33,507,762)	(9.84%)	Open Account 60 days	-	-	80,465,491	95.74%	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note3	Sale	66,325,212	19.80%	Open Account 90 days	-	-	3,418,321	4.07%	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note3	Purchase	4,316,366	1.54%	Open Account 60 days	-	-	158,960	0.19%	
PEGATRON CORPORATION	CASITEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(1,362,388)	(0.46%)	Open Account 60 days	-	-	(2,586,902)	(10.62%)	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note3	Purchase	2,301,699	0.82%	Open Account 60 days	-	-	(1,235,778)	(1.95%)	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(22,313,522)	(7.53%)	Open Account 60 days	-	-	82,324	0.15%	
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note3	Purchase	102,516	0.04%	Open Account 60 days	-	-	(75,303)	(0.12%)	
PEGATRON CORPORATION	MAINTeK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(4,316,366)	(1.843%)	Open Account 60 days	-	-	1,235,778	17.40%	
PEGATRON CORPORATION	MAINTeK COMPUTER (SUZHOU) CO., LTD.	Note3	Purchase	1,362,388	7.24%	Open Account 60 days	-	-	(82,324)	(0.89%)	
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note3	Sale	(2,064,206)	(8.81%)	Open Account 60 days	-	-	5,613,028	79.02%	
PEGATRON CORPORATION	CHONGQING ZHUANSHUO TRADING CO., LTD.	Note3	Sale	(108,078)	(0.46%)	Open Account 90 days	-	-	-	-	
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note3	Sale	(159,572)	(0.68%)	Open Account 60 days	-	-	1,054	0.01%	
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note3	Purchase	159,572	0.05%	Open Account 60 days	-	-	(1,054)	-	
PEGATRON CORPORATION	CHONGQING ZHUANSHUO TRADING CO., LTD.	Note3	Purchase	108,078	12.41%	Open Account 90 days	-	-	-	-	
PEGATRON CORPORATION	CHONGQING ZHUANSHUO TRADING CO., LTD.	Note3	Sale	(658,480)	(0.74%)	Open Account 60 days	-	-	280,258	1.35%	
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note3	Purchase	658,480	75.63%	Open Account 60 days	-	-	(280,258)	(77.38%)	
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note3	Sale	(569,873)	(80.03%)	Open Account 60 days	-	-	201,160	75.97%	
PEGATRON CORPORATION	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Note3	Purchase	569,873	0.64%	Open Account 60 days	-	-	(201,160)	(0.67%)	
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note1	Purchase	455,569	0.51%	Open Account 60 days	-	-	(29,415,873)	(98.60%)	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(2,195,857)	(2.46%)	Open Account 60 days	-	-	20,468,290	98.63%	
PEGATRON CORPORATION	MAINTeK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(2,301,699)	(43.20%)	Open Account 60 days	-	-	679,973	71.36%	
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note1	Purchase	496,901	14.41%	Open Account 60 days	-	-	(136,668)	(10.84%)	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(2,597,959)	(48.16%)	Open Account 60 days	-	-	96,570	10.17%	
PEGATRON CORPORATION	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note3	Sale	(496,901)	(42.01%)	Open Account 60 days	-	-	136,668	34.81%	
PEGATRON CORPORATION	CASITEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	(102,516)	(8.67%)	Open Account 60 days	-	-	75,303	19.26%	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note3	Sale	(101,043)	(8.54%)	Open Account 60 days	-	-	50,594	12.94%	
PEGATRON CORPORATION	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Note1	Sale	(1,479,418)	(44.08%)	Open Account 60 days	-	-	343,583	41.47%	
PEGATRON CORPORATION	PIOTEK (HK) TRADING LIMITED	Note3	Sale	(293,446)	(8.74%)	Open Account 60 days	-	-	55,318	6.68%	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Sale	(488,692)	(9.10%)	90 days on delivery	-	-	66,743	1.38%	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note1	Purchase	(273,602)	(19.67%)	Open Account 30 days	-	-	55,689	18.90%	
PEGATRON CORPORATION	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Note2	Purchase	2,228,772	27.80%	Open Account 30 days	-	-	(163,500)	(10.90%)	
PEGATRON CORPORATION	KINSUS INTERCONNECT TECHNOLOGY CORP.	Note1	Sale	(2,228,772)	(97.78%)	Open Account 30 days	-	-	163,500	93.81%	
PEGATRON CORPORATION	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Note3	Sale	101,676	(55.68%)	Open Account 60 days	-	-	14,939	69.63%	
PEGATRON CORPORATION	KINSUS TRADING (SUZHOU) CORP.	Note3	Purchase	101,676	4.48%	Open Account 60 days	-	-	(14,939)	(2.37%)	

Notes to the Parent Company Only Financial Statement

Differences in transaction terms compared to third party transactions

Transaction

Notes/accounts receivable (payable)

Purchase/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)
MEGA MERIT LIMITED	RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Purchase	910,629	4.24%	Open Account 30-60 days	-	-	(145,221)	(2.239%)
MEGA MERIT LIMITED	RI-MING (SHANGHAI) CO., LTD.	Note3	Purchase	4,821,870	22.46%	Open Account 90 days	-	-	(2,643,640)	(41.611%)
MEGA MERIT LIMITED	RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Purchase	13,115,896	61.09%	Open Account 30-60 days	-	-	(1,677,930)	(26.411%)
MEGA MERIT LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Purchase	2,618,524	12.20%	Open Account 30-60 days	-	-	(1,886,116)	(29.699%)
RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	PEGATRON CORPORATION	Note1	Sale	(489,680)	(13.46%)	Open Account 60 days	-	-	104,128	17.44%
RI-FENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(913,700)	(25.14%)	Open Account 30-60 days	-	-	145,221	15.44%
RI-MING (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(4,951,220)	(44.13%)	Open Account 90 days	-	-	2,643,640	79.42%
RI-MING (SHANGHAI) CO., LTD.	RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Sale	(1,096,946)	(9.78%)	Open Account 30-60 days	-	-	95,647	2.87%
RI-MING (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(391,844)	(3.49%)	Open Account 30-60 days	-	-	190,279	5.72%
RI-MING (SHANGHAI) CO., LTD.	RIH KUAN METAL CORPORATION	Note3	Purchase	120,648	4.11%	Open Account 30-60 days	-	-	(6,020)	(0.45%)
RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(13,070,159)	(96.19%)	Open Account 30-60 days	-	-	1,677,930	84.30%
RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Note3	Purchase	659,968	12.90%	Open Account 30-60 days	-	-	(72,672)	(5.229%)
RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RIH KUAN METAL CORPORATION	Note3	Purchase	120,046	2.35%	Open Account 30-60 days	-	-	-	-
RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(442,548)	(3.26%)	Open Account 30-60 days	-	-	291,608	14.65%
RI KAI COMPUTER ACCESSORY CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Note3	Sale	(168,854)	(5.69%)	Open Account 30-60 days	-	-	246	0.01%
RI-MING (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Note3	Purchase	177,796	15.48%	Open Account 30-60 days	-	-	(106,796)	(10.07%)
RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	Note3	Sale	(2,739,052)	(92.32%)	Open Account 30-60 days	-	-	1,886,116	99.99%
RIH KUAN METAL CORPORATION	RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Sale	(121,382)	(33.97%)	Open Account 30-60 days	-	-	-	-
RIH KUAN METAL CORPORATION	RI-MING (SHANGHAI) CO., LTD.	Note3	Sale	(120,739)	(33.73%)	Open Account 30-60 days	-	-	6,020	54.13%
RIH KUAN METAL CORPORATION	KAIJIA COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(100,596)	(28.11%)	By contract / Open Account 30-60 days	-	-	4,454	40.12%
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	Note3	Sale	(1,682,333)	(76.72%)	Open Account 30-60 days	-	-	2,665,545	77.47%
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RIPEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note3	Sale	(328,313)	(14.97%)	Open Account 30-60 days	-	-	65,239	18.76%
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	Note3	Sale	(181,560)	(8.28%)	Open Account 30-60 days	-	-	12,286	3.57%
KAIJIA COMPUTER ACCESSORY CO., LTD.	PROTEK (SHANGHAI) LTD.	Note3	Sale	(362,142)	(67.32%)	Open Account 60 days	-	-	209,138	75.18%
FUYANG TECHNOLOGY CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note2	Purchase	10,847,060	55.38%	Open Account 60 days	-	-	49,758	17.88%
FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Note2	Sale	(7,993,406)	(67.82%)	Open Account 60 days	-	-	(3,959,018)	(86.50%)
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Note1	Purchase	7,993,406	97.25%	Open Account 60 days	-	-	4,070,760	65.01%
ASROCK INCORPORATION	FUYANG TECHNOLOGY CORPORATION	Note1	Sale	(10,847,060)	(100.00%)	Open Account 60 days	-	-	(4,070,760)	(90.74%)
ASROCK INCORPORATION	ASIAAROCK TECHNOLOGY LIMITED	Note2	Purchase	6,819,371	98.34%	Open Account 90 days	No comparable client	-	(959,452)	(99.77%)
ASROCK INCORPORATION	ASROCK AMERICA, INC.	Note2	Sale	(1,571,465)	(18.75%)	Open Account 45 days	-	-	981,616	66.58%
ASROCK INCORPORATION	ASROCK EUROPE B.V.	Note2	Sale	(2,297,226)	(27.41%)	Open Account 60 days	-	-	172,523	11.70%
ASROCK INCORPORATION	ASRock Industrial Computer Corporation	Note2	Sale	(101,779)	(1.21%)	Open Account 60 days	-	-	5,818	0.39%
ASRock Industrial Computer Corporation	ASROCK INCORPORATION	Note1	Purchase	101,779	37.30%	Open Account 60 days	-	-	(5,818)	(3.49%)
ASRock Industrial Computer Corporation	ASIAAROCK TECHNOLOGY LIMITED	Note3	Purchase	178,882	65.55%	Open Account 60 days	No comparable client	-	(160,946)	(96.10%)
ASIAAROCK TECHNOLOGY LIMITED	PEGATRON CORPORATION	Note1	Purchase	2,126,689	19.42%	Open Account 90 days	-	-	(767,277)	(33.98%)
ASIAAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	Note1	Sale	(1,642,207)	(15.99%)	Open Account 90 days	-	-	601,861	24.06%
ASIAAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	Note1	Sale	(6,819,371)	(66.38%)	Open Account 60 days	-	-	959,452	38.16%
ASROCK AMERICA, INC.	ASRock Industrial Computer Corporation	Note3	Purchase	(178,882)	(1.74%)	Open Account 60 days	-	-	100,946	6.40%
ASROCK EUROPE B.V.	ASROCK INCORPORATION	Note1	Purchase	1,571,465	100.00%	Open Account 45 days	-	-	(981,616)	(100.00%)
AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	ASROCK INCORPORATION	Note1	Sale	2,297,226	100.00%	Open Account 30-60 days	-	-	(172,523)	(100.00%)
PIOTEK (HK) TRADING LIMITED	AZURE WAVE TECHNOLOGIES, INC.	Note3	Purchase	(1,286,621)	(19.00%)	Open Account 60 days	-	-	37,444	(100.00%)
PEGAVISION CORPORATION	Pegavision Japan Inc.	Note2	Sale	293,446	100.00%	Open Account 30-60 days	-	-	(55,318)	(100.00%)
PEGAVISION CORPORATION	PEGAVISION CORPORATION	Note2	Sale	(423,423)	(13.24%)	Open Account 90 days	No comparable client	-	105,879	(100.00%)
Pegavision Japan Inc.	PEGAVISION CORPORATION	Note1	Purchase	(281,593)	(8.80%)	Open Account 180 days	same as other clients	-	201,315	45.82%
Lumens Digital Optics Inc. (Lumens Optics)	PEGAVISION CORPORATION	Note1	Purchase	423,423	100.00%	Open Account 90 days	No comparable client	-	(105,879)	(100.00%)
Lumens Integration Inc.	PEGAVISION CORPORATION	Note2	Sale	281,593	100.00%	Open Account 180 days	No comparable client	-	(201,315)	(100.00%)
Lumens Integration Inc.	Lumens Digital Optics Inc. (Lumens Optics)	Note2	Purchase	(226,378)	(22.00%)	Open Account 75-90 days	-	-	43,522	24.07%
ASIAAROCK TECHNOLOGY LIMITED	Lumens Digital Optics Inc. (Lumens Optics)	Note3	Purchase	226,378	92.00%	Open Account 60 days	-	-	(43,522)	(96.60%)
ASIAAROCK TECHNOLOGY LIMITED	ASIAAROCK TECHNOLOGY LIMITED	Note3	Purchase	(1,187,438)	95.31%	Open Account 60 days	-	-	(746,473)	(96.95%)
ASIAAROCK TECHNOLOGY LIMITED	ASIAAROCK Rack Incorporation	Note3	Sale	(1,187,438)	(11.56%)	Open Account 60 days	-	-	746,473	29.85%

Note1 : Parent company

Note2 : Subsidiary measured by equity method.

Note3 : Affiliate

Note4 : To avoid counting the sales revenue twice, the Company has subtracted the repeated part of purchase and sales.

Notes to the Parent Company Only Financial Statement

Table 7 Receivables from related parties with amounts exceeding the lower of NTS100 million or 20% of capital stock
December 31, 2018

Creditor	Counterparty	Relationship with the counterparty	Balance as at		Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
			December 31, 2018	December 31, 2017		Amount	Action taken		
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Subsidiary measured by equity method	7,898,530	-	3.54 Times	-	-	-	-
"	PROTEK (SHANGHAI) LTD.	Subsidiary measured by equity method	168,759,313	-	4.72 Times	-	30,715,000	-	-
"	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Subsidiary measured by equity method	5,333,209	(Note 1)	6.60 Times	-	-	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Subsidiary measured by equity method	100,694,964	-	4.68 Times	-	8,914,355	-	-
"	DIGITEK (CHONGQING) LTD.	Subsidiary measured by equity method	29,415,873	-	4.47 Times	-	-	-	-
"	PEGATRON Czech s.r.o.	Subsidiary measured by equity method	908,745	-	4.72 Times	-	5,326	-	-
"	ASIA ROCK TECHNOLOGY LIMITED	Subsidiary measured by equity method	767,277	-	4.64 Times	-	145,230	-	-
"	PEGATRON TECHNOLOGY SERVICE INC.	Subsidiary measured by equity method	174,036	-	4.25 Times	-	-	-	-
ASIA ROCK TECHNOLOGY LIMITED	PEGATRON CORPORATION	Parent Company	601,861	-	4.57 Times	-	200,370	-	-
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Parent Company	20,468,290	-	7.05 Times	-	4,657,749	-	-
"	CHONGQING ZUANSHUO TRADING CO., LTD.	Affiliate	280,258	-	4.70 Times	-	-	-	-
"	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Affiliate	1,235,778	-	4.25 Times	-	-	-	-
"	PEGATRON CORPORATION	Parent Company	5,613,028	-	5.20 Times	-	3,488,619	-	-
COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	80,465,491	-	6.88 Times	-	23,134,791	-	-
PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	Affiliate	158,960	-	14.54 Times	-	-	-	-
"	GRAND UPRIGHT TECHNOLOGY LTD.	Affiliate	3,418,321	-	9.50 Times	-	-	-	-
PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Parent Company	136,085,432	-	5.96 Times	-	27,633,653	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Affiliate	12,586,902	-	5.28 Times	-	-	-	-
CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	679,973	-	6.47 Times	-	-	-	-
PHOTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	343,583	-	5.86 Times	-	110,173	-	-
KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	KINSUS INTERCONNECT TECHNOLOGY CORP.	Parent Company	163,500	-	12.24 Times	-	-	-	-
CASETEK HOLDINGS LIMITED(CAYMAN)	MEGA MERIT LIMITED	Subsidiary measured by equity method	730,925	-	N/A (Note 2)	-	-	-	-
RIH LI International Limited	KAI JIA COMPUTER ACCESSORY CO., LTD.	Subsidiary measured by equity method	7,678,750	-	N/A (Note 2)	-	-	-	-
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	PEGATRON CORPORATION	Parent Company	164,128	-	2.07 Times	-	61,747	-	-
"	KAI JIA COMPUTER ACCESSORY CO., LTD.	Affiliate	1,790,132	-	N/A (Note 2)	-	-	-	-
"	RI-MING (SHANGHAI) CO., LTD.	Affiliate	4,251,540	-	N/A (Note 2)	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	145,221	-	6.79 Times	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	2,643,640	-	3.52 Times	-	-	-	-
RI-MING (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Affiliate	190,279	-	4.05 Times	-	-	-	-
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Affiliate	313,262	-	N/A (Note 2)	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	1,677,930	-	5.48 Times	-	651,557	-	-
"	KAI JIA COMPUTER ACCESSORY CO., LTD.	Affiliate	2,685,197	-	N/A (Note 2)	-	-	-	-
"	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Affiliate	447,518	-	N/A (Note 2)	-	-	-	-
"	RI KAI COMPUTER ACCESSORY CO., LTD.	Affiliate	291,608	-	2.99 Times	-	338	-	-
RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	Affiliate	1,886,116	-	2.86 Times	-	595,042	-	-
KAI JIA COMPUTER ACCESSORY CO., LTD.	PROTEK (SHANGHAI) LTD.	Affiliate	209,138	-	1.82 Times	-	12,532	-	-
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	Affiliate	266,545	-	7.40 Times	-	-	-	-
KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	KAI JIA COMPUTER ACCESSORY CO., LTD.	Affiliate	223,759	-	N/A (Note 2)	-	-	-	-

Notes to the Parent Company Only Financial Statement

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
ASROCK INCORPORATION	ASROCK EUROPE B.V.	Subsidiary measured by equity method	172,523	12.52 Times	-	-	163,195	-
"	ASROCK AMERICA, INC.	Subsidiary measured by equity method	981,616	1.90 Times	327,404	-	267,186	-
ASIAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	Parent Company	959,452	3.99 Times	-	-	635,378	-
"	ASRock Rack Incorporation	Affiliate	746,473	1.63 Times	176,348	-	161,425	-
"	ASRock Industrial Computer Corporation	Parent Company	160,046	1.12 Times	3	-	58,269	-
FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Subsidiary measured by equity method	4,070,760	2.07 Times	-	-	-	-
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Parent Company	3,959,018	3.16 Times	-	-	-	-
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	Affiliate	136,068	3.99 Times	-	-	-	-
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	DIGITEK (CHONGQING) LTD.	Affiliate	201,160	3.11 Times	-	-	-	-
PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	Subsidiary measured by equity method	201,315	2.45 Times	-	-	13,757	-
PEGAVISION CORPORATION	Pegavision Japan Inc.	Subsidiary measured by equity method	105,879	7.27 Times	-	-	23,242	-

Note 1 : The amount has offsetted payables and receivables.

Note 2 : Since the receivables are not caused by selling and purchasing transactions, the turnover rate is not applicable.

Notes to the Parent Company Only Financial Statement

Table 8. Information on investees
December 31, 2018

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018	Expressed in thousands of NTD	
				December 31, 2018	December 31, 2017	Number of shares	Ownership	Book value			
PEGATRON CORPORATION	ASUSPOWER INVESTMENT CO., LTD.	Taipei	Investment holding	13,033,429	13,033,429	932,844,700	100.00%	15,763,237	469,923	469,923	(70,935)
	ASUS INVESTMENT CO., LTD.	Taipei	Investment holding	16,184,982	16,184,982	979,254,600	100.00%	16,274,719	(70,935)	(70,935)	(343,371)
	ASUSTEK INVESTMENT CO., LTD.	Taipei	Investment holding	14,593,543	14,593,543	951,278,300	100.00%	15,185,517	(343,371)	(343,371)	5,796,155
	Pegatron Holding Ltd.	Cayman Islands	Investment holding	33,462,716	33,462,716	961,906,463	100.00%	72,167,695	5,796,155	5,796,155	624
	PEGATRON USA, INC.	CA, USA	Repairing and marketing center in Northern America	16,085	16,085	50,000	100.00%	18,746	624	624	339,250
	PEGATRON HOLLAND HOLDING B.V.	NETHERLANDS	Investment holding	1,278,287	1,278,287	-	100.00%	2,654,932	339,250	339,250	27,499
	AMA PRECISION INC.	Taipei	Research and design of computer components	408,394	408,394	33,500,000	100.00%	423,699	27,499	27,499	(29,134)
	AZURE WAVE TECHNOLOGIES, INC.	New Taipei City	Manufacture of office machine, electrical components, computer and related products. Sale of precision instrument and photographic equipment.	525,750	525,750	35,750,000	23.72%	413,877	(118,427)	(118,427)	462,750
	Unihub Holding Ltd.	Cayman Islands	Investment holding	6,659,684	6,659,684	199,110,010	100.00%	6,601,151	462,750	462,750	(797)
	CASITEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	442,409	-	4,808,794	1.14%	408,538	(1,714,727)	(1,733,771)	(797)
PEGATRON SERVICE AUSTRALIA PTY. LTD.	Australia	Investment holding	30,955	-	1,374,190	100.00%	29,005	(797)	(797)	Not required to disclose	
STARLINK ELECTRONICS CORPORATION	New Taipei City	Manufacture of computer components and industrial plastics. Sale and manufacture of electronic materials.	135,144	135,144	15,000,000	50.00%	238,316	22,016	22,016	Not required to disclose	
KINSIS INTERCONNECT TECHNOLOGY CORP.	Taiwan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	727,473	727,473	55,556,221	12.32%	3,416,346	349,485	349,485	Not required to disclose	
ASROCK INCORPORATION	Taipei	Manufacture of data processing equipment, storage equipment and wireless communication equipment. Installation and sale of computer and electronic materials.	82,626	82,626	2,791,000	2.31%	138,992	594,019	594,019	Not required to disclose	
AZURE WAVE TECHNOLOGIES, INC.	New Taipei City	Manufacture of office machine, electrical components, computer and related products. Sale of precision instrument and photographic equipment.	154,000	154,000	7,000,000	4.65%	81,119	(118,427)	(118,427)	Not required to disclose	
Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	508,932	464,318	10,043,490	50.22%	1,096,450	194,231	194,231	Not required to disclose	
PEGAVISION CORPORATION	Taiwan	Manufacture of medical equipment	70,721	70,721	5,701,121	9.50%	190,783	541,157	541,157	Not required to disclose	
ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	3,752,682	3,752,682	109,000,000	31.23%	7,986,627	(926,497)	(926,497)	Not required to disclose	
PEGATRON TECHNOLOGY SERVICE INC.	Kentucky, USA	Repairing and marketing center in Northern America	94,475	94,475	2,800	100.00%	892,320	252,630	252,630	Not required to disclose	
PEGATRON LOGISTIC SERVICE INC.	CA, USA	Transferring and marketing center in Northern America	30	30	1,000	100.00%	12,220	17	17	Not required to disclose	
Huawei Investment Co., Ltd.	Taipei	Investment holding	48,780	48,780	-	48.78%	224,415	(22,652)	(22,652)	Not required to disclose	
PEGA INTERNATIONAL LIMITED	Taipei	Design service and commercial affairs	31,885	31,885	-	100.00%	31,742	(634)	(634)	Not required to disclose	
PEGATRON JAPAN Inc.	Japan	Repairing and marketing center in Japan	27,287	27,287	-	100.00%	611,625	264,283	264,283	Not required to disclose	
PEGATRON Mexico, S.A. DE C.V.	Chihuahua, Mexico	Repairing and marketing center in Mexico	231,424	231,424	-	40.51%	132,980	2,451	2,451	Not required to disclose	
PEGATRON SERVICE SINGAPORE PTE. LTD.	Singapore	Repairing and marketing center in Singapore	23,990	23,990	1,000,000	100.00%	556,792	139,809	139,809	Not required to disclose	
STARLINK ELECTRONICS CORPORATION	New Taipei City	Manufacture of computer components and industrial plastics. Sale and manufacture of electronic materials.	90,000	90,000	9,000,000	30.00%	142,990	22,016	22,016	Not required to disclose	
KINSIS INTERCONNECT TECHNOLOGY CORP.	Taiwan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	938,098	938,098	60,128,417	13.34%	3,699,193	349,485	349,485	Not required to disclose	
ASROCK INCORPORATION	Taipei	Manufacture of data storage, data processing equipment and communication equipment. Sale of computer equipment and electronic material.	155,718	155,718	57,217,754	47.39%	2,849,454	594,019	594,019	Not required to disclose	
Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	7,338	6,350	587,079	2.94%	64,092	194,231	194,231	Not required to disclose	
ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	3,488,741	3,488,741	103,000,000	29.51%	7,546,761	(926,497)	(926,497)	Not required to disclose	
ASFLY TRAVEL SERVICE LIMITED	Taipei	Travel industry	6,000	6,000	-	100.00%	15,143	(2,035)	(2,035)	Not required to disclose	
HUA-YUAN INVESTMENT LIMITED	Taipei	Investment holding	500,000	500,000	-	100.00%	462,520	(51,985)	(51,985)	Not required to disclose	
PEGATRON Mexico, S.A. DE C.V.	Chihuahua, Mexico	Repairing and marketing center in Mexico	369,938	369,938	-	59.49%	195,285	2,451	2,451	Not required to disclose	

Notes to the Parent Company Only Financial Statement

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018				Book value	Net profit (loss) of the investee for the year ended December 31, 2018 (279,370)	Investment income (loss) recognised by the Company for the year ended December 31, 2018
				December 31, 2018	December 31, 2017	Number of shares	Ownership	December 31, 2018	December 31, 2018			
ASUSTEK INVESTMENT CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Hsinchu	Manufacture of wire, cable and electronic components. Sale of electronic material.	464,711	464,711	32,088,436	17.83%	367,701			Not required to disclose	
"	STARLINK ELECTRONICS CORPORATION	New Taipei City	Manufacture of computer components and industrial plastics. Sale and manufacture of electronic materials.	60,000	60,000	6,000,000	20.00%	95,327		22,016	Not required to disclose	
"	KINSUS INTERCONNECT TECHNOLOGY CORP.	Taiyuan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	794,252	794,252	58,233,091	12.92%	3,582,726		349,485	Not required to disclose	
"	ASROCK INCORPORATION	Taipei	Manufacture of data processing equipment, storage equipment and wire communication equipment. Installation and sale of computer and electronic materials.	223,939	223,939	7,453,405	6.17%	371,181		594,019	Not required to disclose	
"	AZURE WAVE TECHNOLOGIES, INC.	New Taipei City	Manufacture of office machine, electrical components, computer and related products. Sale of precision instrument and photographic equipment.	98,487	98,487	6,696,930	4.44%	77,455		(118,427)	Not required to disclose	
"	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	5,117	4,428	409,427	2.05%	44,697		194,231	Not required to disclose	
"	PEGAVISION CORPORATION	Taiyuan	Manufacture of medical equipment	64,292	64,292	5,133,434	8.56%	171,785		541,157	Not required to disclose	
"	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	4,652,885	4,652,885	137,000,000	39.26%	10,040,185		(926,497)	Not required to disclose	
"	FUYANG TECHNOLOGY CORPORATION	Hsinchu	Manufacture of wire, cable and electronic components. Sale of electronic materials.	929,422	929,422	64,176,872	35.65%	735,196		(279,370)	Not required to disclose	
PEGATRON SERVICE SINGAPORE PTE. LTD.	PEGATRON SERVICE KOREA LLC.	Korea	Repairing and marketing center in Korea	46,073	46,073	360,000	100.00%	274,017		65,409	Not required to disclose	
Pegatron Holding Ltd.	MAGNIFICENT BRIGHTNESS LIMITED	Virgin Islands	Investment holding and commercial affairs	7,997,598	7,997,598	177,961,090	100.00%	25,917,331		1,574,336	Not required to disclose	
"	PROTEK GLOBAL HOLDINGS LTD.	Virgin Islands	Investment holding and commercial affairs	9,196,026	9,196,026	308,100,000	100.00%	28,073,257		1,659,135	Not required to disclose	
"	ASLINK PRECISION CO., LTD.	Cayman Islands	Investment holding and commercial affairs	5,995,774	5,995,774	199,711,968	100.00%	9,409,444		930,946	Not required to disclose	
"	DIGITEK GLOBAL HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	1,506,525	1,506,525	49,050,000	100.00%	5,244,638		428,926	Not required to disclose	
"	COTEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	2,119,796	2,119,796	81,275,000	100.00%	1,269,774		719,296	Not required to disclose	
"	TOP QUARK LIMITED	HongKong	Investment holding	325,410	325,410	9,550,000	100.00%	178,370		(10,306)	Not required to disclose	
"	POWTEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	403,764	403,764	8,050,000	100.00%	959,884		5,893	Not required to disclose	
"	PIOTEK HOLDINGS LTD.(CAYMAN)	Cayman Islands	Investment holding	2,834,180	2,834,180	92,000,000	49.00%	697,708		(572,198)	Not required to disclose	
"	GRAND UPRIGHT TECHNOLOGY LTD.	Samoa	Investment holding and commercial affairs	40,735	40,735	1,000	100.00%	393,215		(136,304)	Not required to disclose	
KINSUS INTERCONNECT TECHNOLOGY CORP.	KINSUS INVESTMENT CO., LTD.	Taiyuan	Investment holding	1,600,000	1,600,000	160,000,000	100.00%	1,848,536		99,261	Not required to disclose	
"	KINSUS CORP. (USA)	CA, USA	Design substrate, analyze market strategy, development new customer and new technology.	15,358	15,358	500,000	100.00%	48,437		7,140	Not required to disclose	
"	KINSUS HOLDING (SAMOA) LIMITED	Samoa	Investment holding	5,108,172	5,108,172	166,308,720	100.00%	2,125,024		(182,216)	Not required to disclose	
KINSUS INVESTMENT CO., LTD.	PEGAVISION CORPORATION	Taiyuan	Manufacture of medical equipment	286,418	286,418	22,088,736	36.81%	739,178		541,157	Not required to disclose	
"	FUYANG TECHNOLOGY CORPORATION	Hsinchu	Manufacture of wire, cable and electronic components. Sale of electronic material.	929,422	929,422	64,176,872	35.65%	735,275		(279,370)	Not required to disclose	
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION	Samoa	Investment holding	65,423	65,423	2,130,000	100.00%	(45,900)		3,286	Not required to disclose	
"	PEGAVISION JAPAN INC.	Japan	Sale of medical equipment	2,754	2,754	198	100.00%	10,200		5,672	Not required to disclose	
KINSUS HOLDING (SAMOA) LIMITED	KINSUS HOLDING (CAYMAN) LIMITED	Cayman Islands	Investment holding	2,211,480	2,211,480	72,000,000	100.00%	1,398,853		109,598	Not required to disclose	
"	PIOTEK HOLDINGS LTD.(CAYMAN)	Cayman Islands	Investment holding	2,896,701	2,896,701	95,755,000	51.00%	726,195		(572,198)	Not required to disclose	
PIOTEK HOLDINGS LTD. (CAYMAN)	PIOTEK HOLDING LIMITED	Virgin Islands	Investment holding	4,295,210	4,295,210	139,840,790	100.00%	1,423,886		(572,199)	Not required to disclose	

Notes to the Parent Company Only Financial Statement

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Book value	Net profit (loss) of the investee for the year ended December 31, 2018	Investment income (loss) recognised by the Company for the year ended December 31, 2018	Footnote
				December 31, 2018	December 31, 2017	Number of shares	Ownership	December 31, 2018				
PROTEK HOLDING LIMITED	PIOTEK (HK) TRADING LIMITED	HongKong	Commercial affairs	799	799	200,000	100.00%	76,511	3,101	Not required to disclose		
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD.	Cayman Islands	Investment holding and commercial affairs	1,357,292	1,357,292	44,100,000	100.00%	1,056,494	(153,134)	Not required to disclose		
ASROCK INCORPORATION	ASROCK Rack Incorporation	Taipei	Manufacture and sale of computer related products	98,302(Notes 3)	197,264	9,830,198(Notes 3)	65.97%	(56,788)	2,094	Not required to disclose		
"	ASAROCK TECHNOLOGY LIMITED	Virgin Islands	Investment holding	1,320,886	1,320,886	40,000,000	100.00%	3,730,163	43,101	Not required to disclose		
"	Leader Insight Holdings Ltd.	Virgin Islands	Investment holding	71,559	71,559	2,100,000	100.00%	(12,187)	(18,303)	Not required to disclose		
"	ASRock Industrial Computer Corporation	Taipei	Manufacture and sale of computer related products	123,700	-	12,370,000	82.47%	119,745	(4,795)	Not required to disclose		
"	Yabo Trading Co., Ltd.	HongKong	International trade	588	-	150,000	100.00%	588	-	Not required to disclose		
ASAROCK TECHNOLOGY LIMITED	ASROCK EUROPE B.V.	Nijmegen, NETHERLANDS	Sale of data storage devices and electronic materials	5,959	5,959	200,000	100.00%	479,336	49,419	Not required to disclose		
"	CarRock Holdings, LLC.	CA, USA	Renting offices	61,430	61,430	2,000,000	100.00%	69,375	(1,153)	Not required to disclose		
"	Orbwe Inc. (BVI)	Virgin Islands	Installation of computer equipment and sale of computer related product	30,715	30,715	4,000,000	27.59%	-	(6,431)	Not required to disclose		
Leader Insight Holdings Ltd.	First place International Ltd.	Virgin Islands	Investment holding	62,966	62,966	2,050,000	100.00%	(12,234)	(18,303)	Not required to disclose		
First place International Ltd.	ASROCK AMERICA, INC.	CA, USA	Sale of data storage devices and electronic materials	61,430	61,430	2,000,000	100.00%	(13,258)	(18,307)	Not required to disclose		
Lumens Digital Optics Inc. (Lumens Optics)	Lumens Integration Inc.	CA, USA	Purchase and sale on computer product and computer related product	37,196	37,196	1,222,000	100.00%	26,232	(3,406)	Not required to disclose		
"	Lumens Digit Image Inc.	Samoa	Investment holding	7,679	7,679	250,000	100.00%	20,143	1,654	Not required to disclose		
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	10,837,698	7,188,578	245,016,988	58.27%	19,132,452	(1,714,727)	Not required to disclose	Note 1	
PEGATRON TECHNOLOGY SERVICE INC.	PEGATRON SERVIÇOS DE INFORMÁTICA LTDA	Brasil	Repairing service	19,965	19,965	-	100.00%	(25,668)	-	Not required to disclose		
Unihan Holding Ltd.	CASETEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	5,034,213	5,034,213	115,275,668	100.00%	5,190,991	430,622	Not required to disclose		
CASETEK HOLDINGS LIMITED	WILSON HOLDINGS LIMITED	Samoa	Investment holding and commercial affairs	-	83,729	-	-	-	-	Not required to disclose		
"	SLITEK HOLDINGS LIMITED	Samoa	Investment holding and commercial affairs	37,165	37,165	1,210,000	100.00%	22,033	(7,470)	Not required to disclose		
"	KAEDAR HOLDINGS LIMITED	HongKong	Investment holding and commercial affairs	767,875	767,875	25,000,000	100.00%	1,108,441	10,417	Not required to disclose		
"	KAEDAR TRADING LTD.	Samoa	Investment holding and commercial affairs	153,575	153,575	5,000,000	100.00%	564,883	11,700	Not required to disclose		
AMA PRECISION INC.	AMA Holdings Limited	Samoa	Investment holding	169,744	169,744	5,131,948	100.00%	122,166	2,415	Not required to disclose		
AZURE WAVE TECHNOLOGIES, INC.	Azaware Holding (Samoa) Inc.	Samoa	Investment holding	1,585,683	1,585,683	50,177	100.00%	977,412	(114,249)	Not required to disclose		
"	EZWAWE TECHNOLOGIES, INC.	Taipei	Information product service industry	5,015	5,015	500	100.00%	(20,968)	(714)	Not required to disclose		
"	AZURE LIGHTING TECHNOLOGIES, INC.	New Taipei City	Sale of electronic materials	25,000	25,000	2,000	100.00%	27,907	4,974	Not required to disclose		
"	Azaware Technologies (USA) INC.	CA, USA	Market development	15,165	10,642	500	100.00%	1,031	(4,206)	Not required to disclose		
"	VENCE PRECISION & TOOLS CO.,LTD.	New Taipei City	Sale of electronic materials	10,000	10,000	1,000	40.00%	1,336	(1,836)	Not required to disclose		

Note 1 : Because the foreign holding investee companies prepare consolidated financial statements only, the disclosure of the company's investments is only to the level of the holding company.

Note 2 : Income and expenses for each statement of comprehensive income are translated at average exchange rates of 2018, the others are translated at the spot exchange rate at the date of that balance sheet.

Note 3 : The Board of Directors of ASRock Rack Incorporation has passed a resolution to reduce capital in order to compensate for accumulated loss on August 6, 2018. The reduction ratio is 50.17% and the total number of shares is 1,490,000 shares. The capital reduction is approved on October 17, 2018. Consequently, the investment was reduced from 19,264 thousands. The number of shares held was reduced from 19,726,371 shares to 9,830,198 shares.

Notes to the Parent Company Only Financial Statement

Table 9 Information on investments in Mainland China
December 31, 2018

1. The names of investees in Mainland China, the main businesses and products, and other information

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Mainland China (Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note 2, (2))	Book value of investment in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018
					Remitted to Mainland China	Remitted back to Taiwan						
MAINTeK COMPUTER (SUZHOU) CO., LTD. (Note 5)	Manufacture, develop and research and sale of power supplier, new electronic component, computer case, and computer system. Repair of laptop, motherboard and related product.	7,021,142 USD 228,590,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	5,430,412 USD 176,800,000	-	-	5,430,412 USD 176,800,000	1,574,332 USD 52,287,075	100%	1,574,332 USD 52,287,075	26,009,109 USD 846,788,516	-
PROTEK (SHANGHAI) LTD.	Develop and research, manufacture, assemble, repair, sale and design of satellite communication equipment, satellite navigation receive equipment and essential component. Sale of cellphone, medium and large sized computer, portable computer, printing machine and electrical component.	9,460,220 USD 308,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	9,460,220 USD 308,000,000	-	-	9,460,220 USD 308,000,000	1,659,172 USD 55,104,782	100%	1,659,172 USD 55,104,782	27,964,813 USD 910,461,119	-
PIOTEK COMPUTER (SUZHOU) (Note 7)	Develop and research, manufacture and sale of new type of precision electrical component, circuit board and related product. The company also provides after sale service.	5,120,191 USD 166,700,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,395,882 USD 45,446,280	-	-	1,395,882 USD 45,446,280	(575,052) (USD 19,098,769)	68.68%	(394,946) (USD 13,117,035)	925,143 USD 30,120,225	-
COTeK ELECTRONICS	Develop, manufacture and sale of new electrical component, plugs and corresponding precision mold. The company also provides after sale service.	2,487,915 USD 81,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	2,119,335 USD 69,000,001	-	-	2,119,335 USD 69,000,001	696,938 USD 23,146,841	100%	696,938 USD 23,146,841	1,298,426 USD 42,273,565	-
RUNTOP (SHANGHAI) CO., LTD.	Manufacture and sale of computer components, digital automatic data processing machine, accessories of multimedia computer, power supplier, network switch and data machine.	215,005 USD 7,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	323,874 USD 10,544,482	-	-	323,874 USD 10,544,482	(10,174) (USD 337,889)	100%	(10,174) (USD 337,889)	178,100 USD 5,798,454	-
POWTEK (SHANGHAI) LTD.	Sale of computer motherboard, computer, laptop, service machine and computer related items. The company also provides after sale service.	245,720 USD 8,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	403,764 USD 13,145,510	-	-	403,764 USD 13,145,510	5,947 USD 197,501	100%	5,947 USD 197,501	959,361 USD 31,234,271	-
DIGITEK (CHONGQING) LTD.	Research and development, manufacture, sale of satellite communication equipment, satellite navigation receive equipment, cellphone, internet related equipment, computer, video decoding equipment, car-used electrical equipment and component. The company also provides export, proxy, repair services.	1,505,035 USD 49,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,505,035 USD 49,000,000	-	-	1,505,035 USD 49,000,000	249,064 USD 8,271,979	100%	249,064 USD 8,271,979	5,239,624 USD 170,588,447	-
PEGAGLOBE (KUNSHAN) CO., LTD.	Manufacture of satellite navigation receiving equipment, cellphone, core equipment, internet detection equipment, large and medium sized computer, easy to carry computers, high end service equipment, large volume light driver and their component.	5,958,710 USD 194,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	5,958,710 USD 194,000,000	-	-	5,958,710 USD 194,000,000	930,208 USD 30,894,274	100%	930,208 USD 30,894,274	9,357,288 USD 304,648,819	-
CASFETEK COMPUTER (SUZHOU) CO., LTD.	Manufacture, development and research and sale of computer, computer system and its component. The company also provides after sale service.	1,720,040 USD 56,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,720,040 USD 56,000,000	-	-	1,720,040 USD 56,000,000	352,947 USD 11,722,159	100%	352,947 USD 11,722,159	2,724,443 USD 88,700,724	-

Notes to the Parent Company Only Financial Statement

Expressed in thousands of NTD / other currency (dollars)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Mainland China / Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittances from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note 2, 7)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018
					Remitted to Mainland China	Remitted back to Taiwan						
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Manufacture of plastic injection products.	537,513 USD 17,500,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	752,735 USD 24,507,092	-	-	752,735 USD 24,507,092	10,408 USD 345,687	100%	10,408 USD 345,687	1,092,798 USD 35,578,648	-
LIMITED	Research, manufacture and sale of laptop components and precision equipment. Design non-metal molds and electronic devices. The company also provides after sale service and consulting service.	368,580 USD 12,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	368,580 USD 12,000,000	-	-	368,580 USD 12,000,000	3,093 USD 102,741	100%	3,093 USD 102,741	203,880 USD 6,637,794	-
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Research and develop, manufacture and inspect computer and implication system. Manufacture molds, precision molds, plastic components. Sale of automatic products.	307,150 USD 10,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	307,150 USD 10,000,000	-	-	307,150 USD 10,000,000	21,404 USD 710,874	100%	21,404 USD 710,874	280,673 USD 9,137,974	-
Zhangjiagang East High-tech LTD.	Process, sale and transportation of steel.	184,290 USD 6,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	36,858 USD 1,200,000	-	-	36,858 USD 1,200,000	(37,261) (USD 1,237,516)	20%	(7,452) (USD 247,503)	20,672 USD 673,035	-
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Research and develop, manufacture, test, repair and sale of Multilayer flexible board and computer number signal processor.	1,351,460 USD 44,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	1,351,460 USD 44,000,000	-	-	1,351,460 USD 44,000,000	(153,107) (USD 5,085,023)	67.38%	(103,163) (USD 3,426,289)	709,697 USD 23,105,868	-
(Note 13)												
HONGJIE (SHANGHAI) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	153,575 USD 5,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	28,650 USD 932,769	-	-	28,650 USD 932,769	(884) (USD 29,368)	-	(265) (USD 8,810)	-	-
(Note 14)												
HONGJIE (SUZHOU) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	408,816 USD 13,309,984	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	185,081 USD 6,025,762	-	-	185,081 USD 6,025,762	(17,081) (USD 567,304)	-	(5,124) (USD 170,191)	-	-
(Note 14)												
Suzhou Eshine Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	156,647 USD 5,100,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	35,536 USD 1,156,954	-	-	35,536 USD 1,156,954	44 (USD 1,465)	-	10 USD 316	-	-
(Note 14)												
HONGJIE (CHONGQING) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	15,358 USD 500,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	2,350 USD 76,500	-	-	2,350 USD 76,500	(60) (USD 1,996)	-	(9) (USD 305)	-	-
(Note 14)												
Hongrushing (Chengde) packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	80,166 USD 2,610,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	19,443 USD 633,000	-	-	19,443 USD 633,000	-	-	-	-	-
(Note 12)												
Heilongjiang Hongjie Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	75,559 USD 2,460,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	13,601 USD 442,800	-	-	13,601 USD 442,800	-	-	-	-	-
(Note 11)												
Suzhou Lianshuo Electronics LTD.	Manufacture of plugs	2,145,27 USD 6,984,441	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	235,161 USD 7,656,224	-	-	235,161 USD 7,656,224	-	-	-	-	-
(Note 6)												
Shanghai Yiding Electronics LTD.	Research and develop, manufacture and sale of portable micro computer, laptop and related products.	952,165 USD 31,000,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	602,014 USD 19,600,000	-	-	602,014 USD 19,600,000	-	-	-	-	-
(Note 8)												
Jinhong Precision Mold (Suzhou) Co., Ltd.	Design, process, sale and manufacture of non-metal molds. Manufacture and sale of precision molds, standard molds, plastic and hardware.	27,644 USD 900,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	52,676 USD 1,715,000	-	-	52,676 USD 1,715,000	-	-	-	-	-
(Note 10)												

Notes to the Parent Company Only Financial Statement

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Mainland China /Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note2, (2))	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018
					Remitted to Mainland China	Remitted back to Taiwan						
Honghua Technology (Suzhou) LTD (Note 9)	Manufacture, research and develop, process non-metal molds, precision molds, standard molds, hardware components, new version of photoelectric trigger, disk driver and their components. Manufacture of number camera, essential components and providing after sale service.	196,576 USD 6,400,000	Through setting up company in the third area, the Company then invest in the investee in Mainland China.	96,322 USD 3,136,000	-	96,322 USD 3,136,000	-	-	-	-	-	-

2. Limitation on investment in Mainland China

Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 4)
32,404,889 USD 1,055,018,374	34,026,334 USD 1,107,808,374	111,866,070

US dollar exchange rate : year end exchange rate 30.715 ; average exchange rate 30.1094

Note 1: Investment methods are classified into the following three categories:

- (1) Through company in the third area, the Company transferred money to invest in the investee in Mainland China.
- (2) Through setting up company in the third area, the Company then invest in the investee in Mainland China.
- (3) Through investing in the third area, the Company then invest in the investee in Mainland China.

Note 2 : The basis for investment income (loss) recognition:

- (1) If the company is under preparation status, there is no income or loss.
- (2) The basis for investment income (loss) recognition can be classified to three categories:
 1. Financial statements are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
 2. Financial statements which were based on the audited and attested by R.O.C. parent company's CPA.

Note 3 : The chart is expressed in NTD. Investment profit or loss is converted based on average exchange rate. Book value of the investment is converted based on year-end exchange rate.

Note 4 : Ceiling on investments is higher of its net asset or 60% of the consolidated net assets.

Note 5 : MAINTEK COMPUTER (SUZHOU) CO., LTD.'s paid-in capital includes capital increase by retained earnings of USD51,790,000.

Note 6 : Suzhou Limshuo Electronics LTD. has completed liquidation process. As of December 31, 2018, the funds have not been remitted.

Note 7 : PIOTEK COMPUTER (SUZHOU) CO., LTD.'s paid-in capital includes capital increase by retained earnings of USD27,000,000. The ownership percentage includes shares held by other subsidiaries.

Note 8 : The Consolidated Company has disposed of shares of Induced Holdings Limited (indirectly invested in Shanghai Yiding Electronics LTD.). As of December 31, 2018, the funds have not been remitted.

Note 9 : Honghua Technology (Suzhou) LTD. has completed liquidation process. As of December 31, 2018, the funds have not been remitted.

Note 10 : The Consolidated Company has disposed shares of Jinhong Precision Mold Industrial (Suzhou) Co., Ltd.. As of December 31, 2018, the funds have not been remitted.

Note 11 : The Consolidated Company has disposed shares of Heilongjiang Hongjie Packaging LTD. As of December 31, 2018, the funds have not been remitted.

Note 12 : Hongguisheng (Chengdao) packaging LTD. has completed liquidation process. As of December 31, 2018, the funds have not been remitted.

Note 13 : Accumulated investment amount includes FUYANG TECHNOLOGY CORPORATION transferred out USD26,000,000.

Note 14 : The Consolidated Company has disposed all shares of E-Packaging. As of December 31, 2018, the funds have not been remitted.

Note 15 : The Consolidated Company has lost control in 2018 Q2. The investment income or loss measured under equity method is recognized till 2018 Q2.

PEGATRON CORPORATION

Statement of Accounts Rreceivable

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Related party			
PROTEK (SHANGHAI) Ltd.	Loan	\$ 168,759,313	
DIGITEK (CHONGQING) Ltd.	"	29,415,873	
PEGAGLOBE (KUNSHAN) CO., Ltd.	"	100,694,964	
Other (Note)	"	<u>15,113,180</u>	
Subtotal		<u>313,983,330</u>	
Non-related party			
A	"	97,129,443	
B	"	13,793,314	
C	"	9,632,386	
Other (Note)	"	<u>58,252,759</u>	
Subtotal		178,807,902	
Less: Allowance for impairment		<u>(1,559,628)</u>	
Subtotal		<u>177,248,274</u>	
Total		<u><u>\$ 491,231,604</u></u>	

Note: The year-end balance of each client doesn't exceed 5 % of the account balance.

PEGATRON CORPORATION

Statement of Inventory

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>		<u>Note</u>
	<u>Cost</u>	<u>Net realized value</u>	
Merchandise	\$ 49,921,122	50,299,133	
Finished goods	99,070	105,711	
Work in process	148,129	312,015	
Raw material	769,575	772,274	Normal goods use rework cost as market value ; inactive goods use net realized value as market value.
Total	<u>50,937,896</u>	<u>51,489,133</u>	
Less: Allowance for inventory market decline and obsolescence	<u>(1,172,284)</u>		
Net value	<u>\$ 49,765,612</u>		

PEGATRON CORPORATION
Statement of Changes in Investments Accounted for Using Equity Method
For the year ended December 31, 2018
(Expressed in thousands of New Taiwan Dollars)

Name of investee	Beginning Balance		Addition		Decrease		Investment income or loss	Translation adjustment	Capital surplus	Cash dividend	Unrealized gain or loss of financial instruments	Re-measurement of defined benefit plans	Realized gross margin	Shares (in thousand)	Ending Balance Percentage of ownership	Amount	Market Value or Net Assets Value		Collateral
	Shares (in thousand)	Amount	Shares (in thousand)	Amount	Shares (in thousand)	Amount											Unit price	Total amount	
ASUSPOWER INVESTMENT CO., LTD.	932,845	\$ 15,977,656	-	-	-	-	469,923	65,885	28,439	(748,059)	(30,089)	(518)	-	932,845	100.00%	15,763,237	16.90	15,763,237	None
ASUS INVESTMENT, LTD.	979,255	16,738,604	-	-	-	-	(70,935)	80,027	84,327	(562,980)	(2,941)	(1,383)	-	979,255	100.00%	16,274,719	16.62	16,274,719	"
ASUSTEK INVESTMENT CO., LTD.	951,278	15,823,245	-	-	-	-	(343,371)	32,845	48,685	(375,333)	-	(554)	-	951,278	100.00%	15,185,517	15.96	15,185,517	"
UNIHAN HOLDING LTD.	199,110	6,153,701	-	-	-	-	462,750	(15,300)	-	-	-	-	-	199,110	100.00%	6,601,151	33.15	6,601,151	"
AMA PRECISION INC.	33,500	392,805	-	-	-	-	27,499	3,395	-	-	-	-	-	33,500	100.00%	423,699	12.65	423,699	"
AZURE WAVE TECHNOLOGIES, INC.	35,750	432,070	-	-	-	-	(29,134)	(10,844)	21,796	-	-	(11)	-	35,750	23.72%	413,877	20.60	736,450	"
PEGATRON HOLDING LTD.	961,906	64,297,504	-	-	-	-	5,796,155	2,074,036	-	-	-	-	-	961,906	100.00%	72,167,695	75.03	72,167,695	"
PEGATRON USA, INC.	50	17,547	-	-	-	-	624	575	-	-	-	-	-	50	100.00%	18,746	374.92	18,746	"
Pogatron Holland Holding B.V.	-	2,337,749	-	-	-	-	339,250	(19,614)	-	-	-	-	(2,453)	-	-	2,654,932	-	2,654,932	"
CASITEK HOLDINGS LIMITED (CAYMAN)	-	-	4,809	442,409	-	-	(17,337)	(3,237)	745	(12,022)	-	-	-	4,809	1.14%	408,538	39.35	189,226	"
PEGATRON SERVICE AUSTRALIA PTY LTD.	-	-	1,374	30,955	-	-	(797)	(1,153)	-	-	-	-	-	1,374	100.00%	29,005	21.11	29,005	"
Total		\$ 122,190,881		\$ 473,364			\$ 6,634,627	\$ 2,204,595	\$ 188,992	\$ (1,698,394)	\$ (43,030)	\$ (2,466)	\$ (2,453)			\$ 129,941,116		\$ 129,941,116	

PEGATRON CORPORATION

Statement of Short-term Loan

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Type</u>	<u>Ending Balance</u>	<u>Contract Period</u>	<u>Interest Rate</u>	<u>Collateral</u>	<u>Note</u>
Unsecured bank loans	\$ <u><u>59,433,525</u></u>	2018.10.25~2019.02.28	0.51%~5.11%	None	

PEGATRON CORPORATION

Statement of Accounts Payable

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Vendor name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Related party			
PROTEK (SHANGHAI) Ltd	Loan	\$ 136,085,432	
DIGITEK (CHONGQING) Ltd	"	20,468,290	
PEGAGLOBE (KUNSHAN) CO., Ltd	"	80,465,491	
Other (Note)	"	<u>7,015,965</u>	
Subtotal		<u>244,035,178</u>	
Non-related party			
A	"	90,056,268	
Other(Note)	"	<u>109,595,181</u>	
Subtotal		<u>199,651,449</u>	
Total		<u>\$ 443,686,627</u>	

Note: The year-end balance of each vendor doesn't exceed 5% of the account balance.

Statement of Operating Revenue

For the year ended December 31, 2018

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>	<u>Note</u>
Sales revenue :			
3C electronic products	209,167 thousand units	\$ 1,201,796,543	Note 1
Others		<u>32,536,755</u>	Note 2
		<u>\$ 1,234,333,298</u>	

Note 1: 3C electronic products contain information technology products, consumer electronic products, and communication products.

Note 2: Others contain repair revenue, service revenue, and others.

PEGATRON CORPORATION

Statement of Operating Costs

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Amount	
	Subtotal	Total
Cost of sales from manufacturing		
Raw material, January 1		\$ 556,758
Add: Purchase (Note1)		10,477,198
Less: Transferred (includes amount transferred to each expense and loss) (Note1)		(204,614)
Raw material, December 31		(769,575)
Direct labor		181,838
Manufacturing expenses		<u>3,087,273</u>
Cost of manufacturing		13,328,878
Add: Work in process, January 1		145,566
Less: Transferred (includes amount transferred to each expense and loss) (Note1)		(177,237)
Work in process, December 31		<u>(148,129)</u>
Cost of finished goods		13,149,078
Add: Finished goods, January 1		61,332
Less: Transferred (includes amount transferred to each expense and loss) (Note1)		(359,873)
Finished goods, December 31		<u>(99,070)</u>
Cost of self-manufactured products		12,751,467
Merchandise, January 1	35,556,778	
Add: Purchase (Note1)	2,349,154,668	
Less: Transferred (includes amount transferred to each expense and loss) (Note1)	(1,131,696,194)	
Merchandise, December 31	<u>(49,921,122)</u>	<u>1,203,094,130</u>
Cost of goods sold		1,215,845,597
Other business costs		550,119
Allowance for inventory market decline		112,569
Allowance for inventory obsolescence		<u>37,123</u>
Operating costs		<u><u>\$ 1,216,545,408</u></u>

Note1: The product is processed by subsidiary and sold back to the Company. The number includes the sold back price of the product.

PEGATRON CORPORATION

Statement of Operating Expenses

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Sales</u>	<u>Administration</u>	<u>Research and Development</u>	<u>Total</u>
Salary and wages expenses	\$ 996,483	1,617,690	5,589,997	8,204,170
Rent expense	162	33,004	67,979	101,145
Premium	56,930	68,084	19,122	144,136
Traveling expense	59,263	17,965	221,310	298,538
Transportation expense	362,323	1,219	18,259	381,801
Utilities expense	7,556	6,878	52,027	66,461
Insurance expense	124,820	71,107	379,068	574,995
Depreciation expense	26,692	114,371	169,698	310,761
Amortization	10,518	39,013	26,586	76,117
Employee benefit	64,419	59,074	380,560	504,053
Pension	34,023	37,050	201,725	272,798
Examination expense	7,911	-	259,397	267,308
Professional service fees	62,423	62,870	29,478	154,771
Miscellaneous purchase	10,583	16,609	142,904	170,096
Office supplies	19,123	1,379	26,405	46,907
Research and development expense	-	-	396,800	396,800
Rework expense	15,676	17	11,059	26,752
Storage expense	113,684	-	-	113,684
Donation	-	60,332	-	60,332
Export expense	88,537	86	2,675	91,298
Other	<u>116,543</u>	<u>59,483</u>	<u>182,665</u>	<u>358,691</u>
	<u>\$ 2,177,669</u>	<u>2,266,231</u>	<u>8,177,714</u>	<u>12,621,614</u>

PEGATRON CORPORATION

Statement of Manufacturing Expenses

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>	<u>Note</u>
Salary and wages expenses	\$ 1,078,087	
Rent expense	51,801	
Insurance expense	90,299	
Depreciation expense	228,376	
Amortization	104,877	
Employee benefit	103,065	
Pension	42,437	
Professional service fees	27,042	
Miscellaneous purchase	54,241	
Office supplies	13,270	
Import expense	46,282	
Outsource processing expense	454,601	
Processing expense	28,628	
Rework expense	504,465	
Transportation expense	5,362	
Storage expense	147,016	
Other	<u>107,424</u>	
	<u>\$ 3,087,273</u>	

Pegatron Corporation



T.H. Tung, Chairman



