

2019

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).

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1. Letter to Shareholders

Dear Shareholders,

Looking back at global political and economic scene in 2019, trade activities have been reduced and global supply chain restructured amid prolonged trade dispute between US and China. Rising awareness of trade protectionism, increasing geopolitical frictions and deteriorating economic performance in emerging market further fuelled global economic slowdown. Looking forward to 2020, trade tension is expected to ease gradually after US-China phase 1 trade deal and quantitative easing measures adopted by major economies will help stimulate global growth and also benefit emerging economies. Nevertheless, global economic stability is contingent upon a few factors such as outcome of continuous US and China trade negotiation, escalation of geopolitical conflict and handling of major public health crisis. Operating in a rapidly evolving business environment, Pegatron has responded promptly to all kind of changes by adjusting production capacity, allocating adequate resources and implementing cost control measure. As a result, Pegatron successfully achieved record sales in 2019 and improved profitability on a year-over-year basis.

Financial Performance

The consolidated revenue of 2019 reached NT\$1,366 billion, increased by 2.0% from NT\$1,340 billion in 2018 with growth margin of 3.3%. Profit attributable to owners of the parent company was NT\$19.3 billion, increased by NT\$8.2 billion from NT\$11.1 billion in the previous year and EPS was NT\$7.40 in 2019. Benefitted from new product launch in computing segment and better than expected demand in communication segment, Pegatron reported record sales in 2019. Manufacturing efficiency and profitability also improved on a year-over-year basis driven mainly by stable utilization, precise planning in labor and material and effective cost management. In 2019, Communication segment has the highest revenue contribution, followed by Consumer Electronics and Computing segments.

Technical Capability and Operating Highlights

Pegatron continues strengthening research and development capabilities in 5G technology and enhancing strategic deployment in areas such as mobile devices, network communication, smart home devices, automotive electronics and Internet of Vehicles. While investments in 5G infrastructure are rolling out extensively around the globe, Pegatron also allocates resources on developing broadband products applying 5G technology and successfully proceeds to the next stage of trial production and customer validation. As 5G platform provides opportunities for innovative business models and enterprise private network built on 5G application has clearly become a trend, Pegatron is well prepared to take part in field experiment of 5G vertical application, proceed with proof of concept (PoC) and proof of business (PoB) on 5G private

network and accelerate research and development on 5G vertical application related technologies as well as product design. Furthermore, along with the development of Internet of Vehicles, Pegatron focuses on expanding customer base and product scope in automotive industry by integrating years of experiences in automotive electronics, core competence in electrical engineering and capabilities in automated production. In terms of operation, to minimize potential impact to regional manufacturing activities over trade dispute, Pegatron has been deploying globally, including investing in Taiwan and expanding manufacturing footprint to South East Asia. To further fulfill customers' requirements, we will continue adjusting manufacturing capacity at group level, optimizing supply chain management and searching for new manufacturing base that can strengthen Pegatron's competitiveness in the mid to long term.

Awards and Social Responsibility

Climate change has become a key focus worldwide, and Pegatron, as a corporate citizen, has included climate change as one of the key considerations for business sustainability. In order to mitigate the impact of climate change, we have established a long-term energy conservation and carbon reduction goal, and actively engaged with CDP.

To reduce the amount of energy consumed during manufacturing processes and duration of use, products are designed in an eco-friendly manner and produced in a greener way. With management system and CSR Policy in place, Pegatron is committed to incorporating the philosophy of natural resources conservation into its daily operations. At the same time, Pegatron proactively responds to the Sustainability Development Goals (SDGs) set by United Nations, and included climate change risk in our sustainability development targets, actions and management indicators. The performances are disclosed in our Corporate Social Responsibility Report accordingly.

Pegatron ranked the top 20% of listed companies in "The Fifth Corporate Governance Evaluation" held by Taiwan Stock Exchange in 2019, and continuously awarded the constituent of the FTSE4Good TIP Taiwan ESG Index. Pegatron is determined to strengthen sustainability development performances and communicate with stakeholders to express Pegatron's value of sustainability in the worldwide supply chain.

Outlook

Along the progress of 5G technology, demands for relevant applications and connecting devices will surge and it is widely anticipated that it shall consequently drive the next wave of growth in consumer electronics and communication products. Looking forward to 2020, as IoT industry is maturing and speed transmission improving, growth momentum of consumer electronics segment shall gradually resume after new product cycle kicks in. Benefitted by application of new technology, end demand for communication segment is expected to take off

and the same growing trend also applies to automotive electronics segment as sales volume stabilizes. Computing segment, however, is expected to decline due to low visibility in consumer PCs. Moreover, the outbreak of novel coronavirus occurred early 2020 that spread globally within such a short time has caused disruptions in labor planning and supply chain and would potentially impact end demand in a long run. Nonetheless, Pegatron strives for product mix that can improve overall utilization and generate higher profitability through precise labor planning, material management and cost control. Given uncertainties over US and China trade dispute persists and to further reduce any potential impact thereof, Pegatron will put more emphasis on diversifying production facilities and enhance global manufacturing footprint.

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, Asusalpha 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

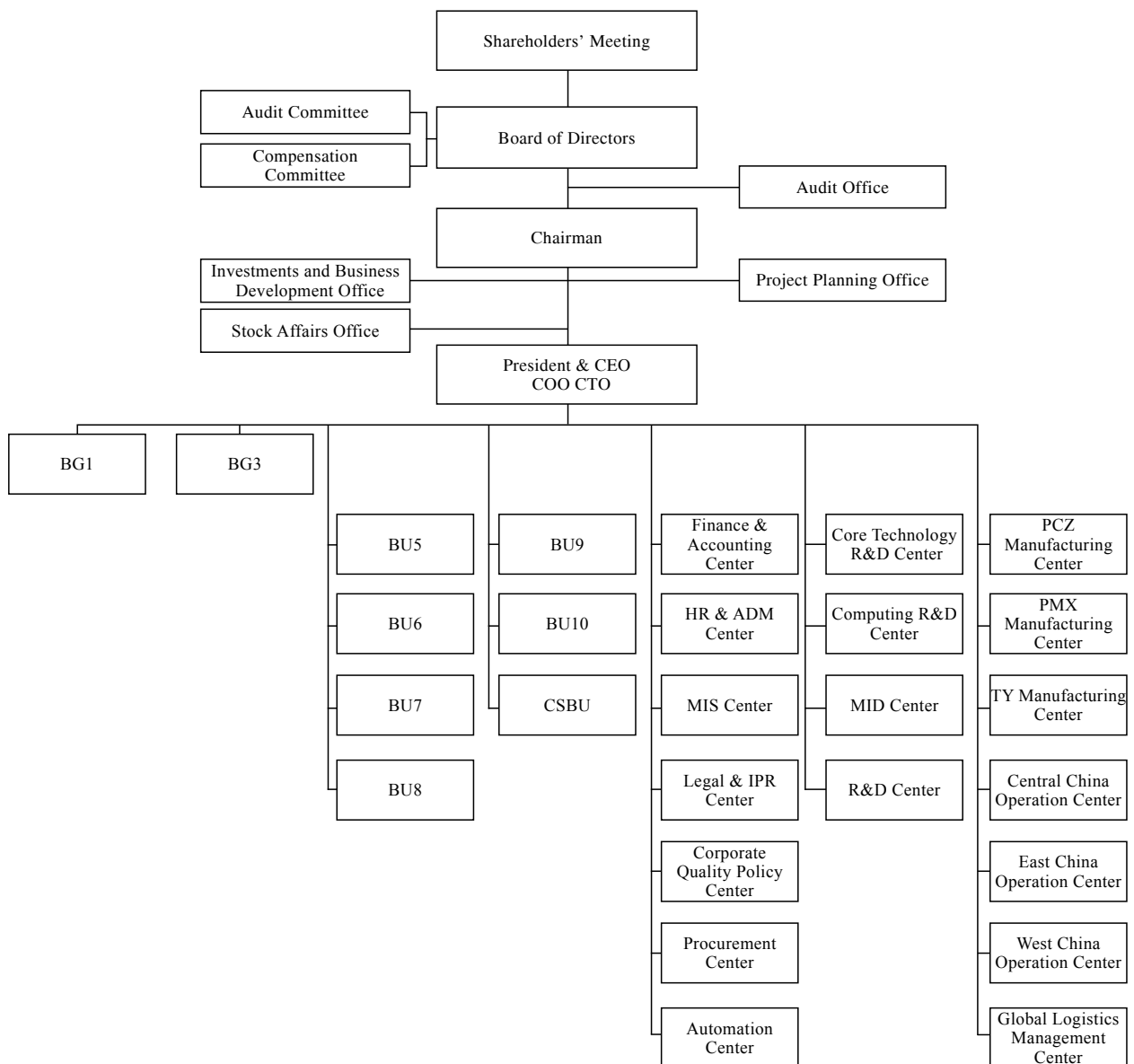
	<p>for the 2009 CSR Report based on Global Reporting Initiative G3 format.</p> <ul style="list-style-type: none"> • The Company received ISO 14064-1 Greenhouse Gases Inventory Verification.
Nov 2010	<ul style="list-style-type: none"> • The Company's Board of Directors approved the cancellation of 29,697,000 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 unsecured corporate bonds (106-1) 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.
Dec 2017	<ul style="list-style-type: none"> • The Company became a constituent of the new FTSE4Good TIP Taiwan ESG Index.
Jan 2018	<ul style="list-style-type: none"> • The Company issued unsecured corporate bonds (106-2) 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.
Mar 2019	<ul style="list-style-type: none"> • Established subsidiary PT. Pegatron Technology Indonesia.
Jun 2019	<ul style="list-style-type: none"> • The Company issued unsecured corporate bonds (108-1) of NT\$8.5 billion.
Oct 2019	<ul style="list-style-type: none"> • The Company's subsidiary "Pegavision Corporation" listed on Taiwan Stock Exchange.
Mar 2020	<ul style="list-style-type: none"> • Established subsidiary Pegatron Vietnam Company Limited.

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 02/29/2020



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
MID 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 PC/NB products and providing support to business units for relevant technology development
Core Technology R&D Center	Developing technologies for Digital Electronics and providing support to business units for relevant technology development
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

Department	Main Responsibilities
MIS Center	Internal & external network system planning, integration and design
Business Group 1	Design, manufacturing and services of computing and consumer electronics
Business Group 3	Design, manufacturing and services of handheld devices and related accessories
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 6	Design, manufacturing and services of communication and visual products
Business Unit 7	Design, manufacturing and services of game console products and tablets PCs
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 9	Design, manufacturing and services of metal casings and mold for products
Business Unit 10	Design, manufacturing and services of industrial PCs and server products

3.2 Board of Directors and Management Team

3.2.1 Introduction of Board of Directors

As of 02/29/2020

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 (Note 1)	R.O.C	Male	05/18/2010	3	06/21/2019	94,417,309	3.61	94,417,309	3.62	6,074,490	0.23	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary P.H.D in Engineering, National Taipei University of Technology Vice Chairman of Asustek Computer Inc. ("Asus")	Chairman and Group CEO of Pegatron Corp. Director of Kinsus Interconnect Technology Corp. Director of Asrock Incorporation Director of AzureWave Technologies, Inc. Chairman of Pegavision Corp. Chairman of Kinsus Investmebt Co., Ltd. Chairman of Lumens Digital Optics Inc. Chairman of Asus Investment Co., Ltd. Chairman of Asuspover Investment Co., Ltd. Chairman of Asustek Investment Co., Ltd. Chairman of Ri-Kuan Metal Corporation Director of FuYang Technology Corp. Director of Casetek Holdings Limited (Cayman) Director of Magnificent Brightness Ltd. Director of Casetek Holdings Ltd. Director of Protek Global Holdings Ltd. Director of Grand Upright Technology Limited Director of Aslink Precision Co., Ltd Director of Q Place Creative Inc. Chairman of FIFISA Media Inc. Chairman of Esite Foundation for culture and Arts Director of The Alliance Cultural Foundation Director of Hanguang Education Foundation Director 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 Chinese Culture & Educational Innovation Association Vice President of Monte Jode Science & Technology Association Director of Fullfoods Cultural Education Foundation Director of Bulareyaung Dance Cultural Foundation

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Vice Chairman Jason Cheng	R.O.C	Male	05/18/2010	3	06/21/2019	4,439,773	0.17	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 S.J. Liao	R.O.C	Male	06/21/2019	3	06/21/2019	2,018,856	0.08	1,639,856	0.06	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.	President and CEO of Pegatron Corp. President of Pegatron Japan Inc. Director of AMA Precision Inc. Director of Asuspover Corporation Director of Asuspover Investment Co., Ltd. Director of KAEDAR Electronics(KUNSHAN) Co.,Ltd. Executive Director of KAI CHUAN Electronics(CHONGQING) Co.,Ltd. Supervisor of FuYang Technology Corp.
Director C.I. Chia	R.O.C	Male	05/18/2010	3	06/21/2019	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	Supervisor of Yangtze Associates Independent Director of Ardentec Corporation Supervisor of Alriti Inc.
Director C. V. Chen	R.O.C	Male	05/18/2010	3	06/21/2019	-	-	-	-	-	-	-	-	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	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

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 T.K. Yang	R.O.C	Male	06/21/2016	3	06/21/2019	-	-	-	-	-	-	-	-	Ph.D of Business Management, National Chengchi University Political Deputy Minister, the Ministry of Finance, R.O.C. Chairman of Bank of Taiwan Executive Secretary of National Development Fund, Executive Yuan President of China Development Industrial Bank Associate Professor of MBA at National Chengchi University	Chairman of Yangze 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 CHIEN KUO Construction Co., L.TD. Director of Airtel Inc.
Director DAL-HE Investment Co., Ltd. Rep.: S. Chi	R.O.C	Male	06/21/2016	3	06/21/2019	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. : E.L. Tung (Note 2)	R.O.C	Female	06/21/2019	3	06/21/2019	2,600,000	0.10	2,600,000	-	-	-	-	-	Master degree in Mass Communication, New York Institute of Technology (NYIT)	-
Independent Director C.B. Chang	R.O.C.	Male	05/18/2010	3	06/21/2019	-	-	-	-	-	-	-	-	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 Standard Foods Corporation
Independent Director C.P. Hwang	R.O.C	Male	06/21/2016	3	06/21/2019	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	06/21/2019	-	-	-	-	-	-	-	-	Provincial Keelung Senior High School Group President of Landis Hotels and Resorts Country Manager of American Express Inc. Taiwan General Manager of the Grand Hotel Chairman of Taiwan Visitors Association Pacific Asia Travel Association (PATA) Young Presidents' Organization (YPO) Asia Conference. Chairman for Asia Pacific region of The Leading Hotels of The World	Independent Director of Shinkong Insurance Co., Ltd. Chairman of The Alliance Cultural Foundation Chairman of Junyi School for Innovative Learning Director of NSFSG 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 Esite Foundation for Culture and Arts Director of Kang Wen Culture & Education Foundation Director of USI Education Foundation Director of WIT Education Foundation Director of Kehua Culture & Education Foundation Director of Advantech Foundation

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

Note 1: Mr. T.H. Tung is Ms. E.L. Tung's second-degree relative of consanguinity. Title of Ms. Tung is director, a representative of Hong-Ye Investment Co., Ltd., and relation to Mr. Tung is father and daughter.

Note 2: Ms. E.L. Tung is Mr. T.H. Tung's second-degree relative of consanguinity. Title of Mr. Tung is Chairman and relation to Ms. Tung is father and daughter.

Major Shareholders of the Institutional Shareholders

As of 02/29/2020

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%), I.S. Lin (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%), H.C. Huang (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 02/29/2020

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%), H.C. Huang (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 02/29/2020

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	10	11		12
Name																
T.H. Tung	-	-	-	V	-	-	-	V	V	V	V	V	V	-	V	0
Jason Cheng	-	-	-	V	-	-	-	V	V	V	V	V	V	V	V	0
S.J. Liao	-	-	-	V	-	-	-	V	V	V	V	V	V	V	V	0
C.I. Chia	-	-	-	V	-	-	-	V	V	V	V	V	V	V	V	1
C.V. Chen	V	V	V	V	-	-	-	V	V	V	V	V	V	-	V	0
T.K. Yang	V	V	V	V	-	-	-	V	V	V	V	V	V	V	V	1
S. Chi	V	-	-	V	-	-	-	V	V	V	V	V	V	V	V	3
E.L. Tung	-	-	-	-	-	-	-	V	V	V	V	V	V	-	V	0
C.B. Chang	-	-	-	V	-	-	-	V	V	V	V	V	V	V	V	1
C.P. Hwang	-	-	-	V	-	-	-	V	V	V	V	V	V	V	V	1
C.S. Yen	-	-	-	V	-	-	-	V	V	V	V	V	V	V	V	1

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

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company and concurrently in its parent company, subsidiary or any subsidiary under the same parent company 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 third degree of kinship, of the management team under Note 1-(1) and of any of the persons in the Note 1-(2)&(3).
- (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, ranks as of its top five shareholdings, or any of the authorized representatives as director or supervisor of a company referred to in Paragraphs I and II of Article 27 of Company Act. (The same does not apply, however, in cases where the person is an independent director of the Company, and concurrently in its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body.)
- (6) Not a director, supervisor, or employee of other company owned by the same individual who has more than half of the board seats and voting rights of the Company. (The same does not apply, however, in cases where the person is an independent director of the Company and concurrently in its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body.)
- (7) Not a director, supervisor, or employee of other company owned the Chairman, who concurrently holds the position of president or any significant role of the Company, or spouse. (The same does not apply, however, in cases where the person is an independent director of the Company and concurrently in its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body.)
- (8) 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. (The same does not apply, however, in cases where the person is an independent director of the specified company or institution that holds more than 20% but less than 50% of the Company's outstanding shares and concurrently holds the same position in the Company, its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body.)
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing or other services including commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company of which the total aggregated revenue received for the past two years for above mentioned services is less than NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (11) Not been a person of any conditions defined in Article 30 of the Company Law.
- (12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.3 Diversity of Board Members

Diversity		Name										
Gender		T.H. Tung	Jason Cheng	S.J. Liao	C.I. Chia	C.V. Chen	T.K. Yang	S. Chi	E.L. Tung	C.B. Chang	C.P. Hwang	C.S. Yen
Age	Employee of Pegatron	Male V	Male V	Male V	Male	Male	Male	Male	Female	Male	Male	Male
	Below 40								V			
	Between 40-65	V	V		V		V				V	
	Above 65			V		V		V		V		V
Terms of Independent Director	Below 3 years											
	Between 3-9 years										V	
	Above 9 years									V		V
Professional Background		Computer & Communication Engineering	Electrical Engineering	Industrial & Business Management	Business Administration	Law	Business Administration	Economics	Communication Management	Finance & Commerce	Electrical Engineering	Commerce
Business Management		V	V	V	V	V	V	V	V	V	V	V
Technology		V	V	V	V		V			V	V	
Accounting & Commerce		V	V	V	V	V	V	V		V	V	V
Law						V						
Communication Management									V			
Crisis Management		V	V	V	V	V	V	V		V	V	V
Industry Knowledge		V	V	V	V	V	V	V	V	V	V	V
International Market Opinion		V	V	V	V	V	V	V	V	V	V	V
Leadership Decision		V	V	V	V	V	V	V	V	V	V	V
Operation Judgment		V	V	V	V	V	V	V		V	V	V

Note: The Company's 5th session of Board of Directors focuses on diversified professions, while taking into account the diversity of genders, professional skills and backgrounds. The members are elites of technology, financial, industrial and academic areas, covering computer & communication engineering, electric engineering, business administration, law, communications, economics and other professional fields. They are generally equipped with the knowledge, skills and competencies necessary to perform their duties.

3.2.4 Board of Directors Training Record

Title	Name	Date	Institute	Course	Period (hours)
Chairman	T.H. Tung	04/29/2019	The Taiwan Corporate Governance Association	Corporate governance and securities regulations	3
		09/24/2019		Anti-money laundering and bribery risk management practices	3
		10/28/2019		Director responsibility and risk management under the latest corporate governance roadmap	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Vice Chairman	Jason Cheng	04/29/2019	The Taiwan Corporate Governance Association	Cayman & BVI government legislation introduces new regulations and responses to substantial economic activities	3
		09/24/2019		Anti-money laundering and bribery risk management practices	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Director	S.J. Liao	09/24/2019	The Taiwan Corporate Governance Association	Anti-money laundering and bribery risk management practices	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Director	C.I. Chia	05/02/2019	The Taiwan Corporate Governance Association	From the perspective of digital forensics to reconstruct information security	3
		09/24/2019		Anti-money laundering and bribery risk management practices	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Director	C.V. Chen	09/24/2019	The Taiwan Corporate Governance Association	Anti-money laundering and bribery risk management practices	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Director	T.K. Yang	08/27/2019	The Taiwan Corporate Governance Association	Legal Spectrum of Digitalization Development in Taiwan Industry	3
		09/24/2019		Anti-money laundering and bribery risk management practices	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3

Title	Name	Date	Institution	Course	Period (hours)
Director	DAI-HE Investment Co., Ltd. Rep. : S. Chi	09/24/2019	The Taiwan Corporate Governance Association	Anti-money laundering and bribery risk management practices	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Director	HONG-YE Investment Co., Ltd. Rep. : E.L. Tung	09/24/2019	The Taiwan Corporate Governance Association	Anti-money laundering and bribery risk management practices	3
		10/28/2019		Director responsibility and risk management under the latest corporate governance roadmap	3
		11/05/2019		In response to U.S.-China trade war, oversea Taiwanese Companies' response strategy and transformation trend	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Independent Director	C.B. Chang	09/24/2019	The Taiwan Corporate Governance Association	Anti-money laundering and bribery risk management practices	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
Independent Director	C.P. Hwang	04/29/2019	The Taiwan Corporate Governance Association	Corporate governance and securities regulations	3
		09/24/2019		Anti-money laundering and bribery risk management practices	3
		10/28/2019		Director responsibility and risk management under the latest corporate governance roadmap	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3
		08/21/2019		Enterprise risk management trends-New thinking of threats and opportunities	1
Independent Director	C.S. Yen	11/06/2019	Shiinkong Insurance Co., Ltd.	Difference analysis of IFRS17	3
		11/07/2019		Enterprise business secret protection and infringement prevention strategy	3

3.2.5 Introduction of the Management Team

As of 02/29/2020

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 (Note 1)	R.O.C.	Male	01/01/2008	94,417,309	3.62	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
President and CEO S.J. Liao (Note 1)	R.O.C.	Male	11/02/2012	1,639,856	0.06	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	1,199,109	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. Director & President of FuYang Technology Inc. Director of FuYang Flex Holding Ltd.
Senior Vice President Hsu-Tien Tung	R.O.C.	Male	08/01/2008	120,000	0.00	-	-	-	-	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

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	%		
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 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 Vice President of Unihan Corp	None
Deputy Chief Operating Officer and Vice President Chiu-Tan Lin (Note 2)	R.O.C	Male	02/01/2008	200,000	0.01	-	-	-	-	Master degree in Business Administration Tunghai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of Digitek (Chongqing) Ltd. Supervisor of Speedtech Corp. Ltd Chairman of Pegatron Technology Service Inc. Director of Pegatron Czech s.r.o.
Vice President Kuo-Yen Teng	R.O.C.	Male	08/01/2008	401,309	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 Tunghai University Associate Vice President of Asus	Director of Pegatron Technology Service Inc. Director of Pegatron Service Singapore Pte. Ltd. Director of Pegatron Service Korea Llc. Chairman of AMA Precision Inc. Director of Pegatron Service Australia Pty. Ltd.
Vice President En-Bair Chang	R.O.C.	Male	02/01/2008	611,213	0.02	-	-	-	-	Master degree in Industrial Design Pratt Institute Associate Vice President of Asus	Director of Kaedar Trading Ltd. Director of Kaedar Holdings Ltd. Chairman of Slitek Holdings Ltd.
Vice President Shih-Chi Hsu	R.O.C.	Male	08/01/2008	122,967	0.00	-	-	-	-	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

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 Kuang-Chih Cheng	R.O.C	Male	08/01/2008	72,946	0.00	80	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 Digitek (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	07/10/2010	978,609	0.04	-	-	-	-	Master degree in Electrical Engineering Tufts University Vice President of Asus	None
Vice President Hsi-Wen Lee	R.O.C.	Male	08/01/2012	317,390	0.01	-	-	-	-	Master degree in Mechanical Engineering, National Taiwan University Senior Manager of Asus	None
Vice President Chen-Yu Feng	R.O.C.	Male	08/01/2014	619,795	0.02	21,000	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
Chief Financial Officer and Vice President Shaing-Shaing Wu (Note 3)	R.O.C.	Female	07/01/2014	580,000	0.02	-	-	-	-	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. Supervisor of PT. Pegatron Technology Indonesia	
Vice President Ting-Pang Huang	R.O.C	Male	08/01/2008	420,000	0.02	-	-	-	-	Bachelor degree in Industrial Management Science, National Taiwan University of Science and Technology Deputy Director 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	%		
Vice President Shyh-Heh Hwang	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
Corporate Governance Officer Chieh-Tsung Chen (Note 4)	R.O.C	Male	06/21/2019	535,893	0.02	788,199	0.03	-	-	Master degree in Management, Tamkang University Senior Associate Vice President of Kinsus Interconnect Technology Corp. Director of Starlink Electronics Corp.	Supervisor of Asuspower Investment Ltd. Supervisor of Asus Investment Ltd. Supervisor of Asustek Investment Ltd.
Accounting Officer Ju-Hui Hsieh (Note 5)	R.O.C	Female	09/01/2019	187,000	0.01	-	-	-	-	Master degree in Accounting, National Taiwan University Chief Financial Officer of Kinsus Interconnect Technology Corp. Chief Accounting Officer of Casetek Holdings Limited Director of Asus	None

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

Note 1: Mr. T.H. Tung serves as the Chairman and Group CEO of Pegatron Corporation. He leads Pegatron's affiliated companies to align and deploy resources jointly based on the industry trend and consumer preference. Mr. S.J. Liao serves as the President and CEO of Pegatron Corporation. He executes Board resolutions and manages general corporate affairs. The Company's 5th session of Board of Directors comprises eleven directors, including three independent directors. Among the aforementioned directors, less than half of the directors are employees or management team of the Company. In the future, competent independent directors with qualification requirements shall be selected in accordance with relevant laws and regulations

Note 2: Mr. Chiu-Tan Lin stepped down as Chief Financial Officer, and was appointed Deputy Chief Operating Officer on September 1st, 2019

Note 3: Ms. Shaing-Shaing Wu was appointed Chief Financial Officer on September 1st, 2019

Note 4: Mr. Chieh-Tsung Chen was appointed Corporate Governance Officer on June 21st, 2019

Note 5: Ms. Ju-Hui Hsieh was appointed Accounting Officer on September 1st, 2019

3.2.6.1 Remuneration Paid to Director

[illegible]

Title/ Name	Remuneration								Total remuneration (A+B+C+D) as a % of net income		Compensation Earned by a Director Who is an Employee of Pegatron or its Consolidated Entities						Total remuneration (A+B+C+D+E+F+G) as a % of net income		Compensation paid to directors from non-consolidated affiliates																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
	Base Compensation(A)		Severance Pay and Pensions(B)		Compensation to Directors(C) (Note)		Allowances(D)				Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Employee Compensation (G)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
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Note: The amount stated above is on pro forma basis and not the actual remuneration paid to directors.

Note 1: Mr. S.J. Liao was elected as natural person director on June 21st, 2019.

Note 2: Director HONG-YE Investment Co., Ltd. Rep: E.L. Tung was elected on June 21st, 2019.

Bracket	Name of Directors				
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)		
	The company	Companies in the financial report	The company	Companies in the financial report	
Below NT\$ 1,000,000	HONG-YE Investment Co., Ltd.: S.J. Liao	HONG-YE Investment Co., Ltd.: S.J. Liao	HONG-YE Investment Co., Ltd.: S.J. Liao	HONG-YE Investment Co., Ltd.: S.J. Liao	
NT\$1,000,000(Included) ~ NT\$2,000,000(Excluded)	-	-	-	-	
NT\$2,000,000(Included) ~ NT\$3,500,000(Excluded)	-	-	-	-	
NT\$3,500,000(Included) ~ NT\$5,000,000(Excluded)	HONG-YE investment Co., Ltd.: E.L. Tung	HONG-YE investment Co., Ltd.: E.L. Tung	HONG-YE investment Co., Ltd.: E.L. Tung	HONG-YE investment Co., Ltd.: E.L. Tung	
NT\$5,000,000 (Included)~ NT\$10,000,000(Excluded)	C.I. Chia	C.I. Chia	C.I. Chia	C.I. Chia	
	C.V. Chen	C.V. Chen	C.V. Chen	C.V. Chen	
	T.K. Yang	T.K. Yang	T.K. Yang	T.K. Yang	
	DAI-HE Investment Co., Ltd.: S. Chi	DAI-HE Investment Co., Ltd.: S. Chi	DAI-HE Investment Co., Ltd.: S. Chi	DAI-HE Investment Co., Ltd.: S. Chi	
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	C.B. Chang C.P. Hwang C.S. Yen	C.B. Chang C.P. Hwang C.S. Yen	C.B. Chang C.P. Hwang C.S. Yen	C.B. Chang C.P. Hwang C.S. Yen	
NT\$15,000,000 (Included)~ NT\$30,000,000(Excluded)	T.H. Tung Jason Cheng S.J. Liao	Jason Cheng S.J. Liao	-	-	
NT\$30,000,000 (Included)~ NT\$50,000,000(Excluded)	-	T.H. Tung	T.H. Tung Jason Cheng S.J. Liao	T.H. Tung Jason Cheng S.J. Liao	
NT\$50,000,000(Included) ~ NT\$100,000,000(Excluded)	-	-	-	-	
Over NT\$100,000,000	-	-	-	-	
Total	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		From all consolidated entities		From Pegatron	From all consolidated entities	
							Cash	Stock	Cash	Stock			
Group CEO T.H. Tung													
Deputy Group CEO Jason Cheng													
President and CEO S.J. Liao													
Chief Operating Officer and Senior Vice President Te-Tzu Yao													
Senior Vice President Hsu-Tien Tung													
Vice President Tsung-Jen Ku Lai													
Vice President Kuo-Yen Teng	98,835	105,419	0	0	103,415	107,616	62,288	0	62,288	0	1.37%	1.43%	240
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													

Title/Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Total remuneration (A+B+C+D) as a % of net income		Compensation paid to directors from non-consolidated affiliates
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron		From all consolidated entities		From Pegatron	From all consolidated entities	
							Cash	Stock	Cash	Stock			
Chief Technology Officer and Senior Vice President Chung Yu Huang													
Vice President Hsi-Wen Lee													
Chief Financial Officer and Vice President Shaing-Shaing Wu (Note 2)													
Vice President Chen-Yu Feng	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
Deputy Chief Operating Officer and Vice President Chiu-Tan Lin (Note 1)													
Vice President Ting-Pang Huang													
Vice President Shyh-Heh Hwang													

Note1: Mr. Chiu-Tan Lin stepped down as Chief Financial Officer, and was appointed Deputy Chief Operating Officer on September 1st, 2019

Note2: Ms. Shaing-Shaing Wu was appointed Chief Financial Officer on September 1st, 2019

Bracket	Name of President and Vice President	
	The company	Companies in the financial report
Below NT\$ 1,000,000	-	-
NT\$1,000,000(Included) ~ NT\$2,000,000(Excluded)	-	-
NT\$2,000,000(Included) ~ NT\$3,500,000(Excluded)	-	-
NT\$3,500,000(Included)~ NT\$5,000,000(Excluded)	-	-
NT\$5,000,000(Included) ~ NT\$10,000,000(Excluded)	Tsung-Jen Ku Lai Hsi-Wen Lee Ming-Tung Hsu Tian-Bao Chang En-Bair Chang Shih-Chi Hsu Chih-Hsiung Chen Kuang-Chih Cheng Ting-Pang Huang Shyn-Heh Hwang	Tsung-Jen Ku Lai Hsi-Wen Lee Ming-Tung Hsu Tian-Bao Chang Shih-Chi Hsu Chih-Hsiung Chen Kuang-Chih Cheng Ting-Pang Huang Shyn-Heh Hwang
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	T.H. Tung Pei-Chin Wang Shaing-Shaing Wu Hsu-Tien Tung Chen-Yu Feng Kuo-Yen Teng Chiu-Tan Lin	T.H. Tung Pei-Chin Wang Shaing-Shaing Wu En-Nair Chang Hsu-Tien Tung Chen-Yu Feng Kuo-Yen Teng Chiu-Tan Lin
NT\$15,000,000(Included) ~ NT\$30,000,000(Excluded)	Jason Cheng S.J. Liao Te-Tzu Yao Chung Yu Huang	S.J. Laio Te-Tzu Yao Chung Yu Huang
NT\$30,000,000(Included) ~ NT\$50,000,000(Excluded)	-	Jason Cheng
NT\$50,000,000(Included)~NT\$100,000,000(Excluded)	-	-
Over NT\$100,000,000	-	-
Total	21	21

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	65,428	65,428	0.34%
Deputy Group CEO	Jason Cheng				
President and CEO	S.J. Liao				
Chief Operating Officer and Senior Vice President	Te-Tzu Yao				
Senior Vice President	Hsu-Tien Tung				
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				
Vice President	Shih-Chi Hsu				
Vice President	En-Bair Chang				
Vice President	Tian-Bao Chang				
Vice President	Chih-Hsiung Chen				
Chief Financial Officer and Vice President (Note 1)	Shaing-Shaing Wu				
Senior Vice President of RD & Engineering	Pei-Chin Wang				
Deputy Chief Operating Officer and Vice President (Note 2)	Chiu-Tan Lin				
Chief Technology Officer and Senior Vice President	Chung Yu Huang				
Vice President	Hsi-Wen Lee				
Vice President	Ting-Pang Huang				
Vice President	Shyh-Heh Hwang				
Corporate Governance Officer (Note 3)	Chieh-Tsung Chen				
Accounting Officer (Note 4)	Ju-Hui Hsieh				

Note1: Ms. Shaing-Shaing Wu was appointed Chief Financial Officer on September 1st,2019

Note2: Mr. Chiu-Tan Lin stepped down as Chief Financial Officer, and was appointed Deputy Chief Operating Officer on September 1st,2019

Note3: Mr. Chieh-Tsung Chen was appointed as Corporate Governance Officer on June 21st,2019

Note4: Ms. Ju-Hui Hsieh was appointed as Accounting Officer on September 1st,2019

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 2018: NT\$11,114,866 thousand dollars

Net Income of year 2019: NT\$19,317,741 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
2018	570,171	589,927	5.13%	5.31%
2019	399,894	413,817	2.07%	2.14%

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 5.13% and 5.31% in 2018 and 2.07% and 2.14% in 2019, 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:

- Prescribe and periodically conduct performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers.
- 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 7 (A) meetings of the Board of Directors were held in 2019. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks
Chairman	T.H. Tung	7	0	100.0%	Renewal of office
Director	Jason Cheng	6	1	85.7%	Renewal of office
Director	C.I. Chia	7	0	100.0%	Renewal of office
Director	C.V. Chen	6	1	85.7%	Renewal of office
Director	T.K. Yang	7	0	100.0%	Renewal of office
Director	S.J. Liao	4	0	100.0%	New office assumed (The attendance in person has been calculated since Mr. Liao was elected as natural person director.)
Director	DAI-HE Investment Co., Ltd. Rep. : S. Chi	7	0	100.0%	Renewal of office
Director	HONG-YE Investment Co., Ltd. Rep. : E.L. Tung / S.J. Liao	4/3	0	100.0%	Renewal of Office (The new representative / The previous representative)
Independent Director	C.S. Yen	6	1	85.7%	Renewal of office
Independent Director	C.B. Chang	7	0	100.0%	Renewal of office
Independent Director	C.P. Hwang	7	0	100.0%	Renewal of office

Pegatron's 5th session of Board of Directors was elected at 2019 Annual General Shareholders' Meeting. Tenure of the session is from 21st June, 2019 to 20th June, 2022.

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 2019.
- There were no recusals of directors due to conflict of interest in 2019.
- 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 4 (A) meetings of the audit committee were held in 2019. 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	4	0	100%	Renewal of office	Pegatron's 5 th session of Board of Directors was elected in 2019 Annual General Shareholders' Meeting.
Independent Director	C.S. Yen	4	0	100%	Renewal of office	
Independent Director	C.P. Hwang	4	0	100%	Renewal of office	
Remarks:						
1. 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 2019.						
2. There were no recusals of independent directors due to conflicts of interests in 2019.						
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2019: 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
03.14.2019	1. Business report and financial statements of year 2018 2. Earnings distribution of year 2018 3. Amendment to Pegatron's "Regulations Governing the Acquisition and Disposal of Assets" 4. Pegatron's Internal Control System Statement of year 2018 5. Amendment to Pegatron's Internal control system and internal audit implementation rules	None	None	Approved
05.07.2019	Amendment to Pegatron's "Procedures for Lending Funds and Endorsement & Guarantee"	None	None	Approved
08.08.2019	1. The 2nd quarter 2019 consolidated financial report 2. Investment in PT. Pegatron Technology Indonesia 3. Appointment of Chief Financial Officer and Accounting Officer	None	None	Approved
11.07.2019	1. Total compensation for external auditor for year 2019 2. Internal auditing plan for year 2020	None	None	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 2019, after the election of new session of directors, the Compensation Committee comprised three independent directors, Mr. C.S. Yen, Mr. C. B. Chang and Mr. C.P. Hwang. Mr. C.S. Yen 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)										Number of Other Public Companies in Which the Individual is Concurrently Serving a Member of Compensation Committee	Remarks (Note 2)
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Independent Director	C.S. Yen	-	-	V	V	V	V	V	V	V	V	V	V	0	-
Independent Director	C.B. Chang	-	-	V	V	V	V	V	V	V	V	V	V	2	-
Independent Director	C.P. Hwang	-	-	V	V	V	V	V	V	V	V	V	V	1	-

Note 1: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:
1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates.

3. 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 and concurrently in its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body..

4. 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.

5. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of the management team under Note 1- (1) and of any of the persons in Note 1- (2) & (3)..

6. 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, ranks as of its top five shareholdings, or holds shares ranking in the top five in holdings.

7. Not a director, supervisor, or employee of other company owned by the same individual who has more than half of the board seats and voting rights of the Company. (The same does not apply, however, in cases where the person is an independent director of the Company and concurrently in its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body.)

8. Not a director, supervisor, or employee of other company owned the Chairman, who concurrently holds the position of president or any significant role of the Company, or spouse. (The same does not apply, however, in cases where the person is an independent director of the Company and concurrently in its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body.)

8. 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. (The same does not apply, however, in cases where the person is an independent director of the specified company or institution that holds more than 20% but less than 50% of the Company's outstanding shares and concurrently holds the same position in the Company, its parent company, subsidiary or any subsidiary under the same parent company as regulated by local governing body.)
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing or other services including commercial, legal, financial, accounting or consultation to the Company or to any affiliate of the Company of which the total aggregated revenue received from above mentioned service is less than NT\$500,000, or a spouse thereof; provided this restriction does not apply to member if the remuneration committee, public offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations..

10. 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 fourth session of Compensation committee is from 21st June, 2019 to 20th June, 2022.

A total of 4 (A) meetings of the Compensation Committee were held in 2019. 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.S. Yen	3	1	75%	Period of the post of the 4 th session of Compensation
Member	Independent Director	C.B. Chang	4	0	100%	Committee will be the same as that of the 5 th session of the Board of Directors.
Member	Independent Director	C.P. Hwang	4	0	100%	Renewal of office

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.

The Resolution for agendas relating to compensation in 2019:

Date	Agenda	Disagreements from Independent Directors	Responses to Disagreements	Resolution Circumstance
01.21.2019	Year-end bonus for managerial officers for year 2018	None	None	Approved
03.14.2019	Appropriated remuneration of 2018 for employees and directors	None	None	Approved
08.08.2019	1. Adjustment of managerial officers' salary for year 2019 2. Distribution of Directors' remuneration for year 2018	None	None	Approved
09.24.2019	Performance bonus for managerial officers for year 2019	None	None	Approved

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. On March	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			21 and June 21, 2019, the Company promoted the prevention of insider trading related laws and regulations and Q&A to the insiders, including managers and new directors, to prohibit the insider trading. The contents include the scope of insider material information, confidentiality procedures and Q&A.	
3. Structure of Board of Directors and its responsibility (1) If the Board consisted of members from diverse background?	V		Article 20 of the Company's Corporate Governance Principles stated that the Board shall consist of members from diverse background. Current Board members focuses on diversified professions, while taking into account the diversity of genders, professional skills and backgrounds. The members are elites of technology, financial, industrial and academic areas, covering computer & communication engineering, electric engineering, business administration, law, communications, economics and other professional fields. They are generally equipped with the knowledge, skills and competencies necessary to perform their duties. Please refer to "Diversity of Board Members".	None
(2) If the Company established any other functional committee in addition to Compensation Committee, Audit Committee as required by law?	V		The Company established Compensation Committee and Audit Committee and its policies and procedures. Apart from the above mentioned committees, the Company has not established any other functional committee.	
(3) If the Company established methods and procedures to assess the performance of the Board and conduct assessment on annual basis? If the result of the assessment will be reported to the Board and taken into considerations for individual remuneration nomination purpose?	V		The Company's Compensation Committee takes all factors such as participation in the operation of the Company, etc. into consideration when conducting evaluation on each Board member. The evaluation is usually carried out in the second half of each year.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(4) If Board Directors compensation structure were based on their performance?	V		According to Article 26 of the Articles of Incorporation, at most 7% of the profit shall be allocated as directors' remuneration. The reasonable remuneration is given after all factors such as overall operation performance and participation in the operation of the Company are taken into consideration. The Company's Compensation Committee evaluates the rationality of relevant remuneration policy periodically.	None
(5) If the Company assess the independence of CPA periodically?	V		Each March, the Company evaluates the independence of CPA based on KPMG's Statement of Independence and items stated in Article 46 & 47 of Certified Public Accountant Act. (Note 1)	
(6) If at minimum one independent director attended every board meeting?	V		The company held seven Board meetings in 2019 and at least one independent director attended every board meeting. Please refer to "Implementation of Board of Directors".	
4. If the Company had adequate number of corporate governance personnel and appoint a chief corporate governance officer overlooking corporate governance affairs including but not limited to handling matters relating to board meetings and shareholder meetings, assisting directors with legal compliance, preparing agendas and producing minutes for board meetings and shareholder meetings?	V		In order to fulfill corporate governance and improve effectiveness of the board of directors, the Corporate Governance Officer was proposed and approved in the 5 th session of Board of Directors at its 1th meeting on June 21, 2019. The Board appointed Mr. Chieh-Tsung Chen as the "Corporate Governance Officer". Mr. Chen has been in charge of related financial affairs, stock affairs and corporate governance matters in listed company for more	None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
			<p>than three years. According to the Article 3-1 of the Corporate Governance Best Practice Principles, the corporate governance affairs include at least the following items :</p> <ol style="list-style-type: none"> 1. Handling matters relating to board meetings and shareholders meetings according to laws 2. Formulating minutes of board meetings and shareholders meetings 3. Assisting in onboarding and continuous development of directors 4. Furnishing information required for business execution by directors 5. Assisting directors with legal compliance 6. Other matters set out in the articles of incorporation or contracts <p>The main corporate governance affairs in 2019 :</p> <ol style="list-style-type: none"> 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 and send meeting minutes within 20 days after the meeting pursuant laws. 2. Arranging the Shareholders' Meeting every year and uploading the notice, handbook and minutes of the meeting to MOPS in accordance with the laws and regulations. Handling amendment registration after the revision of Company's Corporate Articles of Incorporation and the election of directors. 3. Arranging professional training courses for directors every year and providing them the latest developments of laws and regulations relating to the operation of the company in order to assist them with legal compliance.

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			<p>4. Filing major resolutions of the Boards of Directors or the shareholders' meeting on the Market Observation Post System pursuant to laws to ensure the accuracy and timeliness of the material information disclosed and enhance information transparency.</p> <p>The Corporate Governance Officer attended the training courses in accordance with Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers. Please refer to Note 2 for "The Corporate Governance Officer Training Records in 2019".</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 <u>Honest_Box@pegatroncorp.com</u> 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.	(1) & (2) None
(2) If the Company adopted any other information	V		In addition to the role of spokesperson, the Company also	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
<p>disclosure channels (e.g., maintaining an English-language website, appointing designated personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?</p> <p>(3) If the Company disclosed its annual financial report within two months after year end and disclose its 1st, 2nd, 3rd quarter financial reports and monthly revenue ahead of regulated disclosure date?</p>	V		<p>has designated departments to collect and disclose information. Information disclosed on the corporate website is presented in both Chinese and English, while quarter result and webcast of investor conference are available on the corporate website as soon as applicable.</p> <p>Annual financial report, quarterly financial reports and monthly sales revenue are disclosed in a timely manner according to relevant government regulations.</p>	<p>(3) Since there is a large number of consolidated entities within the group, the Company is not able to disclose financial reports and monthly revenue ahead of its regulated disclosure date,</p>
<p>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)?</p>	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 liability insurance 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 2019, the directors have completed the training courses in accordance with Directions for the Implementation of Continuing Education for Directors</p>	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			<p>and Supervisors of TWSE Listed and TPEx Listed Companies. Please refer to "Board of Directors Training Record".</p> <p>6. In the succession planning program, executives in Pegatron must be familiar with the operation of high-tech industry and focus on industry long-term development. They lead through vision and values of Pegatron, and cultivate talents by providing opportunities, resources and authorities to subordinates, and stimulate employees' passion for work and encourage them to achieve their full potential. Several executives of the Company have taken over important positions of affiliated companies. For example, Mr. Jason Cheng, Vice Chairman and Deputy Group CEO, serves as the Chairman of Casetek Holdings Limited and AzureWave Technologies, Inc., respectively. Mr. S.J. Liao, President and CEO, served as a juristic-person director since 2016 and has been elected as a natural-person director in this session of Board of Directors in 2019. Mr. Hsu-Tien Tung, senior vice president, serves as the Chairman of Asrock Technology Inc. Ms. Te-Tzu Yao, Chief Operating Officer, serves as the president of FuYang Technology Inc. and the director of AzureWave Technologies, Inc., respectively. With their experiences and professions, the board of directors can be enriched with different views. Also, they gain various experiences integrating all kinds of resources of affiliated companies proficiently to develop capabilities of strategy formulation, decision making and crisis management.</p> <p>Pegatron implements IDP (Individual Development</p>	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			Plan) to facilitate the development of talent and enhance the competitive advantages and core competence of Pegatron. IDP enables the targets to understand the goal of development and combine the capabilities of development with the work. The progress and effectiveness of IDP are reviewed and tracked jointly by the supervisors and the targets. The supervisors may provide suggestions and adequate resources including training programs, job rotation, coaching, job following, etc. in order to help the targets build up required skills to make better business judgment and maintain effective business relationship with customers.	
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> <ul style="list-style-type: none"> a. Protect the confidentiality, integrity and availability of information assets. b. Implement compliance with relevant laws and regulations on information security. c. Establish disaster recovery and system backup mechanisms to ensure the business continuity. d. Strengthening employee information security awareness. e. Build information security control equipment and real-time detection mechanism to prevent hacker and virus damage. 	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			<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>	
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		The Company reported to the Board of Directors in January 2020 regarding the result of self-evaluation and the feasibility of its improvement plans to rectify non-compliance items under the commercial practices.	None

Note 1: The Company evaluates the independence of CPA based on items stated in Article 46 & 47 of Certified Public Accountant Act. The Evaluation Criteria are as below :

Article 46 of Certified Public Accountant Act –

A CPA may not engage in the following conduct:

1. Permit others to practice under his or her name.
2. Practice under the name of another CPA.
3. Accept employment from a non-CPA to perform CPA services.
4. Take advantage of one's position as a CPA to engage in improper industrial or commercial competition.
5. Perform practice related to matters in connection with which one is an interested party.
6. Use the title of CPA to act as a guarantor in matters beyond the scope of CPA services.
7. Purchase real or personal property under his or her management as a CPA.
8. Solicit, agree to accept, or accept unlawful benefit or compensation.
9. Solicit business by improper means.
10. Advertise for promotional purposes not related to commencement of business, office relocation, merger, accepting client engagements, or introduction of the CPA firm.
11. Disclose confidential information obtained in the performance of professional services without the permission of the appointing agency, client, or audited entity.
12. Engage in other conduct that could tarnish the reputation of CPAs, as specified by the competent authority.

Article 47 of Certified Public Accountant Act –

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

1. The CPA is currently employed by the client or audited entity to perform routine work for which he or she receives a fixed salary, or currently serves as a director or supervisor thereof.
2. The CPA has previously served for the client or audited entity as a director, supervisor, managerial officer, or an employee with material influence over attestation, and has been separated from the position for less than two years.
3. The CPA is a spouse, lineal relative, direct relative by marriage, or a collateral relative within the second degree of kinship of any responsible person or managerial officer of the client or audited entity.
4. The CPA, or the spouse or a minor child thereof, has invested in the client or audited entity, or shares in financial gains therewith.
5. The CPA, or the spouse or a minor child thereof, has lent or borrowed funds to or from the client or audited entity. However, this does not apply if the client is a financial institution and the borrowing or lending is part of a normal business relationship.

6. The CPA provides management consulting or other non-attestation services that affect his or her independence.
7. The CPA fails to comply with regulations, as prescribed by the competent authority with relevant jurisdiction, governing CPA rotation, handling accounting matters on behalf of clients, or other matters that affect his or her independence.

Note 2: The Corporate Governance Officer Training Records

Date	Institute	Course	Period (hours)
09/24/2019	The Taiwan Corporate Governance Association	Anti-money laundering and bribery risk management practices	3
10/28/2019	The Taiwan Corporate Governance Association	Director Responsibility and Risk Management under the Latest Corporate Governance Roadmap	3
11/05/2019	The Taiwan Corporate Governance Association	In response to U S-China trade war, oversea Taiwanese Companies' response strategy and transformation trend	3
11/07/2019	The Taiwan Corporate Governance Association	Enterprise business secret maintenance and infringement prevention strategy	3
11/21/2019	Taiwan Stock Exchange	Enhancing Board functions	3

3.3.5 Implementation of Corporate Social Responsibility

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
1. If the Company conducted risk assessment on its business operation, social environment as and corporate governance based on the principle of materiality and established risk management policy or strategy accordingly?	V		<p>The Company followed the materiality principle to conduct risk assessment, and established the PureCSR policy based on the materiality issues of environment, social and governance aspect.</p> <p>The Company not only sets up CSR objectives and targets, but also performs internal & external audits. The corrective and preventive actions of each audit are reviewed through the management review meeting to ensure compliance and adequacy of management system.</p> <p>1. PureCSR Policy is as follows:</p> <ul style="list-style-type: none"> a. Abide by all environmental protection, labor, safety and health laws. b. Conserve natural resources, and actively prevent pollution. c. Reduce environmental impact and safety risks. d. Fulfill customer requirements and become a green enterprise. e. Enable company-wide promotion of corporate social responsibility. f. Encourage full participation from employees and conduct continuous improvement. <p>2. 2019 Material Issues:</p> <ul style="list-style-type: none"> a. Environment: Materials, Energy, Emissions, Effluents and waste, Environmental compliance and Green product b. Social: Employment, Labor/ management relations, Occupational health and safety, Training and education and Socioeconomic compliance c. Governance: Economic performance, Market 	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			<p>presence, Governance, Ethics and integrity and Risk management</p> <p>The material issues, policy and the corresponding directives are disclosed on the Company's intranet and corporate website.</p> <p>http://www.pegatroncorp.com/csr/view/id/1/lang/en_US</p> <p>http://www.pegatroncorp.com/csr/view/id/5/lang/en_US</p>	
2. If the Company established a part time or full time unit to execute corporate social responsibility projects and the Board authorized top management to overlook and provide feedback on status of execution?	√		<p>The CEO appointed by the Company's board of directors is the chairman of the PureCSR Steering Committee.</p> <p>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/BU and regional CSR teams. The members identify their 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. CSR implementation status is periodically reported to the CEO and significant CSR practices and performances will be reported to the Company's board of directors yearly.</p>	None
3. Environmental Issues (1) If the Company endeavored to utilize resources more efficiently and utilized renewable materials which have a lower impact on the environment?	√		<p>An international environmental management system is established according to 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>	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(2) If the Company established proper environmental or energy management system based on the characteristics of the industry where the Company belongs to?	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.</p> <p>The Company complies with customers' product specifications and quality requirements for the use of renewable materials.</p>	None
(3) If the Company assessed current and potential impact and opportunity of climate change on the Company's operation and take preventive measures?	V		<p>The Company focuses on the risks of global climate change, and evaluates the impacts on the business operations. The Company actively takes steps to reduce the emissions of greenhouse gas (GHG) by performing GHG inventory, and conducts internal audit and external verification every year. 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 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	Summary	
(4) If the Company monitored the amount of greenhouse emission, water usage and waste handling for the past two years and established corporate strategies on reduction of carbon emission, greenhouse gas emission, water usage and waste management?	V		<p>The Company discloses the emissions of greenhouse gas (GHG), amount of water withdraw and waste since 2010 in CSR Report, and compares the yearly data for seeking the opportunities of continuous improvement. The Company considers the reduction of carbon emission, greenhouse gas emission, water usage and waste management, and enacts the PureCSR Policy. 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, corporate website and CSR Report.</p> <p>http://www.pegatroncorp.com/csr/view/id/1/lang/en_US http://www.pegatroncorp.com/csr/view/id/5/lang/en_US</p>	None
4. Social Issues (1) If the Company followed relevant laws, and internationally recognized human rights principal, and established appropriate management policies and procedures?	V		As a corporate citizen and one of Responsible Business Alliance (RBA) 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	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(2) If the Company provide reasonable employee welfare (including compensation, paid leaves, other benefits, etc.) and adequately reflect company's operational result on their employees' compensation?	V		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 is 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 responsible mineral sourcing to avoid unethical procurement on minerals, as well as to protect the labor rights in supply chain.	None
	V		The Articles of Incorporation states the principle of accrued employee compensation.	
(3) If the Company provided safe and healthy working environment to employees and conducted relevant training on safety and health management to employees periodically?	V		An international occupational safety and health management system is established according to OHSAS 18001, is in place and certified by the third parties periodically. The certificates have been publicly disclosed on the company's corporate website. Respond to the ISO 45001 publication, the Company conducts the internal migration plan to align with the ISO 45001 standard. A safe and healthy work environment has been established through the implementation of risk assessments, workplace improvements, daily inspections and audits.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(4) If the Company provided career planning, relevant training and skill development for employees?	V		<p>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 to engage 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 2019.</p> <p>In order to meet the strategy of talent nurturing and to build up a learning environment, Pegatron Group introduced "Individual Development Plan (IDP)" to help all employees to set their self-development plans according to the corporate and personal targets, and to implement the plan to become mature in their occupational filed. Through IDP, supervisors can support corresponding resources and assistances in profession or work skills according to the employees' needs. Moreover, employees can set their own targets and develop skills by participating multidimensional learning activities.</p> <p>The Company is dedicated in design, manufacturing and service (DMS), and does not have direct contact with consumers. For the labeling and marketing, the Company follows legal and customers' requirements.</p>	None
(5) If the Company followed relevant laws and regulations and international guidelines on consumer health and safety, customer privacy, marketing and labeling of products and services and established relevant consumer protection policy and	V			

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
<p>grievance channel?</p> <p>(6) If the Company established suppliers management policy requesting suppliers to comply with relevant regulations on EHS and human rights issues and monitored suppliers' execution status.</p>	V		<p>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 Supplier Responsible Business Alliance 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.</p> <p>Description of practices are as follows:</p> <p>(1) There are more than 2,000 suppliers signed the "PEGATRON Supplier Responsible Business Alliance Code of Conduct Agreement". In 2019, 203 suppliers completed self-assessment questionnaire, and 43 suppliers accepted and passed the on-site audits and/or corrective action process conducted by Pegatron.</p> <p>(2) Conflict Minerals Program: The investigation of conflict minerals in supply chain was initiated since 2012. We require direct</p>	None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
			<p>suppliers to disclose the sources of minerals used in the products which were supplied to us. In 2019, we completed the investigation of 1,945 suppliers and the overall response rate is about 97%.</p> <p>The other CSR relevant performances and practices have been disclosed on the Company's corporate website and CSR Report: http://www.pegatroncorp.com/csr/view/id/1/lang/en_US http://www.pegatroncorp.com/csr/view/id/5/lang/en_US</p>
5. If the Company's CSR report prepared based on international recognized standard and if the report verified by the third party?	V		<p>CSR report is published on annual basis with the chapters of corporate governance, social, economic and environmental performances, and the content is verified by an independent third party based on AA1000 AS (2008) and complied with core option level of GRI Standards. It is disclosed on corporate website and Market Observation Post System by the request from the Authority. http://www.pegatroncorp.com/csr/view/id/5/lang/en_US</p> <p>None</p>
6. 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 Practice Principles" has been amended and approved by Board of Directors in 2018. We also posted it on our corporate website and MOPS. The implementation status is consistent with the principle. http://www.pegatroncorp.com/investorRelation/majorInternalPolicies/lang/en_US			
7. Other material information that helps to understand the operation of corporate social responsibility: There is a specific CSR section on the corporate website including CSR policy, targets and management procedures. (http://www.pegatroncorp.com)			

3.3.6 Implementation of Ethical Corporate Management Best Practice Principles:

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

Items	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
and if the contract terms required the compliance of ethical corporate management policy?			All vendors are required to sign "Statement of Integrity" which stipulated the contractual liability for violation of ethical conduct.	None
(2) If the Company set up a unit, under the direct supervision of the Board of Directors, to handle the implementation and supervision of ethical corporate management as well as prevention of unethical conduct and reported to the Board of Directors periodically (annually)?	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 formulated auditing plan based on the result of risk evaluation on unethical conduct and audited the compliance of prevention plan or authorized external accounting firm to conduct auditing?	V		The Company established an accounting system and internal control system to evaluate business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct. Internal Audit would plan its annual audit scope based on the assessment of risks and report to the Board of Directors.	
(5) If the Company organized training and awareness programs on ethical corporate management to internal	V		The Company presents Ethical Corporate Management during new employee orientation. In 2019, 602 employees	

Items	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
and external parties?			attended the course and around 150 hours spent on hosting this introductory course. Shall there be any enquiries about the course, please contact Ms. Chen at julie1_chen@pegatroncorp.com.	
3.Implementation of whistleblowing system (1) If the Company established a whistleblowing and reward system? Upon receiving a reported case, is there a dedicated personnel handling the reported case?	V		The Company set forth penalties for violation of ethical conduct and set up Honest_Box@pegatroncorp.com and reporting hotline on the "Stakeholders Communication Area" of the corporate website for reporting of any violations. Internal Audit will be handling any reported cases.	None
(2) If the Company established standard operational procedures and relevant information confidentiality policy for investigation of reported cases and recommendation of preventive measures?	V		The Company established operational procedures for handling reported cases and the identity of the whistleblower as well as the content of the reported case are handled in confidentiality. Furthermore, the Company will investigate every claim, take appropriate measures and issue penalties for any violation found.	
(3) If the Company established any measures for protecting whistleblowers from inappropriate disciplinary actions?	V		The Company provides protection to whistleblower and personnel involved in the investigation against any unfair treatment or retaliation.	
4. Information Disclosure (1) If the Company disclosed ethical corporate management policy and its status of implementation via corporate website or Market Observation Post System?	V		Ethical corporate management policy was disclosed on the corporate website and Market Observation Post System. The Company also set up a designated area on the corporate website to promote ethical business conduct and implement measures such as declarations of ethical business conduct made by management team and the emphasis on disciplines and honor. The content of the website is updated from time to time.	None

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

3.3.7 Corporate Governance Guideline and Regulations:

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

3.3.8 Other Important Information Regarding Corporate Governance: None.

3.3.9 Internal Control System:

■ Declaration of internal control: Please refer to page 58.

■ 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 26, 2020

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2019:

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, 2019, 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 2019 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 26, 2020 with zero of eleven attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

T.H. Tung
Chairman

S.J. Liao
President and Chief Executive Officer

3.3.10 The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staffs for violations of internal control system in the most recent years and up to the date of the annual report which caused material impact to shareholder equity or share price and content of penalty shall be disclosed accordingly: 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 2019 Annual General Shareholder Meeting was held in Taipei on June 21, 2019. At the meeting, shareholders presented in person or by proxy approved the following agendas:

(1) The 2018 Business Report and Financial Statements

(2) The proposal of 2018 Earning Distribution

Implementation status : Ex-dividend record date was on August 6, 2019. Cash dividend date was distributed on August 23, 2019 and cash dividends per share was NT\$3.50089644.

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

Implementation status : Except the business scope of the company, regarding of item 3, 4 and 5, paragraph 2, article 2 of Articles of Incorporation, without permission, other amendments were approved on July 30, 2019 and announced on the corporate website.

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

Implementation status : Announced on MOPS on the day of shareholders' meeting and executed revised procedures accordingly.

(5) Amendment to the Procedures for Lending Funds or Endorsement & Guarantee

Implementation status : Announced on MOPS on the day of shareholders' meeting and executed revised procedures accordingly.

(6) Election of Directors

The list of elected directors is as follows :

Director : T.H. Tung, Jason Cheng, S.J. Liao, C.I. Chia, C.V. Chen, T.K. Yang, DAI-HE Investment Co., Ltd. Rep.: S. Chi, HONG-YE Investment Co., Ltd. Rep.: E.L. Tung
Independent Director : C.B. Chang, C.P. Hwang, C.S. Yen

Implementation status : Announced on MOPS on the day of shareholder's meeting and completed amendment registration on July 30, 2019.

(7) Proposal of Release the Prohibition on Directors

Implementation status : Announced on MOPS on the day of shareholder's meeting.

3.3.11.2 Major Resolutions of Board Meetings

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 of 2018 ● Approved 2018 business report and financial statements ● Approved earnings distribution of 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
05.07.2019	<ul style="list-style-type: none"> ● Approved the 1st quarter 2019 consolidated financial report ● Approved the amendment to Pegatron's "Procedures for Lending Funds and Endorsement & Guarantee" ● Approved to amend the scheduling of 2019 Annual Shareholders' Meeting 	None	None
06.21.2019	<ul style="list-style-type: none"> ● The board of directors elected Mr. TH Tung as Chairman ● The board of directors elected Mr. Jason Cheng as Vice Chairperson ● Approved the appointment of members of 4th session compensation committee ● Approved the appointment of members of 3rd session audit committee ● Approved the amendment to Pegatron's "Rules of Procedure for Board of Directors Meetings" ● Approved Pegatron's "Regulations governing the board performance evaluation" ● Approved the appointment of Corporate Governance Officer 	None	None

Date	Major resolutions	Disagreements from Independent Director	Responses to disagreements
08.08.2019	<ul style="list-style-type: none"> Approved the 2nd quarter 2019 consolidated financial report Approved to increase the investment in PT. Pegatron Technology Indonesia. Approved the appointment of Chief Financial Officer and Accounting Officer. 	None	None
11.07.2019	<ul style="list-style-type: none"> Approved the 3rd quarter 2019 consolidated financial report Approved total compensation for external auditor of 2019 Approved the amendment to subsidiaries' "Procedures for Lending Funds and Endorsement & Guarantee" Approved the plan of internal auditing of 2020 	None	None
02.17.2020	<ul style="list-style-type: none"> Approved the establishment of subsidiary in Vietnam 	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 2019 and to the date of the annual report: None.

3.3.13 Resignation or Dismissal of Key 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, 2019 ~ Dec 31, 2019	

Unit: NT\$ thousands

Items of CPAs fee Amount Bracket		Auditing Fees	Non-Auditing Fees	Total
1	Below 2,000 thousand			
2	2,000 thousand (included) ~ 4,000 thousand(excluded)			
3	4,000 thousand (included) ~ 6,000 thousand(excluded)		V	
4	6,000 thousand (included) ~ 8,000 thousand(excluded)			
5	8,000 thousand (included) ~ 10,000 thousand(excluded)			
6	Over 10,000 thousand (included)	V		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	10,090	0	203	0	4,362	4,565	2019/1/1~2019/12/31	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	2019		01/01/2020-02/29/2020	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	1,000,000	-		-
Vice Chairman and Deputy Group CEO Jason Cheng	-	-	-	-
Director, President and CEO S.J. Liao	(469,000)			
Director C.I. Chia	-	-	-	-
Director C.V. Chen	-	-	-	-
Director T.K. Yang	-	-	-	-
Director HAI-HE Investment Co., Ltd Rep: S. Chi	-	-	-	-
Director S. Chi	-	-	-	-
Director HONG-YE Investment Co., Ltd. Rep. : E.L. Tung	-	-	-	-
Director E.L. Tung	-	-	-	-
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	(120,000)	-	-	-
Chief Operating Officer and Senior Vice President Te-Tzu Yao	(130,000)	-	-	-
Vice President Kuo-Yen Teng	(9,000)	-	-	-
Vice President Tsung-Jen Ku Lai	-	-	-	-
Vice President En-Bair Chang	(20,000)	-	-	-
Vice President Shih-Chi Hsu	(146,000)	-	(16,000)	-
Vice President Kuang-Chih Cheng	(91,000)	-	(1,000)	-
Vice President Tian-Bao Chang	-	-	-	-

Title	2019		01/01/2020-02/29/2020	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President Ming-Tung Hsu	-	-	-	-
Vice President Chih-Hsiung Chen	-	-	-	-
Deputy Chief Operating Officer and Vice President Chiu-Tan Lin (Note 1)	(130,000)	-	-	-
Senior Vice President of RD & Engineering Pei-Chin Wang	-	-	-	-
Chief Technology Officer and Senior Vice President Chung Yu Huang	-	-	-	-
Vice President Hsi-Wen Lee	(17,000)	-	(6,000)	-
Chief Financial Officer and Vice President Shaing-Shaing Wu (Note 2)	-	-	-	-
Vice President Chen-Yu Feng	(126,000)	-	-	-
Vice President Ting-Pang Huang	-	-	-	-
Vice President Shyh-Heh Hwang	-	-	-	-
Corporate Governance Officer Chieh-Tsung Chen (Note 3)	-	-	-	-
Accounting Officer Ju-Hui Hsieh (Note 4)	-	-	-	-

Note 1: Mr. Chiu-Tan Lin stepped down as Chief Financial Officer, and was appointed Deputy Chief Operating Officer on September 1st, 2019

Note 2: Ms. Shaing-Shaing Wu was appointed Chief Financial Officer on September 1st, 2019

Note 3: Mr. Chieh-Tsung Chen was appointed Corporate Governance Officer on June 21st, 2019. Holding Increase (Decrease) of 2019 is from the on-board date to December 31st, 2019.

Note 4: Ms. Ju-Hui Hsieh was appointed Accounting Officer on September 1st, 2019. Holding Increase (Decrease) of 2019 is from the on-board date to December 31st, 2019.

Note 5: Holding Increase (Decrease) included employee restricted stocks are under the custody of the Trust.

3.7.2 Information of Shares Transferred: None.

3.7.3 Information of Equity Pledged: None.

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

As of 08/06/2019

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	17.18	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
Silchester International Investors International Value Equity Trust	115,258,000	4.41	-	-	-	-	-	-	-
T.H. Tung	94,177,309	3.61	6,074,490	0.23	-	-	-	-	-
Jonney Shih	67,032,290	2.57	-	-	-	-	Asustek Computer Inc.	Chairman	-
Silchester International Investors International Value Equity Group Trust	59,179,000	2.27	-	-	-	-	-	-	-
Ted Hsu	56,353,713	2.16	-	-	-	-	-	-	-
NAN SHAN Life Insurance Co., Ltd	54,042,000	2.07	-	-	-	-	-	-	-
Silchester International Investors International Value Equity Taxable Trust	39,438,000	1.51	-	-	-	-	-	-	-
Cathay United Bank in Custody for Expert Union Limited Investment account	38,505,000	1.47	-	-	-	-	-	-	-
Morgan Stanley & Co. International Plc	36,913,220	1.41	-	-	-	-	-	-	-

3.9 Long-Term Investment Ownershi

Unit: thousand shares; %; As of 12/31/2019

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	23.75	13,697	9.10	49,447	32.85
Casetek Holdings Limited (Cayman)	4,809	1.14	245,017	58.27	249,826	59.41
Pegatron Service Australia Pty, Ltd.	6,000	100.00	-	0	6,000	100.00
PT. Pegatron Technology Indonesia	40	99.9975	-	0.0025	40	100.00

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

As of 03/12/2020

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,610,791,856	389,208,144	3,000,000,000	Listed

4.1.2 Share Capital

As of 03/12/2020

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.
03/2019	10	3,000,000	30,000,000	2,611,880	26,118,799	Cancelling employee restricted stocks of NT\$4,974 thousand	-	Note 1
05/2019	10	3,000,000	30,000,000	2,611,591	26,115,915	Cancelling employee restricted stocks of NT\$2,884 thousand	-	Note 2
09/2019	10	3,000,000	30,000,000	2,611,400	26,113,999	Cancelling employee restricted stocks of NT\$1,916 thousand	-	Note 3
11/2019	10	3,000,000	30,000,000	2,611,092	26,110,919	Cancelling employee restricted stocks of NT\$3,080 thousand	-	Note 4
03/2020	10	3,000,000	30,000,000	2,610,792	26,107,919	Cancelling employee restricted stocks of NT\$3,000 thousand	-	Note 5

Note 1: 03/05/2019 Jin So Son Tzi No. 10801021850

Note 2: 05/22/2019 Jin So Son Tzi No. 10801059650

Note 3: 09/02/2019 Jin So Son Tzi No. 10801117190

Note 4: 11/22/2019 Jin So Son Tzi No. 10801168650

Note 5: 03/03/2020 Jin So Son Tzi No. 10901032460

4.1.3 Information for Shelf Registration: None**4.1.4 Composition of Shareholders**

As of 08/06/2019; Units: share

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	4	17	356	142,923	927	144,227
Shareholding (shares)	9	143,601,922	612,813,059	864,021,542	991,154,924	2,611,591,456
Percentage	0	5.50	23.46	33.09	37.95	100.00

4.1.5 Shareholding Distribution Status**Common Share (The par value for each share is NT\$10)**

As of 08/06/2019

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	54,329	14,912,057	0.57
1,000 ~ 5,000	70,657	148,362,255	5.68
5,001 ~ 10,000	10,125	78,312,237	3.00
10,001 ~ 15,000	3,009	38,148,384	1.46
15,001 ~ 20,000	1,859	34,298,195	1.31
20,001 ~ 30,000	1,537	38,740,905	1.48
30,001 ~ 50,000	1,093	43,493,832	1.67
50,001 ~ 100,000	794	55,836,794	2.14
100,001 ~ 200,000	320	46,507,695	1.78
200,001 ~ 400,000	180	49,477,867	1.89
400,001 ~ 600,000	67	32,029,570	1.23
600,001 ~ 800,000	45	31,746,188	1.22
800,001 ~ 1,000,000	32	28,698,333	1.10
over 1,000,001	180	1,971,027,144	75.47
Total	144,227	2,611,591,456	100.00

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

4.1.6 List of Major Shareholder

As of 08/06/2019

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.18
Silchester International Investors International Value Equity Trust	115,258,000	4.41
T.H. Tung	94,177,309	3.61
Jonney Shih	67,032,290	2.57
Silchester International Investors International Value Equity Group Trust	59,179,000	2.27
Ted Hsu	56,353,713	2.16
NAN SHAN Life Insurance Co., Ltd	54,042,000	2.07
Silchester International Investors International Value Equity Taxable Trust	39,438,000	1.51
Cathay United Bank in Custody for Expert Union Limited Investment account	38,505,000	1.47
Morgan Stanley & Co. International Plc	36,913,220	1.41

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	2018	2019	01/01/2020-03/12/2020
Market Price per Share (Note 1)			
Highest Market Price	81.90	71.50	69.50
Lowest Market Price	48.20	46.75	56.80
Average Market Price	64.90	55.89	64.99
Net Worth per Share (Note 2)			
Before Distribution	57.43	60.38	-
After Distribution	53.93	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,612,769	2,611,330	-
Diluted Earnings Per Share (Note 3)	4.25	7.4	-
Dividends per Share			
Cash Dividends	3.5	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 5)	15.27	7.55	-
Price / Dividend Ratio (Note 6)	18.54	Undistributed	-
Cash Dividend Yield Rate (Note 7)	5.39%	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: $\text{Price / Earnings Ratio} = \text{Average Market Price} / \text{Earnings per Share}$

Note 6: $\text{Price / Dividend Ratio} = \text{Average Market Price} / \text{Cash Dividends per Share}$

Note 7: $\text{Cash Dividend Yield Rate} = \text{Cash Dividends per Share} / \text{Average Market Price}$

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 paid-in 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 distributable dividend and bonus may be paid in issuing new shares after a resolution has been adopted by special resolution of shareholders' meeting.

According to Article 240, paragraphs 5 of Company Act, the distributable dividends and bonus in whole or in part or the legal reserve and capital reserved in whole or in part which are brought in Article 241, paragraphs 1 of Company Act may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors, and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

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 2019 dividend distribution at its meeting on March 26, 2020. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual General Shareholders' Meeting on June 19, 2020.

Unit: NT\$

Items	Amount	
	Subtotal	Total
Beginning Retained Earnings		22,842,506,159
Add: Expiration of Restricted Stock to Employees		6,547,483
Add: Net Profit After Tax		19,317,741,392
Minus: Losses on Re-evaluation of Defined Benefits Plans		(7,167,062)
Minus: Disposal of Investments in Equity Instruments Measured at Fair Value Through Other Comprehensive Income		(3,435,986)
Distributable Net Profit		42,156,191,986
Minus: Special Reserve Appropriated		(3,417,172,505)
Minus: 10% Legal Reserve		(1,931,774,139)
Minus: Cash Dividend		(11,748,563,352)
Unappropriated Retained Earnings		25,058,681,990

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 remuneration of employees, which may be paid in cash or in the form of shares, and qualified employees of the parent and subordinate companies, who meet qualification requirements, may be included. The qualification requirements 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' remuneration 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 2019 resolved by the Board of Directors

a. Proposed remuneration to employees and remuneration to directors.

	Amount (NT\$)
Remuneration to Employees	1,639,000,000
Remuneration to Directors	163,000,000

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 2019.

4.1.10.4 Distribution of remuneration to employees and remuneration to directors in 2018 resolved by the Annual Shareholders Meeting on Jun. 21, 2019

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

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2018 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 03/12/2020 ; Unit: NT\$

Type of Corporate Bonds	Domestic Unsecured Bond (106-1)	Domestic Unsecured Bond (106-2)	Domestic Unsecured Bond (108-1)
Issuance Date	2017/07/13	2018/01/10	2019/06/13
Denomination	NT\$1,000,000		
Offering Price	At Par		
Total Amount	NT\$7,000,000,000	NT\$8,000,000,000	NT\$8,500,000,000
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.	Tranche A: 0.85% p.a. Tranche B: 0.95% 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	Tranche A: 5 years Maturity: 2024/06/13 Tranche B: 7 years Maturity: 2026/06/13
Guarantor	None		
Trustee	Taipei Fubon Commercial Bank Co., Ltd		
Underwriter	Capital Securities Corp.	Yuanta Securities Co., Ltd	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)	Domestic Unsecured Bond (108-1)
Repayment	Bullet		
Outstanding	NT\$7,000,000,000	NT\$8,000,000,000	NT\$8,500,000,000
Redemption or Early Repayment Clause	None		
Covenants	None		
Credit Rating	twAA- (Taiwan Ratings Corporation, 06/20/2019)		
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 Depositary Receipts:

As of 03/12/2020

Item		Date of Issuance	August 9, 2010
Date of issuance (Process)			08/09/2010
Location and Issuance and Trade			Luxemburg Stock Exchange
Total Amount			Non applicable
Unit Price (in NT\$ per GDS)			NT\$37.70
Total Issuance			12,163,804
Source of Common Stock Registration			One GDS stands to five common share of Pegatron
Total Marketable Security Shares Recognized			Stands for 60,819,020 common shares of Pegatron
Rights and Obligations of GDR Holders			Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)
Trustee			Non applicable
GDR Institute			Citibank N.A.
Depositary Institute			Citibank Taiwan Limited
Outstanding GDSs (as of December 31, 2019)			789,784 GDSs
Issuance and Expense Amortization throughout the Issuance Period			Annual listing fees and accountant fees were borne by Pegatron
GDR Agreement and Depositary Agreement			See Deposit Agreement and Custody Agreement for Details
Market Price per unit (US\$)	2019	Max.	US\$11.80
		Min.	US\$7.55
		Average	US\$9.00
	As of March 12, 2020	Max.	US\$11.60
		Min.	US\$10.40
		Average	US\$10.85

4.5 Employee Stock Option: None.

4.6 Employee Restricted Stocks

4.6.1 Issuance of Employee Restricted Stocks

As of 02/29/2020

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"> 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. 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. 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. 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"> 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. 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 13,663,600 shares delivered to the Trust	A total of 872,800 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	2,763,531 (Note 1)	16,000 (Note 1)
Number of Employee Restricted Stocks Free from Custody	21,380,869	1,303,200
Number of Employee Restricted Stocks under Custody	13,663,600	872,800
Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)	0.52%	0.03%
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\$2,180,431 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, NT\$945,744 thousands and NT\$299,175 thousands in 2017, 2018 and 2019. The annually expensed amount is estimated at NT\$210,000 thousands in 2020.</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 2,610,759,056 shares, is estimated at NT\$0.28, NT\$0.36, NT\$0.11 and NT\$0.08 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 02/29/2020; 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 to Outstanding Common Shares (%)
Management Team	Group CEO	T.H. Tung										
	Deputy Group CEO	Jason Cheng										
	President and CEO	S.J. Liao										
	Deputy Chief Operating Officer and Vice President (Note 1)	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										
	Chief Financial Officer and Vice President (Note 2)	Shaing-Shang Wu										
	Vice President	Chen-Yu Feng										
	Vice President	Ting-Pang Huang										
	Vice President	Shyh-Heh Hwang										
	Corporate Governance Officer (Note 3)	Chieh-Tsung Chen										
	Accounting Officer (Note 4)	Ju-Hui Hsieh										
			8,620,000	0.33	5,172,000	10	51,720,000	0.20	3,448,000	10	34,480,000	0.13

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	Wei-Kang Wang										
	Associate Vice President	Yu-Heng Lu										
	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										
	Senior Director	Jen-Chieh Huang										
	Associate Vice President	Shing-Jung Kuo										
	Associate Vice President	Hsin-Cheng Chen										
	Senior Director	Chi-Liang Chen										
	Associate Vice President	Li-Ling Chao										
	Associate Vice President	Hsiu-Yu Pan (Note 5)	3,986,000	0.15	2,511,600	10	25,116,000	0.10	1,474,400	10	14,744,000	0.05
	Associate Vice President	I-Sheng Tsai										

Note 1: Mr. Chiu-Tan Lin stepped down as Chief Financial Officer, and was appointed Deputy Chief Operating Officer on September 1st, 2019

Note 2: Ms. Shiang-Shiang Wu was appointed Chief Financial Officer on September 1st, 2019

Note 3: Mr. Chieh-Tsung Chen was appointed Corporate Governance Officer on June 21st, 2019

Note 4: Ms. Ju-Hui Hsieh was appointed Accounting Officer on September 1st, 2019

Note 5: Ms. Hsiu-Yu Pan resigned from her position.

Note 6: 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 Rebecca

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, Cable Modems, Set-top Boxes, Smartphones, Game Consoles, Tablets, IoT Devices, Wearable Devices, Smart Home Devices, Automotive Electronics, etc. The Company also engages in development, design and manufacturing of peripherals and components of the above-mentioned products. In addition to the well diversified product portfolio, the Company also places great emphasis on development of both software and hardware technologies to provide customers with total solutions and high value-added services.

5.1.1.2 Breakdown of Sales by Major Products

Unit: NT\$ thousands; %

Year Major Product	2018		2019	
	Amount	%	Amount	%
3C Products	1,258,850,322	93.94	1,289,751,694	94.40
Other	81,151,709	6.06	76,535,632	5.60
Total	1,340,002,031	100.00	1,366,287,326	100.00

5.1.1.3 Product Lines

Computing Product

- a. Notebook PCs
- b. DeskTop PCs
- c. Motherboards

Communication Product

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

Consumer Electronics and Other Product

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

5.1.1.4 Product (Service) Development

- a. Developing “consumer” systems (desktop / AIO / laptop / 2-in-1) designs mainly using Intel Comet Lake / Tiger Lake etc. for different operating systems, while meeting market demands for customization, deep plowing products, and diversified gaming / creator / thin & light product lines with new features
- b. Developing “commercial” systems (desktop / AIO / laptop) designs mainly using Intel Comet Lake / Tiger Lake platforms etc
- c. Developing smart RSU (roadside unit) products which are integrated with smart sensor and latest V2X communication modules to implement safety and security for vehicle drivers
- d. Developing DOCSIS3.1 Cable Modem which adopts the new generation of WiFi-6E wireless network technology. Through the adjustment of materials, it can meet US and European regulations respectively; and also can activate desired functions of Moca, VOIP, and Ethernet.
- e. 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..
- f. Developing Speaker Identification Technology and utilize in Smart Assistant product to provide multi-user switching to enhance user experience. We also provide multi-model input interface to fulfill different customer usages.
- g. Developing 3D&2D 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, Notebook, and IP Cameras
- h. Developing AI edge neural networks and optimizing execution to double the speed of world’s top #1 Google EfficientNet and apply to detection object in SmartAlbum, AR glasses, Robot, Door Bells, Notebook, and IP cameras products.
- i. Developing AI non-vision deep learning neural network for training the RF signal, such as Wifi, mmWave, audio and G-sensor data to recognize different objects, such as human, pets, life objects, and environment. It can apply to AR Glasses, Smart Album, Notebook, and Robot products.
- j. Developing AI data generation technology to generate training data for AI on AR Glasses, Smart Album, Notebook, and Robot products.
- k. Developing text detection and recognition by AI deep learning technologies,

accuracy reaching 99%; can apply to AR Glasses, Smart Album, and Robot products.

- l. Developing gesture and face ID for driver fatigue detection by AI deep learning; applies in automotive products.
- m. Developing real-time speech translation and speaker isolation by AI deep learning technology; can apply to consumer accessory products.
- n. Developing Android ruggedized LTE phones using Qualcomm SD660 platforms with SW ODM co-working models, while meeting market demands for North-America LTE carrier TA, and vertical customization.
- o. Developing 25G SFP28 optical transceiver uses BIDI design and can be applied from DU to RRU to meet 5G market. BCM-platform XGSPON/GPON enterprise optical fiber modem, and Cortina8289 10G EPON optical fiber modem; have built-in 4x 1Gbps ETH, 1x 2.5Gbps ETH, 2 VOIP, Zigbee, Z-wave, tri-band 11ax (4+8) 2.4G/5G wireless network. 10GPON stick with 1588SFF option is equipped with Dying gasp warning feature by voltage discrimination.
- p. Developing a new type of AR HMD, integrating speaker, microphone, and camera. Equipped with a high image quality Full HD optical engine, customized clamping mechanism for comfortable wearing, and popular Type-C interface; in order to meet expectations for vertical market applications.
- q. Developing high-speed LTE Telematics system enables connected-car services including eCall (Emergency Call), bCall (Breakdown Call), V2X communication (Vehicle to Vehicle & Vehicle to Infrastructure) to make journeys safer. In addition, there are much more value-added services through wireless technology such as remote vehicle diagnosis and remote vehicle control by mobile APP.
- r. Developing next generation 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
- s. Researching 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 research and improvement of the bonding structure will also better meet car crash safety requirements.
- t. Developing Set-Top-Box Products: One utilizes Synaptics VS680 platform, with built-in Atmos Sound bar system. Another is based on the BCM72180 platform and equipped with WiFi 802.11ax; to meet market demand for Dolby sound quality, high resolution, and WiFi network speed requirements for STB.
- u. Developing IP Camera Products: Utilizing Sigmastar SAV500 platform, the power

supply features a dual-use design of battery and AC weak current system, to power video doorbell products.

- v. Developing WiFi-6E, Tri-band, 802.11ax high-speed wireless network home gateway and extender, are the new generation WiFi AP products. The antenna design has high isolation and wide band capabilities. With mobile phone settings, it can be freely expanded into multiple-endpoint wireless mesh networks to provide multi-user wide-range, high-speed wireless services.
- w. Developing Low-power, multiple-wireless interfaced IoT devices, with built-in LTE-CatM1, NB-IoT, WI-SUN and other wireless technologies. The technologies can be a backup for each other to ensure communication quality, security, and stability in different scenarios; and applicable for SmartMeter.

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) for the first time in 8 years, grew by 2.7% YoY in 2019 driven mainly by Windows 10 replacement cycle in commercial market. In addition, brand customers also accelerated shipment pull in starting from the second half of 2019 due to improving supply of key components and in response to rising trade tension between US and China. In consumer market, consumers still prefer PCs with narrow bezel and ultra slim design, while popularity for chromebook continues due to competitive pricing and accessibility. However, overall demand for consumer PCs remains weak as cannibalization from mobile devices persists. In the mid to long term, despite positive outcome in 2019, IDC expects commercial replacement cycle to slow down since most enterprises completed Windows 10 upgrade. Though innovated technologies such as 5G, dual-screen, folding-screen and increasing variety of gaming PCs might stimulate end demand, concerns such as maturity of technologies, key component shortage and prolonged uncertainty over US and China trade dispute will likely bring challenges to PC market in the next 12 to 18 months. As a result, IDC predicts that the compound annual growth rate of overall PC volume is expected to be -1.1% from 2019 to 2023.

b. Communication Industry

According to IDC, worldwide volume of smartphone shipped in 2019 reached 1.38 billion units, declined by 1.4% YoY. The decline was due to longer replacement cycle, higher average selling price on premium flagship smartphones and delayed purchase caused by growing anticipation of 5G smartphone. It is expected that with upcoming launch of 5G smartphone and continuous demand in emerging markets,

smartphone volume is likely to resume its growth momentum in 2020. IDC further estimates that commercialized 5G technologies and increasing numbers of model designs and its applications will stimulate smartphone growth in a long run. As a result, overall smartphone volume is expected to reach 1.49 billion units in 2023, with estimated compound annual growth rate of 1.2% from 2018 to 2023.

With commercial launch of 5G technology in sight, deployment of global 5G infrastructure has taken off, while demand for connectivity devices is also on the rise. To fulfill surging demand for high speed data transmission and low latency, there are a number of CPE devices supporting 5G technology available in the market. Despite application for commercial devices is relatively low, it is firmly believed that demand will improve meaningfully as telecommunication companies continue its expenditure in 5G infrastructure, setting up standard and providing total solution. IDC estimates that hardware market for CPE devices will increase from US\$281 million to US\$782 million from 2018 to 2023 with estimated compound annual growth rate of 22.7%.

c. Consumer Electronics Industry

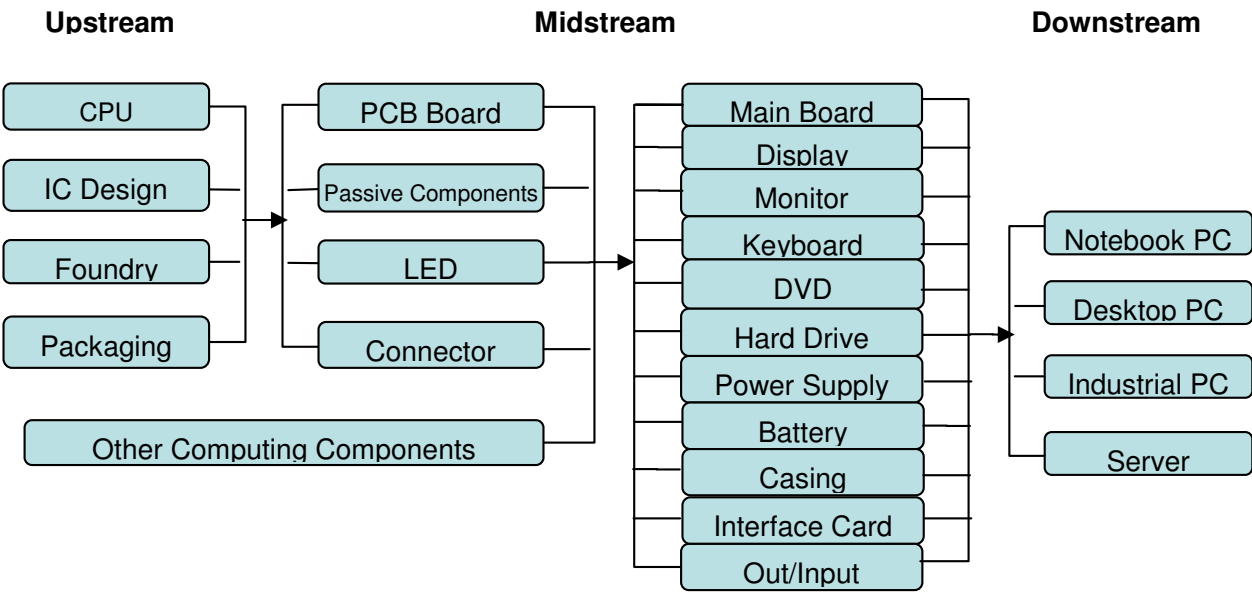
Tablets, game consoles and IoT devices are the major revenue contributors in consumer electronics segment. According to IDC, around 140 million units of tablet shipped in 2019, declined by 1.5% YoY, mainly attributable to lack of product innovation on premium models and longer replacement cycle caused by cannibalization from bigger screen smartphones. In the mid to long term, while growth momentum in commercial tablets aiming at education, enterprises and logistics sectors remain positive, it is believed that continuous decline in consumer tablets will negatively impact overall tablet market. As a result, the compound annual growth rate of tablet market is expected to be -4.0% from 2018 to 2023.

According to IDC, total game console volume reached 37 million units in 2019, declined by 12.6% YoY since current models are approaching end of life cycle and market is expecting new model launch by Sony and Microsoft in 2020. In the next few years, in addition to sales momentum stimulated by Nintendo Switch Lite in 2019, new product launch by Sony and Microsoft will lead the next wave of replacement cycle, despite concerns over potential impact from trade dispute. IDC predicts that the compound growth rate for game console will be 1.9% from 2018 to 2023.

IDC data shows that worldwide spending on IoT field reached US\$701.9 billion in 2019, an increase of 16.9% YoY driven by increasing demand in IoT devices such as wearable and mainstream smart home devices. Going forward, it is expected that double digits growth can be achieved in the next 5 years. From product sales

perspective, rising demand in wearable devices is benefitting from mounting innovative applications as well as influx of various brands. The estimated compound growth rate for wearable devices is 10.7% from 2019 to 2024. As for smart home devices, total shipment reached 810 million units in 2019, an increase of 23.5% as compared to a year ago, with video entertainment represented the largest segment. However, lighting devices has the highest growth potential followed by home monitoring devices driven by increasing consumer demand in security monitoring and entertainment applications. In the mid to long term perspective, as consumers become increasingly aware of the convenience, cost savings and energy efficiencies that smart home devices can provide, IDC estimates that shipment of smart home devices will reach 140 million units in 2023, which results in a five-year compound growth rate of 16.2%.

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



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

5.1.2.3 Trends of Product Development

Consumers are paying more attention to the function of mobility. Among computing, communication and consumer electronics products, consumers are constantly looking for products lighter in weight and slimmer in size with longer battery life. After tablets reaching its maturity, brand customers are taking proactive actions to integrate

smartphones and notebook PCs and provide multi-purpose solutions such as larger screen size smartphones, 2-in-1 notebook PC, convertible PC, etc., to consumers.

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

5.1.2.4 Market Competition

In the process of market consolidation among computing, consumer electronics, and communication products, major assembly companies are gaining more market share from the smaller ones. Furthermore, Chinese 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. In light of recent trade dispute and major public health crisis which impacted global financial market and brought disruption to supply chain, it is therefore utmost important for assembly companies to promptly respond to all kind of changes, actively adjust production planning based on customers' demand, adequately allocate resources and strictly conduct cost management.

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	2018	2019
R&D Expense (A)	14,787,544	14,773,900
Net Revenue (B)	1,340,002,031	1,366,287,326
(A)/(B) %	1.10	1.08

5.1.3.2 Research and Development Accomplishments in the Recent Year

Year	Achievement in Research and Development
2019	<ol style="list-style-type: none"> 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. Developed face detection and face recognition by deep learning. Accuracy reaching 99.85% for LFW face data set. Applying to Door Bells, IP cameras, and robots. Developed object detection reaching 99% accuracy and applying to Door Bell, IP camera, AR glasses, and Notebook to detect humanoid shapes, flames and gestures for Robotic products. Developed pose estimation and optimize to 30FPS on ARM code and applying to Doorbell, IP camera, Robotic, AR glasses, and Notebook products. Previously we were Google's official Android and ChromeOS, Android Auto 3PL certification labs in 2017. From 2018 to 2019, we successfully qualified as Google's ART Audio and Android TV certification Lab. Developed the thinnest gaming laptop with capability of graphic overclock, dual screen laptop with maglev keyboard, and the ultra-slim rugged laptop demonstrated in 2019 Computex. Keep developing the latest thin & light laptop from 2H'2019, with Intel's Tiger Lake-U platform and AI image / application features. Developed edge-computing AI platform in 2019 H1 by using deep learning technology to self-develop own speech recognition and object recognition and adopting advanced edge-computing technology, i.e. Intel Movidius VPU accelerator and Open VINO software architecture, that could be for the applications such as smart home, smart surveillance and smart retailing. Developed low power communication and precise positioning collaborative technology. Besides GNSS (global navigation satellite System), adding the own IMU (inertial measurement unit) Dead Reckoning technology for precise positioning application and integrating low power IoT communication technology that could be for the application of Internet of Vehicle. Developed 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. Developed a new generation of VDSL WiFi gateway, with WAN speeds up to 1GB, with the WiFi meeting the latest WiFi-6 requirements. Developed Android ruggedized LTE tablets, utilizes Qualcomm SD660 platform, can meet the needs of both LTE Operator TA in North America and market vertical customization. Developed a WiFi-6 dual-band and tri-band 802.11ax high-speed

	<p>wireless network sharing device, its Antenna design using dual-band and tri-band structure, can have high isolation capabilities, to provide high-speed, secured, and reliable wireless network connections.</p> <p>14. Developed 5G mobile communication, high-speed wireless network sharing device, provides high-speed, secured, and reliable wireless network connection anytime, anywhere.</p> <p>15. Developed next generation enterprise 10GEPON PON optical modems, providing 10Gbps LAN port, and 2 port VOIP. Developed 10G BOSA HOT BAR design to solve the difficulty of hand soldering process, and improve plant productivity. Designed a leading product which is a 10G PON Stick, with built-in a PON mac soc in a SFP+ transceiver, giving media converter and Switch (SFP+ port) the ability to connect with OLT (Optical Line terminal), becoming a PON ONU. Developed GPON optical modem development, including 4 port Ethernet, 2 port VOIP, 1 port USB3.0 with 2.4G 3x3 11AC and 5G 4x4 11AC Wi-Fi network.</p> <p>16. Developed Cable Modem DOCSIS3.1 adopting the new generation WiFi BCM 11 ac chipset, built-in 4x 1Gbps ETH, 2 VOPI, and WiFi 11AC 4x4 (2.4G/5G) wireless network.</p>
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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, promote benefits of vertical integration within group and provide total solutions to customers.

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.
 - To expand manufacturing footprint globally and fulfill customers' requirements by offering various multiple manufacturing locations.
 - To continuously invest in automation equipment to reduce the reliance on labor and improve product quality
- 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; %

		2018		2019	
		Amount	%	Amount	%
Domestic		113,229,970	8.45	132,035,182	9.66
Export	Asia	146,020,946	10.90	137,063,944	10.03
	Europe	543,881,520	40.59	553,601,989	40.52
	America	473,857,313	35.36	471,554,246	34.52
	Others	63,012,282	4.70	72,031,965	5.27
	Subtotal	1,226,772,061	91.55	1,234,252,144	90.34
Total		1,340,002,031	100.00	1,366,287,326	100.00

5.2.1.2 Market Share

According to market research, notebook PC ODM/EMS companies in Taiwan accounted for 126 million units of notebook PCs in 2019, around 74% of total global shipment volume. This included 35.1 million units from Quanta, 43.9 million units from Compal, 17.4 million units from Wistron, 18.9 million units from Inventec and 10.2 million units from Pegatron. Notebook PCs manufactured by Pegatron accounted for 8.15% 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 2020, despite consumer PCs continues its declining trend due to weakening demand, gaming PCs is gaining more traction among

consumers for better product specification and efficiency, which resulted in intensifying market competition. As for commercial PC, while demand from enterprises, education institutions and government agencies remains, most enterprises have completed replacement of Windows 10 and therefore overall notebook PCs trend is expected to slow down. 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. In a broader perspective, concerns such as trade dispute between US and China, key component shortage and global public health crisis occurred early 2020 may further fuel uncertainty over end demand and more time is required to monitor the volatility in the market.

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 6,878. 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, Indonesia, Vietnam 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 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 electronics 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, consumer electronic and communication

products.

b. Matured electronics 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 electronics industry in Taiwan.

c. Integration of software and hardware systems help create growth momentum in the electronics 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.
- f. Adjust global manufacturing footprint, reduce impact from trade dispute and improve overall production efficiency.

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	Z Company 、X Company 、L Company	Stable
System Module	X Company 、Z Company	Stable
Display	X Company 、Z Company	Stable
Mechanical Parts	X Company 、T Company 、K 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	2018				2019			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	X Company (Note1)	635,266,185	52.61	None	X Company (Note1)	576,249,476	50.02	None
2	Z Company (Note 1)	64,158,380	5.31	Shareholder	Z Company (Note 1)	86,045,169	7.47	Shareholder
3	U Company (Note 1)	45,542,156	3.77	None	U Company (Note 1)	37,526,129	3.26	None
	Others	462,497,402	38.30	-	Others	452,127,675	39.25	-
	Net Total Purchases	1,207,464,123	100.00	-	Net Total Purchases	1,151,948,449	100.00	-

Note 1: In 2018 and 2019, 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	2018				2019			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	A Company	844,032,246	62.99	None	A Company	828,174,033	60.61	None
2	B Company	79,615,762	5.94	Shareholder	B Company	106,817,483	7.82	Shareholder
	Others	416,354,023	31.07	-	Others	431,295,810	31.57	-
	Net Total Sales	1,340,002,031	100.00	-	Net Total Sales	1,366,287,326	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

Output Year Major Products (or by departments)	2018			2019		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products	253	241	2,858,936	5,045	3,804	9,416,811
Others	-	-	7,935,227	-	-	16,671,718
Total	253	241	10,794,163	5,045	3,804	26,088,529

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	2018				2019			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	10,669	100,228,383	198,498	1,101,568,160	10,874	118,674,065	192,159	1,101,867,097
Others	-	2,699,384	-	29,837,371	-	2,596,140	-	41,695,583
Total	10,669	102,927,767	198,498	1,131,405,531	10,874	121,270,205	192,159	1,143,562,680

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		2018	2019	As of 03/12/2020
Number of Employees	Others	2829	3554	3603
	R&D	4310	4067	4041
	Total	7139	7621	7644
Average Age		36.6	36.6	36.7
Average Years of Service		7.2	7.2	7.2
Education	Ph.D.	0.21%	0.24%	0.22%
	Masters	42.04%	37.93%	37.52%
	Bachelor's Degree	51.17%	53.98%	54.25%
	Senior High School	5.95%	7.09%	7.21%
	Below Senior High School	0.63%	0.76%	0.80%

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 and violation of environmental laws and regulations) paid for environmental pollution and stated any responsive actions and potential expenditure

In 2019 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. The management system is certified according 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 implements 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. Our 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 2019. The average training hour is above 14 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 year 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 03/12/2020

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
Lease Agreement	Sembcorp Infra Services Hai Phong Co., LTD	02/01/2020~ 01/31/2025	Lease the building from Sembcorp as the factory in Vietnam	None
Lease Agreement	Koo Foundation Sun Yat-Sen Cancer Center	01/01/2020~ 12/31/2027	Lease the building from Koo Foundation as the office	None
Lease Agreement	Dijiya Energy Saving Technology Inc.	09/01/2019~ 10/31/2022	Lease the building from DIJIYA as the factory	None
Software Purchase Agreement	Acer e-Enabling Service Business Inc.	12/1/2019 ~ 11/30/2022	Purchase of Microsoft operating system and the related software	None
License Agreement	Microsoft Ireland Operations Limited.	12/1/2019 ~ 11/30/2022	License of Microsoft Office system and the related software	None
Construction Engineering Agreement	JONY AIR CONDITIONING ENGINEERING CO., LTD.	09/18/2019~ 10/31/2019	Reconstruction for the production lines in Taoyuan factory	None
Construction Engineering Agreement	INGENIOUS ENGINEERING CORP.	07/15/2019~ 10/31/2019	Reconstruction of Xindian factory	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.	1/1/2019~12/31/2019	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 Item		Five-Year Financial Summary (Note)				
		2015	2016	2017	2018	2019
Current assets		390,403,344	364,225,586	395,398,572	482,805,097	475,833,911
Funds & Investments		424,191	362,909	503,718	246,423	256,093
Property, plant and equipment		71,037,778	66,860,809	78,075,271	87,605,762	80,248,760
Intangible assets		1,555,087	1,439,186	1,497,234	1,475,872	1,297,891
Other assets		12,666,263	11,056,743	12,760,824	12,217,461	12,883,138
Total assets		476,086,663	443,945,233	488,235,619	584,350,615	570,519,793
Current liabilities	Before Distribution	267,707,497	254,236,823	291,327,147	370,401,314	345,586,659
	After Distribution	280,660,998	267,110,739	301,781,799	379,542,893	Undistributed
Non-current liabilities		16,040,641	7,686,209	17,184,662	27,502,518	31,687,621
Total liabilities	Before Distribution	283,748,138	261,923,032	308,511,809	397,903,832	377,274,280
	After Distribution	296,701,639	274,796,948	318,966,461	407,045,411	Undistributed
Equity		150,380,135	148,269,590	145,975,738	150,028,838	157,665,062
Share capital		26,030,205	25,751,695	26,140,906	26,123,773	26,110,919
Capital surplus		78,972,374	78,214,259	79,897,751	80,676,330	81,052,101
Retained earnings	Before Distribution	42,655,172	48,104,750	49,976,468	51,627,273	61,799,379
	After Distribution	29,701,671	35,230,834	39,521,816	42,485,694	Undistributed
Other equity interest		2,724,974	(3,798,868)	(10,037,445)	(8,393,564)	(11,294,337)
Treasury stock		(2,590)	(2,246)	(1,942)	(4,974)	(3,000)
Non-controlling interests		41,958,390	33,752,611	33,748,072	36,417,945	35,580,451
Total Equity	Before Distribution	192,338,525	182,022,201	179,723,810	186,446,783	193,245,513
	After Distribution	179,385,024	169,148,285	169,269,158	177,305,204	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)				
		2015	2016	2017	2018	2019
Operating revenues		1,213,712,976	1,157,710,113	1,193,808,515	1,340,002,031	1,366,287,326
Gross profit		75,274,993	63,067,117	46,669,889	40,768,545	45,105,358
Results from operating activities		39,674,544	32,413,969	18,998,696	11,930,623	16,906,266
Non-operating income and expenses		(488,530)	(3,334,299)	1,414,354	3,125,644	8,561,639
Profit before tax		39,186,014	29,079,670	20,413,050	15,056,267	25,467,905
Profit (loss) from continuing operations		28,871,859	22,137,392	16,014,772	11,116,099	18,284,108
Profit (loss) from discontinued operations		-	-	-	-	-
Profit (loss)		28,871,859	22,137,392	16,014,772	11,116,099	18,284,108
Other comprehensive income (after tax)		(1,339,618)	(8,421,469)	(5,878,122)	1,776,451	(4,023,062)
Comprehensive income		27,532,241	13,715,923	10,136,650	12,892,550	14,261,046
Profit (loss), attributable to owners of parent		23,811,625	19,339,815	14,682,988	11,114,866	19,317,741
Profit (loss), attributable to non-controlling interests		5,060,234	2,797,577	1,331,784	1,233	(1,033,633)
Comprehensive income, attributable to owners of parent		22,809,542	12,008,187	9,241,061	13,096,757	15,889,966
Comprehensive income, attributable to non-controlling interests		4,722,699	1,707,736	895,589	(204,207)	(1,628,920)
Basic earnings per share		9.23	7.05	5.66	4.25	7.40

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)				
		2015	2016	2017	2018	2019
Current assets		317,603,542	372,570,658	380,463,314	560,145,033	576,874,914
Funds & Investments		117,840,661	117,619,640	122,190,881	129,941,116	138,654,566
Property, plant and equipment		4,423,894	4,724,010	4,722,912	7,384,642	8,123,507
Intangible assets		67,576	184,050	316,961	293,045	143,655
Other assets		333,018	833,534	1,259,125	1,546,820	1,910,403
Total assets		440,268,691	495,931,892	508,953,193	699,310,656	725,707,045
Current liabilities	Before Distribution	279,015,180	344,696,528	355,933,994	534,208,466	547,410,312
	After Distribution	291,968,681	357,570,444	366,388,646	543,350,045	Undistributed
Non-current liabilities		10,873,376	2,965,774	7,043,461	15,073,352	20,631,671
Total liabilities	Before Distribution	289,888,556	347,662,302	362,977,455	549,281,818	568,041,983
	After Distribution	302,842,057	360,536,218	373,432,107	558,423,397	Undistributed
Equity		NA	NA	NA	NA	NA
Share capital		26,030,205	25,751,695	26,140,906	26,123,773	26,110,919
Capital surplus		78,972,374	78,214,259	79,897,751	80,676,330	81,052,101
Retained earnings	Before Distribution	42,655,172	48,104,750	49,976,468	51,627,273	61,799,379
	After Distribution	29,701,671	35,230,834	39,521,816	42,485,694	Undistributed
Other equity interest		2,724,974	(3,798,868)	(10,037,445)	(8,393,564)	(11,294,337)
Treasury stock		(2,590)	(2,246)	(1,942)	(4,974)	(3,000)
Non-controlling interests		NA	NA	NA	NA	NA
Total Equity	Before Distribution	150,380,135	148,269,590	145,975,738	150,028,838	157,665,062
	After Distribution	137,426,634	135,395,674	135,521,086	140,887,259	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)				
	2015	2016	2017	2018	2019
Operating revenues	1,053,435,822	1,008,096,787	1,080,574,995	1,234,333,298	1,264,832,885
Gross profit (Note 2)	32,722,289	26,868,971	18,787,939	17,785,437	24,130,535
Results from operating activities	14,062,692	12,121,369	6,304,079	5,163,823	11,715,347
Non-operating income and expenses	12,674,865	9,776,015	8,896,368	6,579,206	9,788,099
Profit before tax	26,737,557	21,897,384	15,200,447	11,743,029	21,503,446
Profit (loss) from continuing operations	23,811,625	19,339,815	14,682,988	11,114,866	19,317,741
Profit (loss) from discontinued operations	-	-	-	-	-
Profit (loss)	23,811,625	19,339,815	14,682,988	11,114,866	19,317,741
Other comprehensive income (after tax)	(1,002,083)	(7,331,628)	(5,441,927)	1,981,891	(3,424,339)
Comprehensive income	22,809,542	12,008,187	9,241,061	13,096,757	15,893,402
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	9.23	7.50	5.66	4.25	7.40

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 2015 to 2019

Year	CPA Firm	CPA's Name	Auditing Opinion
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
2019	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				
		2015	2016	2017	2018	2019
Capital structure (%)	Debt ratio	59.60	59.00	63.19	68.09	66.13
	Ratio of long-term capital to property, plant and equipment	288.08	279.01	248.06	240.79	274.47
Solvency	Current ratio (%)	145.83	143.26	135.72	130.35	137.69
	Quick ratio (%)	95.87	98.23	90.20	83.82	105.36
	Times interest earned (Times)	59.29	32.88	22.45	6.80	8.98
Operating ability	Accounts receivable turnover (Times)	9.55	10.65	9.69	7.62	6.69
	Average collection period	38.22	34.27	37.66	47.90	54.56
	Inventory turnover (Times)	10.07	9.23	9.44	8.55	9.25
	Accounts payable turnover (Times)	6.78	6.59	6.41	6.26	5.92
	Average days in sales	36.26	39.52	38.66	42.69	39.46
	Property, plant, and equipment turnover (Times)	17.09	17.32	15.29	15.30	17.03
	Total assets turnover (Times)	2.55	2.61	2.45	2.29	2.39
Profitability	Return on total assets (%)	6.31	4.98	3.61	2.46	3.61
	Return on stockholders' equity (%)	15.72	11.83	8.85	6.07	9.63
	Pretax profit to paid-in capital (%)	150.54	112.92	78.09	57.63	97.54
	Net profit margin (%)	2.38	1.91	1.34	0.83	1.34
	Basic earnings per share (\$)	9.23	7.50	5.66	4.25	7.40
Cash flow	Cash flow ratio (%)	3.72	28.25	6.46	(Note 3)	22.42
	Cash flow adequacy ratio (%)	63.88	109.74	102.32	58.65	97.96
	Cash reinvestment ratio (%)	(Note3)	22.34	1.65	(Note 3)	21.58
Leverage	Operating leverage	1.35	1.40	1.69	2.38	2.10
	Financial leverage	1.02	1.03	1.05	1.28	1.23

Analysis of financial ratio change in the last two years.

1. Quick ratio: The ratio increased in 2019 due to the increase in current assets and decreased in current liabilities.
2. Times interest earned ratio: The ratio increased in 2019 due to the increase in gross profit and net income.
3. Return on total assets: The ratio increased in 2019 due to the increase in gross profit and net income.
4. Return on stockholders' equity: The ratio increased in 2019 due to the increase in gross profit and net income.
5. Pretax profit to paid-in capital: The ratio increased in 2019 due to the increase in gross profit and profit before tax.
6. Net profit margin: The ratio increased in 2019 due to the increase in gross profit and net income.
7. Basic EPS: The amount increased in 2019 due to the increase in net income.
8. Cash flow ratio: The ratio increased in 2019 due to the increase in net cash inflow from operating activity.
9. Cash flow adequacy ratio: The ratio increased in 2019 due to the increase in net cash inflow from operating activity.
10. Cash reinvestment ratio: The ratio increased in 2019 due to the increase in net cash inflow from operating activity.

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

Note 2: Equations:

1. Capital Structure
 - (1) Debt ratio = Total liability / Total assets
 - (2) Ratio of long-term capital to property, plant and equipment = (Net shareholders' equity + Long-term liability) / Net property, plant and equipment
 2. Solvency
 - (1) Current ratio: Current assets / current liability
 - (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
 - (3) Times interest earned = Net income before tax and interest expense / Interest expense of the year
 3. Operating ability
 - (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
 - (2) Days sales in accounts receivable = 365 / Account receivable turnover
 - (3) Inventory turnover = Cost of goods sold / Average inventory amount
 - (4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
 - (5) Average days in sales = 365 / Inventory turnover
 - (6) Fixed assets turnover = Net sales / Net fixed assets
 - (7) Total assets turnover = Net sales / Total assets
 4. Profitability
 - (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
 - (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
 - (3) Return to issued capital stock = Net income before tax / Issued capital stock
 - (4) Profit ratio = Net income (loss) / Net sales
 - (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
 5. Cash flow
 - (1) Cash flow ratio = 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				
Item (Note 2)		2015	2016	2017	2018	2019
Capital structure (%)	Debt ratio	65.84	70.10	71.32	78.55	78.27
	Ratio of long-term capital to property, plant and equipment	3,639.15	3,195.62	3,238.85	2,234.58	2,192.96
Solvency	Current ratio (%)	113.83	108.09	106.89	104.86	105.38
	Quick ratio (%)	104.12	99.72	96.95	95.45	99.60
	Times interest earned (Times)	66.32	45.46	28.56	8.20	13.48
Operating ability	Accounts receivable turnover (Times)	9.18	9.08	8.95	7.96	6.88
	Average collection period	39.76	40.20	40.78	45.85	53.05
	Inventory turnover (Times)	43.97	34.56	32.36	27.88	29.97
	Accounts payable turnover (Times)	4.82	3.99	3.55	3.25	2.72
	Average days in sales	8.30	10.56	11.28	13.09	12.18
	Property, plant, and equipment turnover (Times)	238.12	213.40	228.79	167.15	155.70
	Total assets turnover (Times)	2.39	2.03	2.12	1.77	1.74
Profitability	Return on total assets (%)	5.53	4.22	3.01	2.06	2.90
	Return on stockholders' equity (%)	16.77	12.95	9.98	7.51	12.56
	Pretax Profit to paid-in capital (%)	102.72	85.03	58.15	44.95	82.35
	Net profit margin (%)	2.26	1.92	1.36	0.90	1.53
	Basic earnings per share (\$)	9.23	7.50	5.66	4.25	7.40
Cash flow	Cash flow ratio (%)	0.18	15.86	(Note3)	(Note 3)	7.31
	Cash flow adequacy ratio (%)	12.15	85.59	76.57	40.46	75.34
	Cash reinvestment ratio (%)	(Note3)	27.41	(Note3)	(Note 3)	17.21
Leverage	Operating leverage	1.05	1.05	1.13	1.14	1.08
	Financial leverage	1.03	1.04	1.10	1.46	1.17

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio increased in 2019 due to the increase in net income.
2. Return on total assets: The ratio increased in 2019 due to the increase in gross profit and net income .
3. Return on stockholders' equity: The ratio increased in 2019 due to the increase in gross profit and net income.
4. Pretax Profit to paid-in capital: The ratio increased in 2019 due to the increase in gross profit and profit before tax.
5. Net profit margin: The ratio increased in 2019 due to the increase in gross profit and net income.
6. Basic EPS: EPS increased in 2019 due to the increase in net income.
7. Cash flow ratio: The ratio increased in 2019 due to the increase in net cash inflow from operating activity.
8. Cash flow adequacy ratio: The ratio increased in 2019 due to the increase in net cash inflow from operating activity.
9. Cash reinvestment ratio: The ratio increased in 2019 due to the increase in net cash inflow from operating activity.

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

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

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

2. Solvency

(1) Current ratio: Current assets / current liability

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

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

3. Operating ability

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

- (2) Days sales in accounts receivable = $365 / \text{Account receivable turnover}$
 - (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.

Pegatron Corporation

Audit Committee's Review Report

Date: March 26, 2020

The Board of Directors has prepared the Pegatron Corporation's ("the Company") 2019 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	2018	2019	Difference	
			Amount	%
Current Assets	482,805,097	475,833,911	(6,971,186)	(1.44%)
Funds & Investments	246,423	256,093	9,670	3.92%
Property, plant and equipment	87,605,762	80,248,760	(7,357,002)	(8.40%)
Intangible Assets	1,475,872	1,297,891	(177,981)	(12.06%)
Other Assets	12,217,461	12,883,138	665,677	5.45%
Total Assets	584,350,615	570,519,793	(13,830,822)	(2.37%)
Current Liabilities	370,401,314	345,586,659	(24,814,655)	(6.70%)
Long-term Liabilities	24,498,443	27,015,293	2,516,850	10.27%
Other Liabilities	3,004,075	4,672,328	1,668,253	55.53%
Total Liabilities	397,903,832	377,274,280	(20,629,552)	(5.18%)
Capital stock	26,123,773	26,110,919	(12,854)	(0.05%)
Capital surplus	80,676,330	81,052,101	375,771	0.47%
Retained Earnings	51,627,273	61,799,379	10,172,106	19.70%
Other Adjustments	28,019,407	24,283,114	(3,736,293)	(13.33%)
Total Stockholders' Equity	186,446,783	193,245,513	6,798,730	3.65%
Analysis of changes in financial ratios:				
1. Other Liabilities: The increase is due to the increase of non-current lease 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	2018	2019	Difference	
			Amount	%
Net Sales	1,340,002,031	1,366,287,326	26,285,295	1.96%
Cost of Sales	1,299,233,486	1,321,181,968	21,948,482	1.69%
Gross Profit	40,768,545	45,105,358	4,336,813	10.64%
Operating Expense	28,837,922	28,199,092	(638,830)	(2.22%)
Results from operating activities	11,930,623	16,906,266	4,975,643	41.70%
Non-operating Income and Expenses	3,125,644	8,561,639	5,435,995	173.92%
Profit Before Tax	15,056,267	25,467,905	10,411,638	69.15%
Income Tax Expense	3,940,168	7,183,797	3,243,629	82.32%
Profit for the year	11,116,099	18,284,108	7,168,009	64.48%
Other Comprehensive Income	1,776,451	(4,023,062)	(5,799,513)	(326.47%)
Total Comprehensive Income	12,892,550	14,261,046	1,368,496	10.61%
Analysis of changes in financial ratios:				
1. Results from operating activities: The increase is due to the increase of gross profit.				
2. Non-Operating Income and Expense: The increase is due to the increase of interest income, subsidy income and net gains on financial assets measured at fair value through profit and loss.				
3. Profit Before Tax: The increase is due to the increase of results from operating activities.				
4. Income Tax Expense: The increase is due to the increase of results from operating activities.				
5. Profit for the year: The increase is due to the increase of profit before tax.				
6. Other comprehensive income: The decrease is due to the decrease in exchange difference on translation of foreign financial statements.				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year – Consolidated

Item \ Year	2018	2019	Unit: NT\$ thousands; % Difference	
			Amount	%
Cash flows from operating activities	(23,147,927)	77,478,014	100,625,941	434.71
Cash flows from investing activities	(24,978,899)	(9,615,718)	15,363,181	61.50
Cash flows from financing activities	45,142,071	(25,662,841)	(70,804,912)	156.85
Analysis of changes in financial ratios:				
1. Cash flows from operating activities: The increase in cash flow was due to decreased inventory as compared to the previous year.				
2. Cash flows from investing activities: The increase was due to decreased acquisition of property, plant and equipment as compared to the previous year.				
3. Cash flows from financing activities: The decrease was due to decreased short-term debt as compared to the previous year.				

7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

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

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

7.4 Major Capital Expenditure Items: None.

7.5 Investment Policy in the 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 2019, the investment income under equity method reached NT\$11,333,095 thousand dollars, which increase by 70.8% as compared to the previous year. The growth was due to order increasing from customers and operation improvement in 2019. 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\$8.5 billion unsecured corporate bonds in order to lock in long term funding cost. As for short-term capital

management, the Company mainly invests in financial instruments of fixed deposit, which not only secures the capital but also reduces associated risks.

(2) Foreign Exchange Rate

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

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

(3) Inflation

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index increased by 0.56% and decreased by 2.26% respectively in 2019, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2019. 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 2019 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 2019. 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 2019 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 2019 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 2019 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 2019 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 17.18% 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

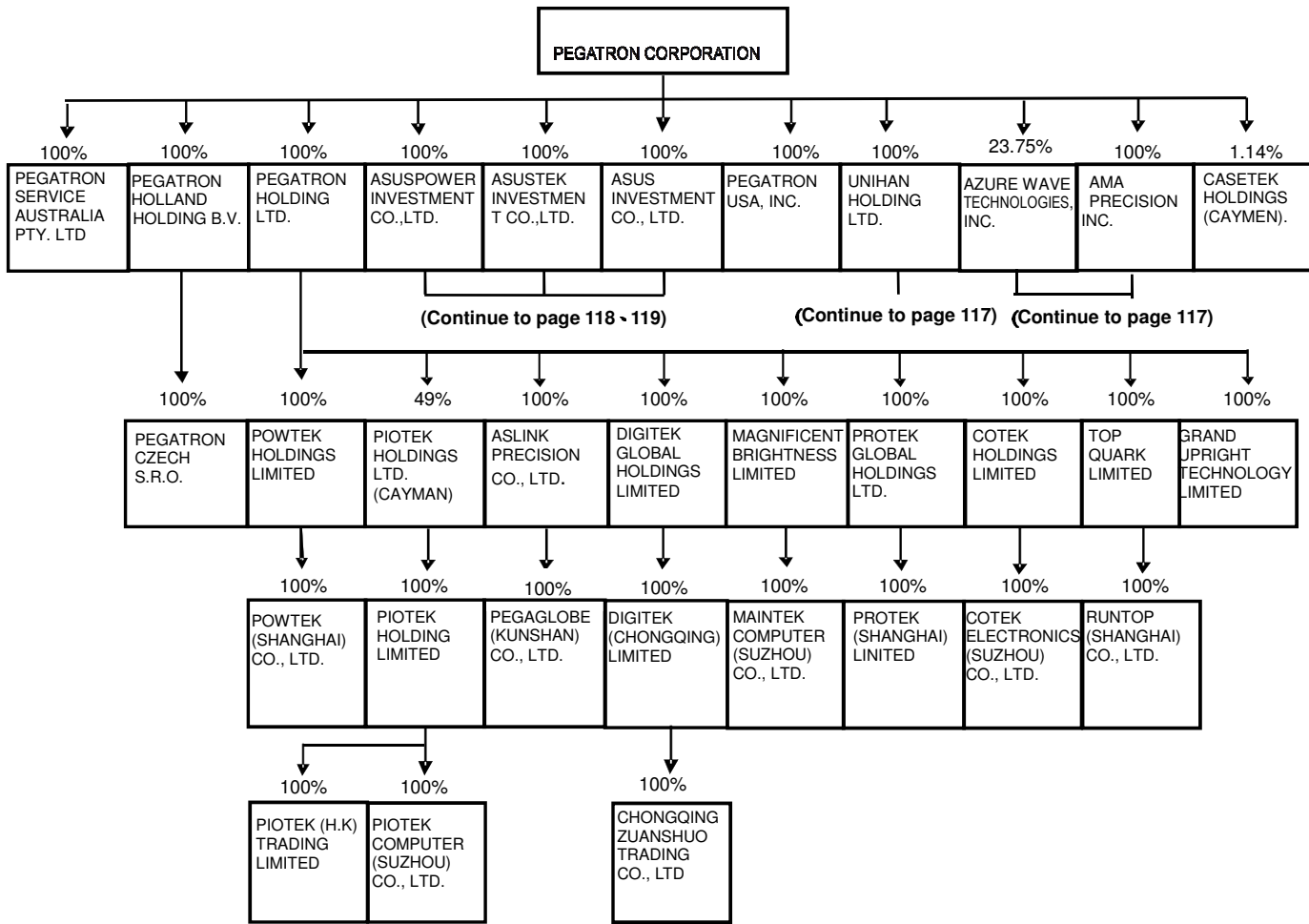
In 2019 and as of the date of this annual report, the Company did not engage in litigation or non-litigation matters that had significant impacts on shareholders' right or security prices. For litigation or non-litigation matter for major shareholder with 10% or more holding (as of the date of this annual report, Asustek Computer Inc. is the only shareholder with more than 10% of shareholding), please refer to the major shareholder's annual report.

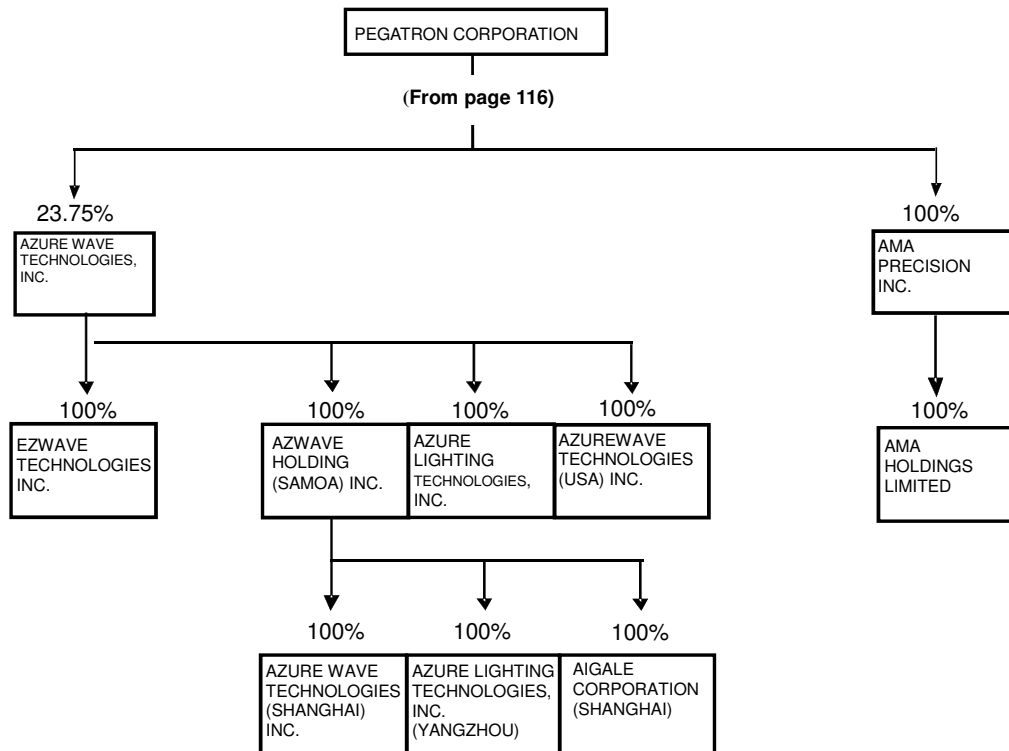
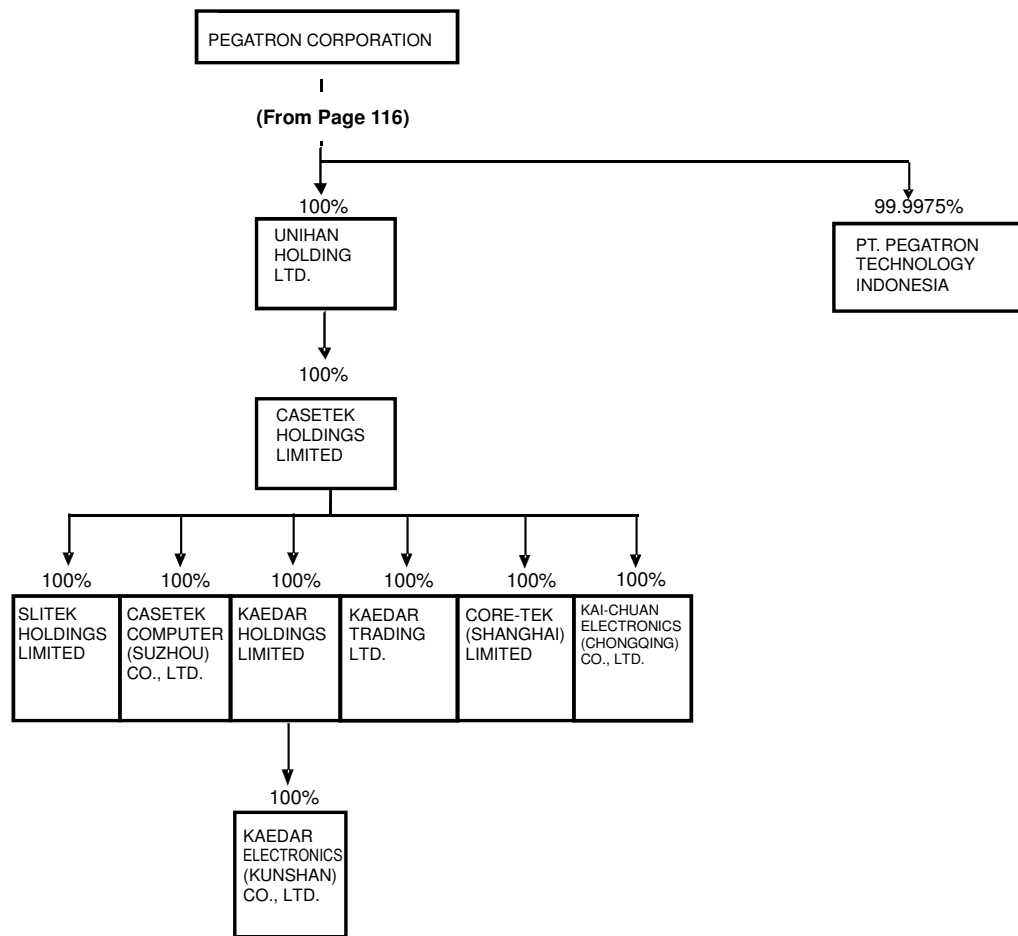
7.7 Other Major Risks

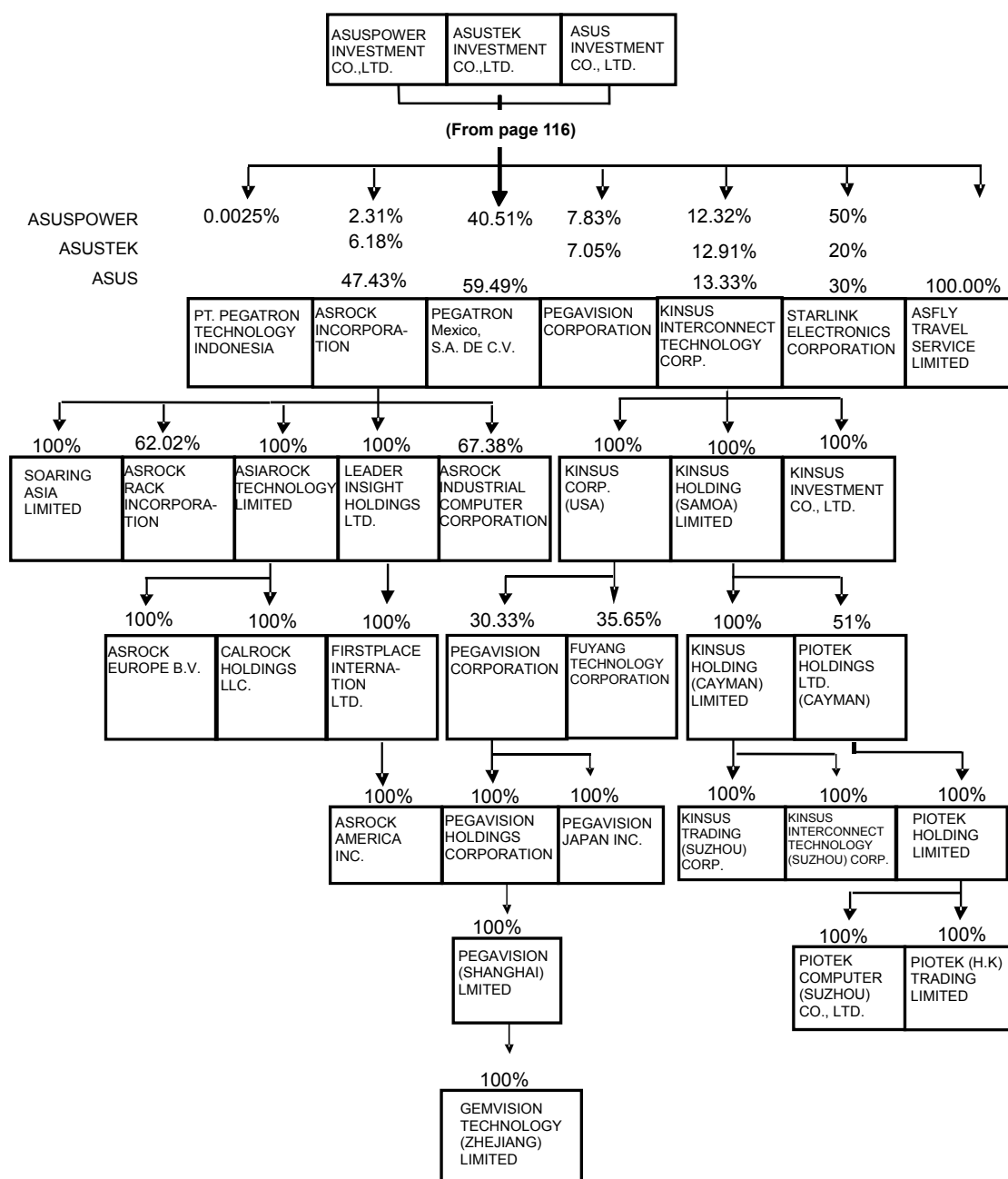
In 2019 and as of the date of this annual report, the Company did not have any other major risks.

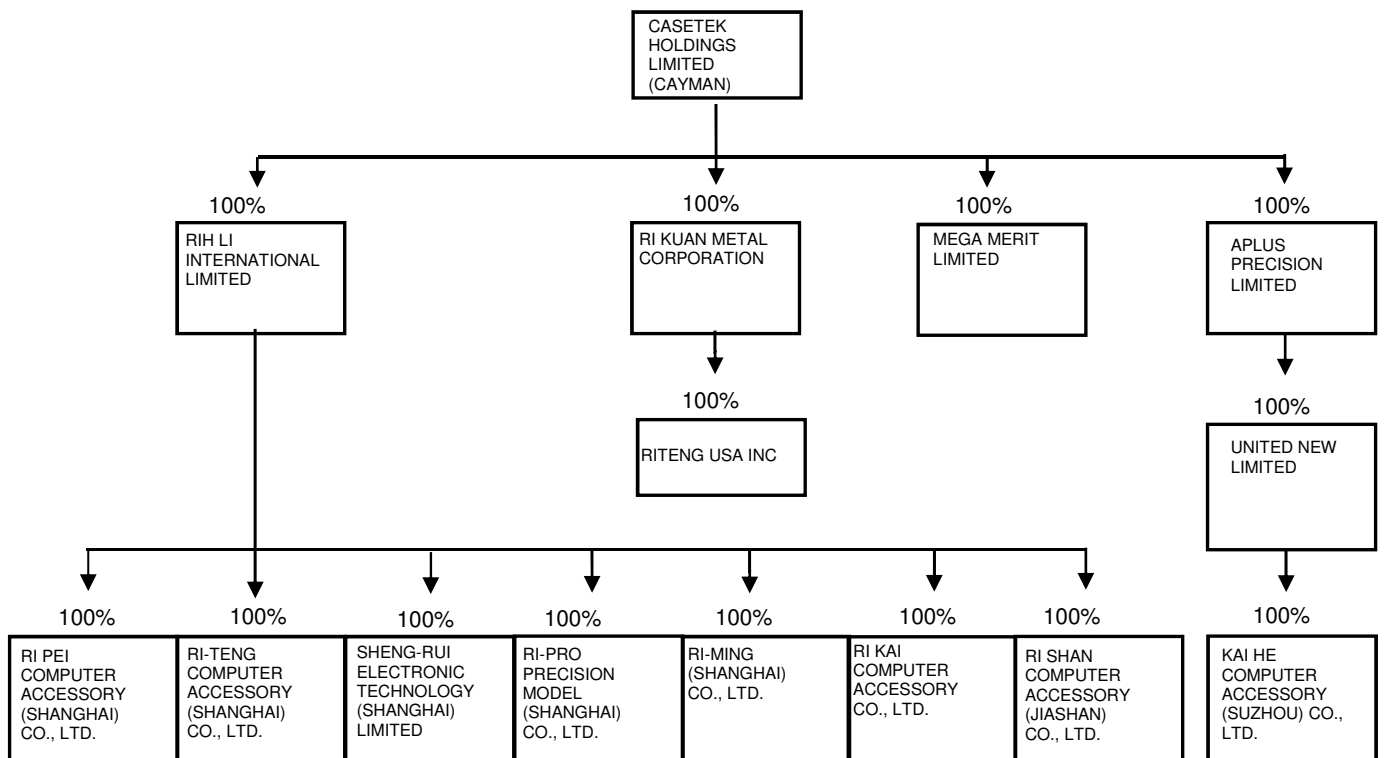
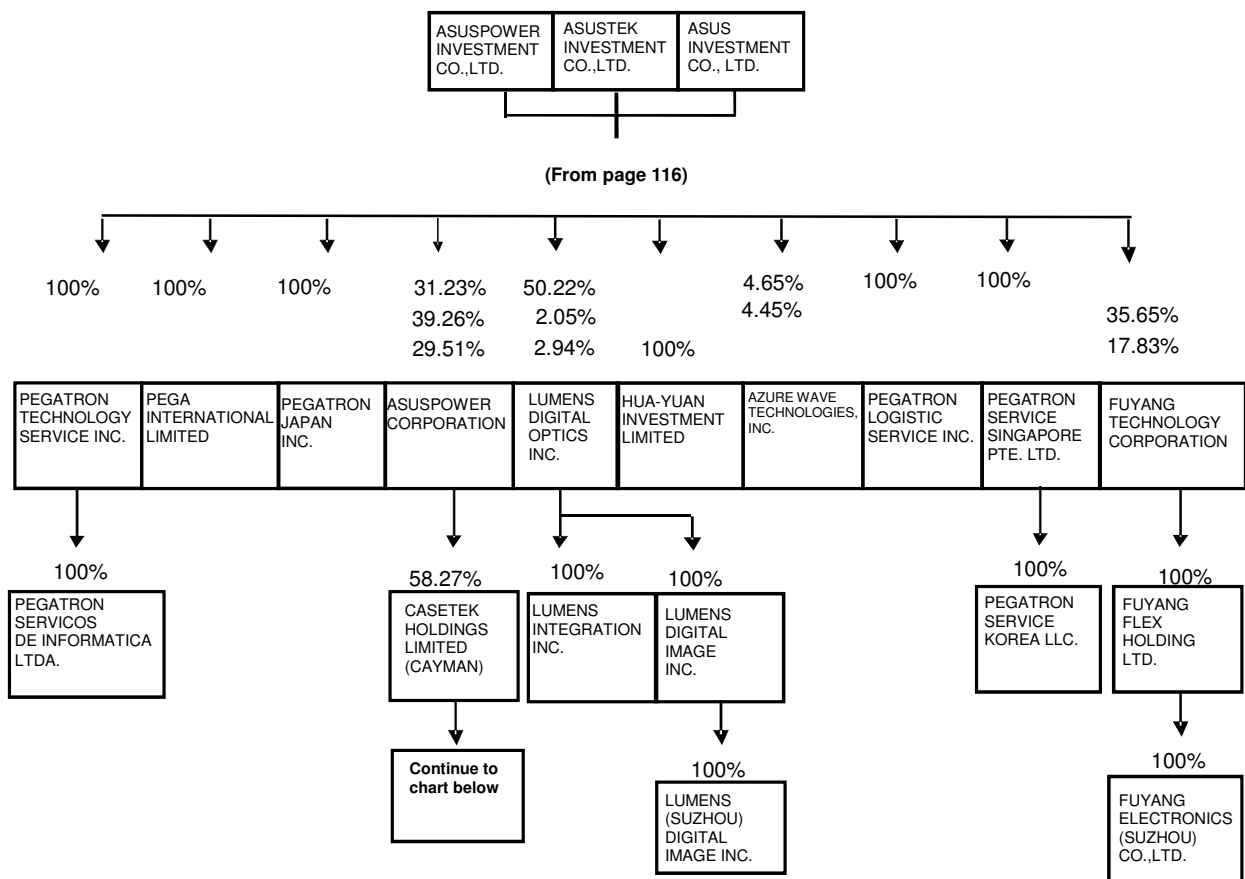
8. Other Special Notes
8.1 Summary of Affiliated Companies
8.1.1 Affiliated Companies Chart

As of 12/31/2019









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 2019 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, 2019 AND 2018

(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, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated 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 26, 2020

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, 2019 and 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years ended then 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, 2019 and 2018, 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, 2019 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(p) 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, 2019 and 2018 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(f) 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 2019 and 2018 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 9.94% and 9.49% and net sales representing 3.07% and 2.87% of the related consolidated total as of and for the years ended December 31, 2019 and 2018, respectively. Also, we did not audit the long-term investments in other companies representing 0.00% of consolidated total assets as of December 31, 2018, and the related investment loss thereon representing 0.00% of consolidated net income before tax for the years ended December 31, 2018. 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, 2019 and 2018 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 26, 2020

Notes to Readers

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

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

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

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
Assets					
Current assets:					
1100	Cash and cash equivalents (Note 6(a))	\$ 145,795,913	26	106,068,046	18
1110	Current financial assets at fair value through profit or loss (Note 6(b))	6,801,529	1	3,113,002	1
1170	Notes and accounts receivable, net (Notes 6(d) and 6(z))	206,338,405	36	198,883,584	34
1200	Other receivables, net (Note 6(e))	1,472,702	-	1,476,581	-
130X	Inventories (Note 6(f))	106,063,490	19	164,988,341	29
1460	Non-current assets classified as held for sale, net (Note 6(g))	122,652	-	145,893	-
1476	Other current financial assets (Notes 6(n) and 8)	3,564,920	1	794,775	-
1479	Other current assets (Note 6(n))	<u>5,674,300</u>	<u>1</u>	<u>7,334,875</u>	<u>1</u>
		<u>475,833,911</u>	<u>84</u>	<u>482,805,097</u>	<u>83</u>
Non-current assets:					
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	556,266	-	419,971	-
1517	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	858,158	-	812,593	-
1550	Investments accounted for using equity method (Note 6(h))	256,093	-	246,423	-
1600	Property, plant and equipment (Notes 6(j) and 8)	80,248,760	14	87,605,762	15
1755	Right-of-use assets (Note 6(k))	5,888,602	1	-	-
1760	Investment property, net (Note 6(l))	44,496	-	48,712	-
1780	Intangible assets (Note 6(m))	1,297,891	-	1,475,872	-
1840	Deferred tax assets	3,305,613	1	3,627,681	1
1915	Prepayments on purchase of equipment	1,698,780	-	2,578,494	-
1980	Other non-current financial assets (Notes 6(n) and 8)	481,158	-	650,896	-
1985	Long-term prepaid rentals (Note 6(s))	-	-	3,749,695	1
1990	Other non-current assets (Note 6(n))	<u>50,065</u>	<u>-</u>	<u>329,419</u>	<u>-</u>
		<u>94,685,882</u>	<u>16</u>	<u>101,545,518</u>	<u>17</u>
Total assets		<u>\$ 570,519,793</u>	<u>100</u>	<u>584,350,615</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (Note 6(o))	\$ 64,808,786	11	86,927,246	15
2130	Current contract liabilities (Note 6(z))	1,522,221	-	990,704	-
2150	Notes and accounts payable (Note 7)	218,101,566	38	228,074,756	39
2209	Accrued expenses (Note 6(t))	26,992,758	5	27,173,941	5
2219	Other payables	3,760,422	1	5,588,935	1
2230	Current tax liabilities	4,037,776	1	3,005,187	-
2281	Current lease liabilities (Note 6(r))	1,195,039	-	-	-
2321	Bonds payable, current portion (Note 6(q))	3,000,000	1	-	-
2322	Long-term loans payable, current portion (Note 6(p))	2,657,496	-	2,388,522	-
2399	Other current liabilities (Note 6(g))	<u>19,510,595</u>	<u>4</u>	<u>16,252,023</u>	<u>3</u>
		<u>345,586,659</u>	<u>61</u>	<u>370,401,314</u>	<u>63</u>
Non-Current liabilities:					
2527	Non-current contract liabilities (Note 6(z))	420,197	-	372,493	-
2530	Bonds payable (Note 6(q))	20,480,339	4	14,986,762	3
2540	Long-term loans (Note 6(p))	6,534,954	1	9,511,681	2
2570	Deferred tax liabilities	1,928,241	-	1,538,252	-
2581	Non-current lease liabilities (Note 6(r))	1,294,702	-	-	-
2670	Other non-current liabilities	<u>1,029,188</u>	<u>-</u>	<u>1,093,330</u>	<u>-</u>
		<u>31,687,621</u>	<u>5</u>	<u>27,502,518</u>	<u>5</u>
		<u>377,274,280</u>	<u>66</u>	<u>397,903,832</u>	<u>68</u>
Total liabilities					
Equity Attributable to Owners of the Parent Company (Note 6(v)):					
3100	Share capital	<u>26,110,919</u>	<u>5</u>	<u>26,123,773</u>	<u>4</u>
Capital surplus:					
3210	Capital surplus, premium on capital stock	76,645,504	13	75,696,958	13
3280	Capital surplus, others (Note 6(w))	<u>4,406,597</u>	<u>1</u>	<u>4,979,372</u>	<u>1</u>
		<u>81,052,101</u>	<u>14</u>	<u>80,676,330</u>	<u>14</u>
Retained earnings:					
3310	Legal reserve	11,774,310	2	10,662,823	2
3320	Special reserve	7,868,877	2	8,815,213	2
3350	Unappropriated retained earnings	<u>42,156,192</u>	<u>7</u>	<u>32,149,237</u>	<u>5</u>
		<u>61,799,379</u>	<u>11</u>	<u>51,627,273</u>	<u>9</u>
Other equity interest:					
3410	Exchange differences on translation of foreign financial statements	(10,982,396)	(2)	(7,482,556)	(1)
3420	Unrealized losses on financial assets measured at fair value through other comprehensive income	(303,654)	-	(386,322)	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(w))	<u>(8,287)</u>	<u>-</u>	<u>(524,686)</u>	<u>-</u>
		<u>(11,294,337)</u>	<u>(2)</u>	<u>(8,393,564)</u>	<u>(1)</u>
3500	Treasury stock	<u>(3,000)</u>	<u>-</u>	<u>(4,974)</u>	<u>-</u>
	Equity attributable to the parent company	<u>157,665,062</u>	<u>28</u>	<u>150,028,838</u>	<u>26</u>
36xx	Non-controlling interests (Notes 6(i) and (v))	<u>35,580,451</u>	<u>6</u>	<u>36,417,945</u>	<u>6</u>
	Total equity	<u>193,245,513</u>	<u>34</u>	<u>186,446,783</u>	<u>32</u>
	Total liabilities and equity	<u>\$ 570,519,793</u>	<u>100</u>	<u>584,350,615</u>	<u>100</u>

See accompanying notes to financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		For the years ended December 31			
		2019		2018	
		Amount	%	Amount	%
4110	Operating revenue (Note 6(z))	\$ 1,369,180,977	100	1,343,782,768	100
4170	Less: Sales returns and allowances	2,893,651	-	3,780,737	-
	Operating revenue, net	1,366,287,326	100	1,340,002,031	100
5000	Cost of sales (Notes 6(f), 6(r), 6(t), 6(aa) and 7)	1,321,181,968	97	1,299,233,486	97
	Gross profit from operations	45,105,358	3	40,768,545	3
6000	Operating expenses (Notes 6(r), 6(t) and 6(aa)):				
6100	Selling expenses	5,063,535	-	5,015,981	-
6200	General and administrative expenses	8,361,657	1	9,034,397	1
6300	Research and development expenses	14,773,900	1	14,787,544	1
	Total operating expenses	28,199,092	2	28,837,922	2
	Net operating income	16,906,266	1	11,930,623	1
	Non-operating income and expenses:				
7010	Other income (Notes 6(l), 6(r) and 6(ab))	8,175,568	1	5,366,195	-
7020	Other gains and losses (Notes 6(j), 6(ab) and 12)	3,588,864	-	478,836	-
7050	Finance costs (Notes 6(d), 6(q), 6(r) and 6(ab))	(3,206,542)	-	(2,614,435)	-
7060	Share of profit of associates and joint ventures accounted for using equity method (Note 6(h))	60,281	-	(26,971)	-
7590	Miscellaneous disbursements	(56,532)	-	(77,981)	-
	Total non-operating income and expenses	8,561,639	1	3,125,644	-
	Profit before tax	25,467,905	2	15,056,267	1
7950	Less: Tax expenses (note 6(u))	7,183,797	1	3,940,168	-
	Profit for the year	18,284,108	1	11,116,099	1
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Losses on remeasurements of defined benefit plans	(11,520)	-	(881)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	79,232	-	(225,274)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Note 6(u))	(538)	-	(457)	-
	Total components of other comprehensive income that will not be reclassified to profit or loss	68,250	-	(225,698)	-
8360	Components of other comprehensive income that will be reclassified to profit or loss (Note 6(ac))				
8361	Exchange differences on translation of foreign financial statements	(4,088,409)	-	2,023,357	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss (Note 6(h))	(232)	-	(12,835)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(u))	2,671	-	8,373	-
	Total components of other comprehensive income that will be reclassified to profit or loss	(4,091,312)	-	2,002,149	-
8300	Other comprehensive income for the period, net of tax	(4,023,062)	-	1,776,451	-
8500	Total comprehensive income for the period	\$ 14,261,046	1	12,892,550	1
	Profit attributable to:				
8610	Owners of the parent company	\$ 19,317,741	1	11,114,866	1
8620	Non-controlling interests	(1,033,633)	-	1,233	-
		\$ 18,284,108	1	11,116,099	1
	Comprehensive income attributable to:				
8710	Owners of the parent company	\$ 15,889,966	1	13,096,757	1
8720	Non-controlling interests	(1,628,920)	-	(204,207)	-
		\$ 14,261,046	1	12,892,550	1
	Earnings per share, net of tax (Note 6(y))				
9750	Basic earnings per share	\$ 7.40		4.25	
9850	Diluted earnings per share	\$ 7.32		4.22	

See accompanying notes to financial statements.

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

Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

Equity attributable to owners of the parent company															
Share capital	Retained earnings					Total other equity interest									
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on sale of financial assets	Deferred compensation arising from issuance of restricted stock	Total other equity interest	Treasury stock	Total equity attributable to owners of the parent company	Non-controlling interests	
Balance at January 1, 2018															
	\$ 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	(161,048)	(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	-	-	-	-	-	-	1,114,866	1,233	11,116,099
	-	-	-	-	2,570	2,570	2,204,595	(225,274)	-	-	1,979,321	-	1,981,891	(205,440)	1,776,451
	-	-	-	-	11,117,436	11,117,436	2,204,595	(225,274)	-	-	1,979,321	-	13,096,757	(204,207)	12,892,550
Appropriation and distribution of retained earnings:															
	-	-	1,468,299	-	(1,468,299)	-	-	-	-	-	-	-	-	-	-
	-	-	-	5,446,227	(5,446,227)	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	(10,454,652)	(10,454,652)	-	-	-	-	-	-	(10,454,652)	-	(10,454,652)
	-	183,992	-	-	-	-	-	-	-	-	-	-	183,992	(183,992)	-
	(17,133)	20,165	-	-	(43,617)	(43,617)	-	-	-	-	(3,032)	-	(43,617)	-	(43,617)
	-	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	51,627,273	(7,482,556)	(386,322)	-	(524,686)	(8,393,564)	(4,974)	150,028,838	36,417,945	186,446,783
	-	-	-	-	19,317,741	19,317,741	-	-	-	-	-	-	19,317,741	(1,033,633)	18,284,108
	-	-	-	-	(7,167)	(7,167)	(3,499,840)	79,232	-	-	(3,420,608)	-	(3,427,775)	(595,287)	(4,023,062)
	-	-	-	-	19,310,574	19,310,574	(3,499,840)	79,232	-	-	(3,420,608)	-	15,889,966	(1,628,920)	14,261,046
Appropriation and distribution of retained earnings:															
	-	-	1,111,487	-	(1,111,487)	-	-	-	-	-	-	-	-	-	-
	-	-	-	(946,336)	946,336	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	(9,141,580)	(9,141,580)	-	-	-	-	-	-	(9,141,580)	-	(9,141,580)
	-	504,846	-	-	-	-	-	-	-	-	3,436	-	504,846	(504,846)	-
	-	-	-	-	(3,436)	(3,436)	-	3,436	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	(12,854)	143,453	-	-	6,548	6,548	-	-	-	516,399	516,399	-	139,121	-	139,121
	-	(272,528)	-	-	-	-	-	-	-	-	-	-	243,871	-	243,871
	-	-	-	-	-	-	-	-	-	-	-	-	1,296,272	-	1,296,272
	-	-	-	-	-	-	-	-	-	-	-	-	35,580,451	-	35,580,451
	\$ 26,110,919	81,052,101	11,774,310	7,868,877	42,156,192	61,799,379	(10,982,396)	(303,654)	-	(8,287)	(11,294,337)	(3,000)	157,665,062	35,580,451	193,245,513

See accompanying notes to financial statements.

PEGATRON CORPORATION AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars)**

	For the years ended December 31	
	2019	2018
Cash flows from operating activities:		
Profit before tax	\$ 25,467,905	15,056,267
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	18,289,662	16,209,357
Amortization expense	277,737	266,716
Expected credit (gain) loss	(13,912)	53,837
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	(4,046,018)	191,266
Interest expense	3,189,505	2,596,132
Interest income	(3,599,944)	(2,309,814)
Dividend income	(46,910)	(42,047)
Compensation cost arising from employee stock options	462,367	1,442,402
Amortization of issuance costs on bonds payable	3,077	2,286
Share of (gain) loss of associates and joint ventures accounted for using equity method	(60,281)	26,971
Gain on lease remeasurement	(2,522)	-
Loss (gain) on disposal of property, plant and equipment	11,170	(123,709)
Property, plant and equipment charged to expenses	140,546	109,951
Gain on disposal of investments	(5,892)	(42,098)
Impairment loss on non-financial assets	15,279	63,167
(Gain) loss on foreign currency exchange on long-term loans	(209,016)	202,341
Long-term prepaid rentals charged to expenses	-	92,366
Provision of other current liabilities	-	409,971
Decrease in other current assets	-	4,981
Total adjustments to reconcile profit	14,404,848	19,154,076
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	221,196	35,036
Increase in notes and accounts receivable	(7,437,581)	(49,494,744)
Decrease in other receivables	25,731	66,981
Decrease (increase) in inventories	58,924,851	(41,111,648)
(Increase) decrease in other financial assets	(2,770,145)	427,965
Decrease in other current assets	1,904,251	1,414,814
Decrease (increase) in other non-current assets	279,354	(164,884)
Total changes in operating assets	51,147,657	(88,826,480)
Changes in operating liabilities:		
Increase (decrease) in contract liabilities	579,221	(413,225)
(Decrease) increase in notes and accounts payable	(9,973,190)	41,178,449
(Decrease) increase in accrued expenses	(583,518)	160,914
Decrease in other payables	(1,940,326)	(6,113,585)
Increase in other current liabilities	3,256,412	1,162,501
(Decrease) increase in other non-current liabilities	(75,662)	182,514
Total changes in operating liabilities	(8,737,063)	36,157,568
Total changes in operating assets and liabilities	42,410,594	(52,668,912)
Total adjustments	56,815,442	(33,514,836)
Cash inflow (outflow) generated from operations	82,283,347	(18,458,569)
Interest received	3,687,886	2,263,306
Dividends received	95,691	42,047
Interest paid	(3,205,765)	(2,431,047)
Income taxes paid	(5,383,145)	(4,563,664)
Net cash flows from (used in) operating activities	77,478,014	(23,147,927)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (CONT'D)
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2019	2018
Cash flows used in investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(6,244)	(25,054)
Proceeds from disposal of financial assets at fair value through other comprehensive income	38,950	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	-	1,929
Proceeds from disposal of investments accounted for using equity method	-	92,145
Proceeds from capital reduction of investments accounted for using equity method	1,336	120,188
Acquisition of property, plant and equipment	(8,139,057)	(20,416,017)
Proceeds from disposal of property, plant and equipment	1,563,205	702,000
Acquisition of intangible assets	(115,322)	(212,569)
Proceeds from disposal of right-of-use assets	164,961	-
Decrease (increase) in other financial assets	169,738	(350,196)
Increase in prepayments on purchase of equipment	(3,293,285)	(4,845,700)
Increase in long-term prepaid rentals	-	(45,625)
Net cash flows used in investing activities	(9,615,718)	(24,978,899)
Cash flows (used in) from financing activities:		
(Decrease) increase in short-term loans	(22,118,460)	40,868,626
Proceeds from issuing bonds	8,490,500	7,992,000
Proceeds from long-term loans	4,928,900	4,871,500
Repayments of long-term loans	(7,427,637)	(1,235,750)
Repayments of lease liabilities	(1,522,957)	-
Cash dividends paid	(10,061,913)	(11,570,817)
Redemption of restricted stock	(12,500)	(23,525)
Changes in non-controlling interests	2,061,226	4,240,037
Net cash flows (used in) from financing activities	(25,662,841)	45,142,071
Effect of exchange rate fluctuations on cash held	(2,471,588)	1,608,677
Net increase (decrease) in cash and cash equivalents	39,727,867	(1,376,078)
Cash and cash equivalents, beginning of the period	106,068,046	107,444,124
Cash and cash equivalents, end of the period	\$ 145,795,913	106,068,046

See accompanying notes to financial statements.

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(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 year ended December 31, 2019 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 26, 2020.

(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 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.

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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”.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below :

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note4(m).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

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PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- a) Applied a single discount rate to a portfolio of leases with similar characteristics.
 - b) Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
 - c) Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
 - d) Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
 - e) Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$2,945,584 thousands of both right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 4.01%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 3,993,929
Recognition exemption for:	
short-term leases	(790,085)
Extension and termination options reasonably certain to be exercised	1,493
Variable lease payment based on an index or a rate	(84,375)
Residual value guarantees	<u>224,783</u>
	\$ 3,345,745
Discounted using the incremental borrowing rate at January 1, 2019	\$ 2,945,584

(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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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 9, IAS39, and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

(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 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

(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.

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

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
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, 2019	December 31, 2018	
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	AZUREWAVE TECHNOLOGIES, INC. (AZUREWAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	32.85 %	32.81 %	Notes 1 and 2
AZUREWAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	Notes 1
AZUREWAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00 %	100.00 %	Note 1
AZUREWAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	Note 1
AZUREWAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	Note 1
Azwave Samoa	AZUREWAVE 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, MAINTTEK COMPUTER (SUZHOU) CO., LTD.	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	- %	100.00 %	Note 13

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
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 %	
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 5
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	Note 5
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	Note 5
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	Note 5
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 %	100.00 %	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00 %	100.00 %	
PROTEK	PROTEK (SHANGHAI) LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED(COTEK)	Investing and trading activities	100.00 %	100.00 %	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00 %	100.00 %	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	55.92 %	55.87 %	Note 3
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	62.02 %	65.97 %	Note 6

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Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
ASROCK	ASRock Industrial Computer Corporation	Manufacturing and selling computer and related peripherals	67.38 %	82.47 %	Note 7
ASROCK	Soaring Asia Limited	Trading activities	100.00 %	100.00 %	
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	38.56 %	38.58 %	Notes 4 and 5
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	Note 5
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	45.21 %	54.87 %	Notes 5 and 8
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	89.13 %	
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00 %	100.00 %	Note 5
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	Note 5
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 5
PEGAVISION (SHANGHAI) LIMITED	Gemvision Technology (Zhejiang) Limited.	Manufacturing and selling medical appliances	100.00 %	- %	Notes 5 and 9
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	Note 5
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	Note 5

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Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	Note 5
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	Note 5
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	Note 5
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00 %	100.00 %	
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 %	59.41 %	
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	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	Note 12

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
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 %	Note 14
CASETEK CAYMAN	RI-KUAN METAL CORPORATION	Selling iron and aluminum products	100.00 %	100.00 %	
RI-KUAN METAL CORPORATION	RITENG USA, INC (RUS)	Market survey	100.00 %	- %	Note 10
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 %	
CASETEK CAYMAN	CASETEK SINGAPORE PTE. LTD. (CSG)	Trading activities	100.00 %	- %	Note 11
ASUS INVESTMENT	AS FLY TRAVEL SERVICE LIMITED	Trading 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 %	55.21 %	
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 %	

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Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	
THE COMPANY	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Investing activities	100.00 %	100.00 %	
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	
THE COMPANY, ASUSPOWER INVESTMENT	PT. PEGATRON TECHNOLOGY INDONESIA	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	100.00 %	-	% Note 9

Note 1 : Since the Group only held 32.85% of voting rights of AZUREWAVE TECHNOLOGY INC. (AZUREWAVE), with the remaining 67.15% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over AZUREWAVE, therefore, AZUREWAVE has been included in the consolidated financial statement of the Group.

Note 2 : On March 13, August 7. and December 26, 2019, respectively, AZUREWAVE TECHNOLOGY INC. (AZUREWAVE) reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in AZUREWAVE to increase from 32.81% to 32.85%.

Note 3 : On March 7, 2019, ASROCK INCORPORATION (ASROCK) reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in ASROCK to increase from 55.87% to 55.92%.

Note 4 : On February 18, 2019, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) reduced its capital by canceling those retired employee restricted shares, and issued secondary employee restricted shares. In addition, on July 29, 2019, KINSUS reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in KINSUS to decrease from 38.58%to 38.56%.

Note 5 : Since the Group only held 38.56% of voting rights of KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS), with the remaining 61.44% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over KINSUS, therefore, KINSUS has been included in the consolidated financial statements of the Group.

Note 6 : ASRock Rack Incorporation issued its employee restricted shares on March 4, 2019, and approved to increase its capital on June 10, 2019. However, the Group did not increase its shares proportionally in ASRock Rack Incorporation, resulting in its shareholding ratio to decrease from 65.97% to 62.01%. On December 17, 2019, the Group purchased 30 thousand shares from non-related parties amounting to \$60, resulting in the Group's shareholding ratio to increase from 62.01% to 62.02%.

Note 7 : On July 24, 2019, ASRock Industrial Computer Corporation approved to increase its capital by \$200,000, with the Group investing the amount of \$112,122. The record date for the capital increase through cash was October 1, 2019. However, The Group did not increase its shares proportionally in ASRock Industrial Computer Corporation, resulting in its shareholding ratio to decrease from 82.47% to 67.38%.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Note 8 : Since the Group only held 45.21% of rights of PEGAVISION CORPORATION (PEGAVISION), with the remaining 54.79% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over PEGAVISION, therefore, PEGAVISION has been included in the consolidated financial statement of the Group. PEGAVISION handled a cash increase of \$100,000 and issued the ordinary shares of 10,000 thousand shares, with a face value of \$10 per share, prior to its initial listing according to the IPO. However, the Group did not increase its shares proportionally in PEGAVISION, and sold ordinary shares 1,275 thousand shares, resulting in its shareholding ratio to decrease from 54.87% to 45.21%.
- Note 9 : Subsidiary established by the Group in the first quarter of 2019.
- Note 10 : Subsidiary established by the Group in the second quarter of 2019.
- Note 11 : Subsidiary established by the Group in the third quarter of 2019.
- Note 12 : On May 21, 2019, RI SHAN COMPUTER ACCESSORY (JIASHAN) CO., LTD. changed its name to the current name from KAI JIA (SUZHOU) COMPUTER ACCESSORY CO., LTD.
- Note 13 : It was liquidated in December 2019.
- Note 14 : It was liquidated in the forth quarter of 2019.

(vii) Subsidiaries excluded from consolidation : None.

(d) Foreign currency

(i) Foreign currency transaction

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

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

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

- 1) fair value through other comprehensive income equity investment ;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective ; or
- 3) qualifying cash flow hedges to the extent the hedge are effective.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Foreign operations

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

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

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

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

An asset is classified as current when :

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

All other assets are classified as non-current.

A liability is classified as current when :

- (i) It is expected to be settled within the Group's normal operating cycle ;
- (ii) It is held primarily for the purpose of trading ;
- (iii) The liability is due to be settled within twelve months after the reporting period ; or
- (iv) The Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Cash and cash equivalents

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

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

(g) Financial assets

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

(i) Financial assets

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

3) Fair value through profit or loss (FVTPL)

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Business model assessment

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

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

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

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

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- d) terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)
- 6) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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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 lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;
- d) it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- e) the disappearance of an active market for a security because of financial difficulties.

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

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

7) Derecognition of financial assets

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Treasury shares

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

4) Financial liabilities

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

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

5) Derecognition of financial liabilities

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Offsetting of financial assets and liabilities

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

7) Financial guarantee contract

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

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

(h) Inventories

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

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

(i) Non-current assets held for sale

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

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

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Investment in associates

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

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

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

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

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

(k) Investment property

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

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

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

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

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

Buildings	20 years
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When the use of an investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

Buildings	1-50 years
Machinery	0-10 years
Instrument equipment	0-10 years
Office and other equipment	1-10 years
Miscellaneous equipment	0-25 years

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

(iv) Reclassification to investment property

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Leased

Applicable from January 1, 2019

(i) Identifying a lease

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

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

(ii) As a lessee

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

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(iii) As a lessor

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

Applicable before January 1, 2019

(i) 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 cost and the reduction of the outstanding liability. The finance cost 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Lessor

A financial lease asset 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.

(n) Intangible assets

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

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

(Continued)

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

Computer software cost	0-10 years
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Intangible assets in development	1-10 years
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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(o) Impairment – non-financial assets

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

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

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

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

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

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

(p) Revenue from contracts with customers

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

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PEGATRON CORPORATION AND SUBSIDIARIES
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(i) Sale of goods

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

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

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

(ii) Rendering of services

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

(iii) Financial components

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

(q) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(r) Share-based payment

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

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Income taxes

Income taxes comprise 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 comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are measured using tax rates enacted or substantively enacted at the reporting date.

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) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Business combination

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

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

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

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

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

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

(u) Government grant

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
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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.

(v) Earnings per share

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

(w) Operating segments

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and 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(f) for further description of the valuation of inventories.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 10,354	15,084
Cash in banks	36,563,302	27,781,441
Time deposits	104,823,503	74,035,178
Cash equivalents	<u>4,398,754</u>	<u>4,236,343</u>
	<u>\$ 145,795,913</u>	<u>106,068,046</u>

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

	December 31, 2019	December 31, 2018
Current mandatorily measured at fair value through profit or loss :		
Non-derivative financial assets		
Shares of stock of listed companies	\$ 875,720	668,448
Shares of stock of unlisted companies	16,500	-
Beneficiary certificates	2,437,370	2,149,733
Shares of stock of overseas listed companies	3,471,939	294,821
Derivative financial assets		
Non-current mandatorily measured at fair value through profit or loss :		
Non-derivative financial assets		
Shares of stock of listed companies	225,050	217,000
Beneficiary certificates	259,706	123,320
Shares of stock of overseas unlisted companies	<u>71,510</u>	<u>79,651</u>
Total	<u>\$ 7,357,795</u>	<u>3,532,973</u>

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2019	December 31, 2018
Equity instruments at fair value through other comprehensive income :		
Shares of stock of listed companies	\$ 586,407	530,518
Shares of stock of unlisted companies	150,000	150,000
Shares of stock of overseas unlisted companies	<u>121,751</u>	<u>132,075</u>
Total	<u>\$ 858,158</u>	<u>812,593</u>

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

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

For the years ended December 31, 2019 and 2018, the Group has recognized the dividend income of \$19,919 and \$28,503, respectively, from equity instruments designated at fair value through other comprehensive income; the dividend of \$3,348 related to the investments derecognized in 2019, were recognized. Please refer to Note 6(ab).

In 2019, the Group has sold its shares as a result of investment strategic. The shares sold had a fair value of \$38,950 and the Group realized a loss of \$3,436, which is already included in other comprehensive income. The loss has been transferred to retained earnings. 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(ad) for credit risk and market risk.

(iii) The aforesaid financial assets were not pledged as collateral.

(d) Notes and accounts receivable, net

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

	December 31, 2019	December 31, 2018
Notes receivables from operating activities	\$ 20,232	45,327
Accounts receivable-measured at amortized cost	200,499,571	185,261,685
Accounts receivable-fair value through other comprehensive income	7,495,000	15,357,500
Less : Allowance for impairment	<u>1,676,398</u>	<u>1,780,928</u>
	<u>\$ 206,338,405</u>	<u>198,883,584</u>

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Credit loss

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

The loss allowance provision was determined as follows :

December 31, 2019			
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 203,528,826	0%~2%	(33,125)
Overdue 0 to 30 days	2,656,159	0%~30%	(46,356)
Overdue 31 to 120 days	204,686	2%~100%	(27,881)
Overdue 121 to 365 days	73,112	4%~100%	(17,016)
Over 365 days past due	<u>1,552,020</u>	100%	<u>(1,552,020)</u>
	<u>\$ 208,014,803</u>		<u>(1,676,398)</u>

December 31, 2018			
	Gross carrying amount	Expected loss rate	Loss allowance provision
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>

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

	For the years ended December 31	
	2019	2018
Balance on January 1	\$ 1,780,928	1,724,664
Impairment losses recognized	24,933	55,523
Impairment losses reversed	(42,173)	(2,799)
Amounts written off	(84,550)	-
Foreign exchange losses	<u>(2,740)</u>	<u>3,540</u>
Balance on December 31	<u>\$ 1,676,398</u>	<u>1,780,928</u>

The aforesaid financial assets were not pledged as collateral.

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

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

As of December 31, 2019 and 2018, and December 31, 2018, the relevant information on accounts receivable factored by the Company, but unsettled, were as follows :

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

December 31, 2018							
Purchaser	Amount	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
	Derecognized		Unpaid	Paid			
ANZ (Note)	\$ <u>4,668,680</u>	USD <u>1,200,000</u>	USD <u>1,048,000</u>	USD <u>152,000</u>	None	1.99%~ 2.89%	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.

Note : In October 2017, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

For the years ended December 31, 2019 and 2018, the Company recognized a fee and interest on bank advance payment of \$68,962 and \$156,295, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

As of December 31, 2019 and 2018, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows :

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

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PEGATRON CORPORATION AND SUBSIDIARIES
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December 31, 2018						
Purchaser	Amount	Factoring	Amount Advanced		Collateral	Range of Interest Rate
	Derecognized	Line (thousands)	Unpaid	Paid		
Mega International Commercial Bank	\$ <u>214,285</u>	USD <u>30,000</u>	USD <u>30,000</u>	USD <u>-</u>	None	-
						The accounts receivable factoring is without recourse

As of December 31, 2019 and 2018, KINSUS reclassified the derecognized accounts receivable to other receivables.

(e) Other receivables

	December 31, 2019	December 31, 2018
Other receivables	\$ 1,489,704	1,490,955
Less : Allowance for impairment	<u>17,002</u>	<u>14,374</u>
	<u>\$ 1,472,702</u>	<u>1,476,581</u>

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

(f) Inventories

	December 31, 2019	December 31, 2018
Merchandise	\$ 1,285,078	1,989,825
Finished goods	61,552,810	110,281,796
Work in process	18,134,156	21,178,778
Raw materials	<u>31,614,069</u>	<u>39,614,370</u>
Subtotal	112,586,113	173,064,769
Less: Allowance for inventory market decline and obsolescence	<u>6,522,623</u>	<u>8,076,428</u>
Total	<u>\$ 106,063,490</u>	<u>164,988,341</u>

For the years ended December 31, 2019 and 2018, the components of cost of goods sold were as follows :

	For the years ended December 31 2019	2018
Cost of goods sold	1,297,793,554	1,275,042,179
Provision on (reversal of) inventory market price decline	(1,553,805)	1,177,928
Loss on disposal of inventory	20,100,080	20,520,910
Unallocated manufacturing overhead	4,833,891	2,489,255
Loss on physical inventory	<u>8,248</u>	<u>3,214</u>
	<u>1,321,181,968</u>	<u>1,299,233,486</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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For the year ended December 31, 2019, the Group recognized a gain from the reversal of allowance for inventory valuation loss resulting from destocking. Such gain was deducted from cost of goods sold. For the year ended December 31, 2018, the Group recognized a inventory valuation loss because of the decreasing value from the carrying amount to the net realized value, and converted the amount to cost of goods sold.

As of December 31, 2019 and 2018, the aforesaid inventories were not pledged as collateral.

(g) 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(j) and (s) for details.

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

In January 2019, CASETEK CAYMAN signed a sale contract with non-related parties. Proceeds from the sale was CNY107,000 thousand, and the gain on the disposal was approximately CNY78,622 thousand. The transaction is expected to be completed in the end of 2019. As of December 31, 2019, CASETEK CAYMAN has received \$8,595 (CNY2,000 thousand), which was accounted under other current liabilities.

(h) Investments accounted for using equity method

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

	December 31, 2019	December 31, 2018
Individually insignificant associates	\$ <u>256,093</u>	<u>246,423</u>
	<u>For the years ended December 31</u>	
	2019	2018
The Group’s share of profit (loss) of the associates		
Profit (loss) for the period	60,281	(26,971)
Other comprehensive loss	<u>(232)</u>	<u>(12,835)</u>
Total comprehensive income (loss)	<u>60,049</u>	<u>(39,806)</u>

- (ii) As of December 31, 2019 and 2018, the aforesaid investments accounted for using equity method were not pledged as collateral.

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries that have material non-controlling interest

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

Subsidiaries	Main operation place/Country of registration	Equity ownership of non-controlling interest	
		December 31, 2019	December 31, 2018
KINSUS and its subsidiaries	Taiwan	61.44 %	61.42 %
ASROCK and its subsidiaries	Taiwan	44.08 %	44.13 %
CASETEK CAYMAN	Taiwan/ Cayman	40.59 %	40.59 %

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

(i) Information regarding KINSUS and its subsidiaries

	December 31, 2019	December 31, 2018
Current assets	\$ 19,340,507	19,294,569
Non-current assets	22,362,838	23,329,385
Current liabilities	(10,841,218)	(10,199,199)
Non-current liabilities	(2,024,427)	(2,676,233)
Net assets	<u>\$ 28,837,700</u>	<u>29,748,522</u>
Non-controlling interest	<u>\$ 17,957,674</u>	<u>17,989,981</u>
	For the years ended December 31	For the years ended December 31
	2019	2018
Operating revenue	<u>\$ 22,327,410</u>	<u>23,727,929</u>
Net (loss) income for the period	\$ (1,947,268)	411,040
Other comprehensive loss	(108,071)	(37,638)
Comprehensive (loss) income	<u>\$ (2,055,339)</u>	<u>373,402</u>
Net (loss) income attribute to non-controlling interest	<u>\$ (1,008,028)</u>	<u>457,527</u>
Comprehensive (loss) income attribute to non-controlling interest	<u>\$ (1,061,623)</u>	<u>443,353</u>
	For the years ended December 31	For the years ended December 31
	2019	2018
Cash flows from operating activities	\$ 3,101,309	4,102,579
Cash flows from investing activities	(3,730,887)	(4,910,117)
Cash flows from financing activities	1,285,546	595,177
Net increase (decrease) in cash and cash equivalents	<u>\$ 655,968</u>	<u>(212,361)</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Information regarding ASROCK and its subsidiaries

	December 31, 2019	December 31, 2018
Current assets	\$ 9,706,137	8,664,042
Non-current assets	560,035	700,151
Current liabilities	(3,747,151)	(3,225,809)
Non-current liabilities	(64,554)	(26,896)
Net assets	<u><u>\$ 6,454,467</u></u>	<u><u>6,111,488</u></u>
Non-controlling interest	<u><u>\$ 3,030,844</u></u>	<u><u>2,751,861</u></u>
For the years ended December 31		
Operating revenue	<u><u>\$ 13,415,090</u></u>	<u><u>10,193,155</u></u>
Net income for the period	\$ 650,059	592,796
Other comprehensive (loss) income	(95,416)	117,068
Comprehensive income	<u><u>\$ 554,643</u></u>	<u><u>709,864</u></u>
Net income attribute to non-controlling interest	<u><u>\$ 316,228</u></u>	<u><u>262,005</u></u>
Comprehensive income attribute to non-controlling interest	<u><u>\$ 274,850</u></u>	<u><u>314,538</u></u>
For the years ended December 31		
Cash flows from operating activities	\$ 1,346,368	(1,339,412)
Cash flows from investing activities	(393,164)	176,491
Cash flows from financing activities	(504,698)	(372,183)
Net increase (decrease) in cash and cash equivalents	<u><u>\$ 448,506</u></u>	<u><u>(1,535,104)</u></u>

(iii) Information regarding CASETEK CAYMAN

	December 31, 2019	December 31, 2018
Current assets	\$ 26,620,964	27,647,773
Non-current assets	25,082,697	28,269,709
Current liabilities	(14,543,892)	(14,404,687)
Non-current liabilities	(6,559,372)	(8,680,913)
Net assets	<u><u>\$ 30,600,397</u></u>	<u><u>32,831,882</u></u>
Non-controlling interest	<u><u>\$ 12,385,305</u></u>	<u><u>13,290,892</u></u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>For the years ended December 31</u>	
Operating revenue	\$ <u>32,635,437</u>	<u>30,494,458</u>
Net loss for the period	\$ (630,830)	(1,702,119)
Other comprehensive loss	(1,165,360)	(315,800)
Comprehensive loss	\$ <u>(1,796,190)</u>	<u>(2,017,919)</u>
Net loss attribute to non-controlling interest	\$ <u>(262,020)</u>	<u>(695,700)</u>
Comprehensive loss attribute to non-controlling interest	\$ <u>(734,957)</u>	<u>(907,955)</u>
Cash flows from operating activities	\$ 6,132,176	3,307,385
Cash flows from investing activities	(2,710,473)	(8,638,308)
Cash flows from financing activities	(1,633,046)	6,829,603
Net increase in cash and cash equivalents	\$ <u>1,788,657</u>	<u>1,498,680</u>

(j) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2019	\$ 6,384,886	48,479,698	71,612,529	1,444,578	32,195,791	10,391,635	170,509,117
Additions	-	288,044	1,024,348	215,622	2,956,023	3,882,746	8,366,783
Disposals and obsolescence	-	(224,669)	(6,764,567)	(243,254)	(3,024,315)	-	(10,256,805)
Reclassifications	1,369,663	7,994,067	2,931,578	3,466	2,669,275	(10,811,356)	4,156,693
Effect of movement in exchange rate	113	(1,240,726)	(1,641,782)	(24,257)	(680,617)	(216,224)	(3,803,493)
Balance on December 31, 2019	\$ <u>7,754,662</u>	<u>55,296,414</u>	<u>67,162,106</u>	<u>1,396,155</u>	<u>34,116,157</u>	<u>3,246,801</u>	<u>168,972,295</u>
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>
Depreciation and impairment loss :							
Balance on January 1, 2019	\$ -	17,315,572	45,237,334	1,257,084	19,093,365	-	82,903,355
Depreciation for the period	-	2,857,707	8,024,083	127,425	5,732,271	-	16,741,486
Impairment loss	-	1	12,970	-	2,308	-	15,279
Reclassifications	-	21,590	(89,005)	-	73,559	-	6,144
Disposals and obsolescence	-	(219,641)	(5,703,973)	(241,819)	(2,516,997)	-	(8,682,430)
Effect of movement in exchange rate	-	(507,784)	(1,193,242)	(23,846)	(535,427)	-	(2,260,299)
Balance on December 31, 2019	\$ <u>-</u>	<u>19,467,445</u>	<u>46,288,167</u>	<u>1,118,844</u>	<u>21,849,079</u>	<u>-</u>	<u>88,723,535</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Balance on January 1, 2018	\$ -	14,863,199	37,893,522	1,230,272	16,027,969	-	70,014,962
Depreciation for the period	-	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>
Carrying amounts :							
Balance on December 31, 2019	<u>\$ 7,754,662</u>	<u>35,828,969</u>	<u>20,873,939</u>	<u>277,311</u>	<u>12,267,078</u>	<u>3,246,801</u>	<u>80,248,760</u>
Balance on January 1, 2018	<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>
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>

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

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Impairment loss	<u>\$ 15,279</u>	<u>63,167</u>

- (ii) KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries completed a series of farm land purchases covering a total land area of 36,115.24 square meters in the name of KINSUS' s chairman instead of KINSUS, due to the restriction imposed by the local government.
- (iii) For the and years ended December 31, 2019 and 2018, KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries had written the carrying amount of certain property, plant and equipment to their recoverable amount of \$0, and recognized an impairment loss of \$12,149 and \$49,770, respectively. Impairment loss was recognized under other income and losses in the consolidated statement of comprehensive income. The recoverable amount of individual asset was estimated based on its value-in-use.
- (iv) 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 \$109,143. Please refer to Note 6(g) for other related information.
- (v) Please refer to Note 6(ab) for gain and loss on disposal of property, plant and equipment.
- (vi) Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Right-of-use assets

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:					
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	4,540,409	2,925,838	17,793	1,331	7,485,371
Additions	12,882	1,400,286	-	1,587	1,414,755
Reductions	(272,842)	(436,910)	-	-	(709,752)
Effect of movement in exchange rate	(94,190)	(51,267)	-	-	(145,457)
Balance on December 31, 2019	<u>\$ 4,186,259</u>	<u>3,837,947</u>	<u>17,793</u>	<u>2,918</u>	<u>8,044,917</u>
Accumulated depreciation:					
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	778,162	-	-	-	778,162
Depreciation for the period	33,701	1,503,443	6,888	1,093	1,545,125
Reductions	-	(107,848)	-	-	(107,848)
Effect of movement in exchange rate	(23,547)	(35,569)	-	(8)	(59,124)
Balance on December 31, 2019	<u>\$ 788,316</u>	<u>1,360,026</u>	<u>6,888</u>	<u>1,085</u>	<u>2,156,315</u>
Carrying amounts:					
Balance on December 31, 2019	<u>\$ 3,397,943</u>	<u>2,477,921</u>	<u>10,905</u>	<u>1,833</u>	<u>5,888,602</u>

For the year ended December 31, 2018, the Group leased offices, warehouses, factory facilities and employees' dormitories under an operating lease, please refer to Note 6(s).

(l) Investment property

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

	<u>Buildings</u>
Cost or deemed cost:	
Balance on January 1, 2019	\$ 62,509
Effect of movement in exchange rate	(1,496)
Balance on December 31, 2019	<u>\$ 61,013</u>
Balance on January 1, 2018	\$ 63,763
Effect of movement in exchange rate	(1,254)
Balance on December 31, 2018	<u>\$ 62,509</u>
Depreciation and impairment loss :	
Balance on January 1, 2019	\$ 13,797
Depreciation for the year	3,051
Effect of movement in exchange rate	(331)
Balance on December 31, 2019	<u>\$ 16,517</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Buildings
Balance on January 1, 2018	\$ 10,893
Depreciation for the year	3,125
Effect of movement in exchange rate	(221)
Balance on December 31, 2018	<u><u>\$ 13,797</u></u>
Carrying amounts :	
Balance on December 31, 2019	<u><u>\$ 44,496</u></u>
Balance on January 1, 2018	<u><u>\$ 52,870</u></u>
Balance on December 31, 2018	<u><u>\$ 48,712</u></u>

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

	For the years ended December 31	
	2019	2018
Rental income	\$ -	1,917
Direct operating expenses arising from investment property that generate rental income	<u><u>\$ 3,051</u></u>	<u><u>3,125</u></u>

- (ii) As of December 31, 2019 and 2018, the fair value of investment property of the Group was \$83,623 and \$12,149, 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, 2019 and 2018, the aforesaid investment properties were not pledged as collateral.
- (m) Intangible assets

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

	Goodwill	Others	Total
Costs:			
Balance on January 1, 2019	\$ 1,746,024	1,488,815	3,234,839
Additions	-	115,322	115,322
Disposals	-	(159,115)	(159,115)
Reclassifications	-	11,566	11,566
Effect of movement in exchange rate	(25,670)	(22,701)	(48,371)
Balance on December 31, 2019	<u><u>\$ 1,720,354</u></u>	<u><u>1,433,887</u></u>	<u><u>3,154,241</u></u>
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	<u><u>\$ 1,746,024</u></u>	<u><u>1,488,815</u></u>	<u><u>3,234,839</u></u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Amortization and impairment loss:			
Balance on January 1, 2019	\$ 671,792	1,087,175	1,758,967
Amortization for the period	-	277,737	277,737
Disposals	-	(159,115)	(159,115)
Effect of movement in exchange rate	-	(21,239)	(21,239)
Balance on December 31, 2019	<u><u>\$ 671,792</u></u>	<u><u>1,184,558</u></u>	<u><u>1,856,350</u></u>
Balance on January 1, 2018	\$ 671,792	918,398	1,590,190
Amortization for the period	-	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><u>\$ 671,792</u></u>	<u><u>1,087,175</u></u>	<u><u>1,758,967</u></u>
Carrying amounts:			
Balance on December 31, 2019	<u><u>\$ 1,048,562</u></u>	<u><u>249,329</u></u>	<u><u>1,297,891</u></u>
Balance on January 1, 2018	<u><u>\$ 1,040,879</u></u>	<u><u>456,355</u></u>	<u><u>1,497,234</u></u>
Balance on December 31, 2018	<u><u>\$ 1,074,232</u></u>	<u><u>401,640</u></u>	<u><u>1,475,872</u></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>2019</u>	<u>2018</u>
Operating costs	\$ 145,699	137,452
Operating expenses	<u>132,038</u>	<u>129,264</u>
	<u><u>\$ 277,737</u></u>	<u><u>266,716</u></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>2019</u>	<u>December 31,</u> <u>2018</u>
Mechanics	\$ 1,005,331	1,029,978
Consumer electronic	41,709	42,732
Others	<u>1,522</u>	<u>1,522</u>
	<u><u>\$ 1,048,562</u></u>	<u><u>1,074,232</u></u>

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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, 2019	December 31, 2018
Discount rate (before tax)	13.38 %	13.11 %

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, 2019 and 2018, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.
- (iv) As of December 31, 2019 and 2018, the intangible assets were not pledged as collateral.
- (n) Other financial assets and other assets

Other financial assets and other assets were as follows :

	December 31, 2019	December 31, 2018
Other financial assets-current	\$ 3,564,920	794,775
Other financial assets-noncurrent	481,158	650,896
Other current assets	5,674,300	7,334,875
Other noncurrent assets	50,065	329,419
	\$ 9,770,443	9,109,965

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PEGATRON CORPORATION AND SUBSIDIARIES
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- (i) Other financial assets are assets that do not qualify as cash equivalents which consisted of time deposits, restricted time deposits and guarantee deposits. Please refer to Note 8 for details.
 - (ii) Other current assets consisted of prepayments, current tax asset, rights to the returned goods and others.
 - (iii) Other noncurrent assets consisted of other long-term prepaid expenses and others.
- (o) Short-term loans

	December 31, 2019	December 31, 2018
Unsecured bank loans	\$ 64,808,786	86,846,756
Secured bank loans	-	80,490
Total	<u><u>\$ 64,808,786</u></u>	<u><u>86,927,246</u></u>
Interest rate	<u><u>0.60%~4.70%</u></u>	<u><u>0.51%~5.11%</u></u>

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

- (p) Long-term loans

	December 31, 2019	December 31, 2018
Unsecured bank loans	\$ 9,192,450	11,900,203
Less: current portion	(2,657,496)	(2,388,522)
Total	<u><u>\$ 6,534,954</u></u>	<u><u>9,511,681</u></u>
Interest rate	<u><u>0.60%~3.97%</u></u>	<u><u>1.074%~3.97%</u></u>

- (i) Collateral for bank loans

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

- (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 noncontrolling 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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- 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, 2019 and 2018.

(q) Bonds payable

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

	December 31, 2019	December 31, 2018
Ordinary corporate bonds issued	\$ 23,500,000	15,000,000
Unamortized discount on bonds payable	(19,661)	(13,238)
Bonds payable, end of the year	23,480,339	14,986,762
Less: current portion	(3,000,000)	-
	<u>\$ 20,480,339</u>	<u>14,986,762</u>

	For the years ended December 31 2019	2018
Interest expense	<u>\$ 190,068</u>	<u>146,821</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:

Item	1st unsecured ordinary bonds issued in 2017
1.Issuing amount	The Bonds are issued at \$7,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$3,000,000, \$2,000,000 and \$2,000,000, respectively.
2.Par value	Each unit is valued at \$1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from July 13, 2017 and matures on July 13, 2020. The issuance period of Tranche B commences from July 13, 2017 and matures on July 13, 2022. The issuance period of Tranche C commences from July 13, 2017 and matures on July 13, 2024.
5.Coupon rate	Tranche A, B and C bear annual coupon rates of 0.91%, 1.06% and 1.20%, respectively.

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PEGATRON CORPORATION AND SUBSIDIARIES
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Item	1st unsecured ordinary bonds issued in 2017
6.Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7.Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8.Guarantee	The Bonds are unsecured ordinary corporate bonds.

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

On March 14, 2019, the Company's Board of Directors approved to issue unsecured ordinary corporate bonds, which were approved and declared effective by the Taipei Exchange (TPEX) on June 3, 2019, the offering information and main rights and obligations were as follows :

Item	1st unsecured ordinary bonds issued in 2019
1.Issuing amount	The Bonds are issued at \$8,500,000, which comprise Tranche A, and Tranche B. The issuing amounts of Tranche A and Tranche B are \$6,000,000 and \$2,500,000, respectively.
2.Par value	Each unit is valued at \$1,000.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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Item	1st unsecured ordinary bonds issued in 2019
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A and Tranche B has 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from June 13, 2019 and matures on June 13, 2024. The issuance period of Tranche B commences from June 13, 2019 and matures on June 13, 2026.
5.Coupon rate	Tranche A, and B bear annual coupon rates of 0.85% and 0.95%, respectively.
6.Repayment	Tranche A, and Tranche B 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.

(r) Lease liabilities

The Group's lease liabilities were as follows :

	December 31, 2019
Current	\$ <u><u>1,195,039</u></u>
Non-current	\$ <u><u>1,294,702</u></u>

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

The amounts recognized in profit or loss were as follows :

	For the year ended December 31 2019
Interest on lease liabilities	\$ <u><u>110,179</u></u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u><u>15,034</u></u>
Income from sub-leasing right-of-use assets	\$ <u><u>834</u></u>
Expenses relating to short-term leases	\$ <u><u>481,796</u></u>
Expenses relating to leases of low-value, excluding short-term leases of low-value assets	\$ <u><u>1,232</u></u>

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

	For the year ended December 31 2019
Total cash outflow for leases	\$ <u><u>2,131,198</u></u>

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

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

(s) Operating leases

(i) Lessee

For the year ended December 31, 2018, the Group's lease commitments were as follows:

	December 31, 2018
Less than one year	\$ 2,127,311
Between one and five years	1,792,127
More than five years	74,491
	<u>\$ 3,993,929</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.

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

	For the year ended December 31 2018
Cost of sales	\$ 2,105,524
Operating expenses	560,243
	<u>\$ 2,665,767</u>

(ii) Long-term prepaid rentals

	December 31, 2018
Long-term prepaid rentals	<u>\$ 3,749,695</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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- 1) Long-term prepaid rentals represent land use rights under operating lease arrangement and is expensed equally over 38 to 67 years. The Group has transferred long-term prepaid rentals to right-of-use assets upon the initial application of IFRS 16 on January 1, 2019. Please refer to Note 6(k) for further information.
- 2) As of December 31, 2018, CASETEK CAYMEN and its subsidiaries reclassified the long-term prepaid rentals of KAI HE to non-current assets held for sale. Please refer to Note 6(g).
- 3) As of December 31, 2018, the aforesaid long-term prepaid rental was not pledged as collateral.

(t) Employee benefits

(i) Defined benefit plans

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

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	\$ 265,807	243,843
Fair value of plan assets	(170,414)	(157,499)
Net defined benefit liabilities	<u>\$ 95,393</u>	<u>86,344</u>
	December 31, 2019	December 31, 2018
Shortterm employee benefits liabilities	\$ 277,395	245,407
Cash-settled share-based payment liability	96,667	191,883
Total employee benefit liabilities	<u>\$ 374,062</u>	<u>437,290</u>

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

1) Composition of plan assets

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2019 and 2018 were as follows:

	For the years ended December 31	
	2019	2018
Defined benefit obligation, January 1	\$ 243,843	234,479
Current service costs and interest	5,303	6,875
Re-measurements of the net defined benefit liability		
— Actuarial (losses) gains arose from changes in demographic assumptions	2,841	(2,851)
— Actuarial gains arose from changes in financial assumption	18,227	14,149
— Experience adjustments	(4,407)	(6,836)
Benefits paid by the plan	-	(1,973)
Defined benefit obligation, December 31	<u><u>\$ 265,807</u></u>	<u><u>243,843</u></u>

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, 2019 and 2018 were as follows:

	For the years ended December 31	
	2019	2018
Fair value of plan assets, January 1	\$ 157,499	147,608
Interests revenue	1,953	2,336
Re-measurements of the net defined benefit liability		
— Experience adjustments	5,141	3,581
Contributions made	5,821	5,947
Benefits paid by the plan	-	(1,973)
Fair value of plan assets, December 31	<u><u>\$ 170,414</u></u>	<u><u>157,499</u></u>

(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, 2019 and 2018 were as follows:

	For the years ended December 31	
	2019	2018
Current service cost	\$ 2,277	3,236
Net interest on net defined benefit liability	1,073	1,303
	\$ 3,350	4,539
Operating costs	\$ 219	381
Operating expenses	3,131	4,158
	\$ 3,350	4,539

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, 2019 and 2018 were as follows:

	For the years ended December 31	
	2019	2018
Cumulative amount, January 1	\$ 78,747	77,866
Recognized during the year	11,520	881
Cumulative amount, December 31	\$ 90,267	78,747

6) Actuarial assumptions

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

	December 31, 2019	December 31, 2018
Discount rate	0.73%~1.34%	1.03%~1.50%
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 \$5,821 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 6 and 23 years.

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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, 2019 and 2018, 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, 2019		
Discount rate	(22,905)	25,548
Future salary increase rate	24,517	(22,246)
December 31, 2018		
Discount rate	(21,841)	24,401
Future salary increase rate	23,723	(21,484)

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 costs of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2019 and 2018 were amounted to \$5,364,424 and \$6,612,946, respectively.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Income tax

- (i) The income tax expense for the years ended December 31, 2019 and 2018 was calculated as follows :

	For the years ended December 31	
	2019	2018
Current income tax expense		
Current period incurred	\$ 6,444,793	4,160,093
Prior years income tax adjustment	(137,427)	50,600
Surtax on undistributed earnings	175,452	28,309
Deferred tax expense		
The origination and reversal of temporary differences	700,979	(216,553)
Adjustment in tax rate	-	(82,281)
Income tax expense	<u><u>\$ 7,183,797</u></u>	<u><u>3,940,168</u></u>

- (ii) The amount of income tax recognized in other comprehensive income (loss) for the years ended December 31, 2019 and 2018 was as follows :

	For the years ended December 31	
	2019	2018
Items that will not be reclassified subsequently to profit or loss		
Re-measurements of the net defined benefit plans	\$ <u><u>(538)</u></u>	<u><u>(457)</u></u>
Items that will be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign financial statements	\$ <u><u>2,671</u></u>	<u><u>8,373</u></u>

- (iii) Income tax on pre-tax financial income reconciled with income tax expense for the years ended December 31, 2019 and 2018 was as follows:

	For the years ended December 31	
	2019	2018
Profit before income tax	\$ <u><u>25,467,905</u></u>	<u><u>15,056,267</u></u>
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	7,989,442	4,887,456
Adjustment in tax rate	-	(82,281)
Permanent differences	(569,778)	364,294
Changes in unrecognized temporary differences	(1,272,433)	(1,269,812)
Oversea dividends received	271,044	372,738
Prior years income tax adjustment	(137,427)	50,600
Surtax on undistributed earnings	175,452	28,309
Others	<u>727,497</u>	<u>(411,136)</u>
Income tax expense	<u><u>\$ 7,183,797</u></u>	<u><u>3,940,168</u></u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

As of December 31, 2019 and 2018, 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, 2019	December 31, 2018
The aggregate temporary differences associated with investments in subsidiaries	\$ 61,665,954	50,034,721
Unrecognized deferred tax liabilities	\$ 12,333,191	10,006,944

2) Unrecognized deferred tax assets

	December 31, 2019	December 31, 2018
Deductible temporary differences	\$ 1,284,902	1,215,295
Tax losses	2,692,113	1,707,906
	\$ 3,977,015	2,923,201

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.

As of December 31, 2019, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets, and the expiry years thereof were as follows:

Company Name	Year of occurrence	Unused balance	Expiry year
KINSUS and its subsidiaries	2012 ~ 2019	\$ 2,119,527	2022 ~ 2029
ASROCK and its subsidiaries	2013~2017	224,548	2023~2027
AZUREWAVE and its subsidiaries	2013~2019	524,042	2023~2029
AMA PRECISION	2010~2017	91,873	2020~2027
		\$ 2,959,990	

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PEGATRON CORPORATION AND SUBSIDIARIES
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3) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2019 and 2018 were as follows:

			Gain on foreign investments	Others	Total	
Deferred tax liabilities:						
Balance on January 1, 2019	\$		1,399,745	138,507	1,538,252	
Recognized in (profit) loss			(12,423)	470,499	458,076	
Recognized in other comprehensive income			2,755	-	2,755	
Exchange differences on translation			(53,707)	(17,135)	(70,842)	
Balance on December 31, 2019	\$		<u>1,336,370</u>	<u>591,871</u>	<u>1,928,241</u>	
Balance on January 1, 2018	\$		1,576,817	24,664	1,601,481	
Recognized in (profit) loss			(149,944)	111,983	(37,961)	
Recognized in other comprehensive income			8,334	-	8,334	
Exchange differences on translation			(35,462)	1,860	(33,602)	
Balance on December 31, 2018	\$		<u>1,399,745</u>	<u>138,507</u>	<u>1,538,252</u>	
		Provision for Contingent Service Cost	Gain on valuation of inventory	Unrealized expenses	Others	Total
Deferred tax assets:						
Balance on January 1, 2019	\$	121,800	1,097,392	2,009,494	398,995	3,627,681
Recognized in profit (loss)		12,492	(334,172)	179,413	(100,636)	(242,903)
Recognized in other comprehensive income		-	-	-	622	622
Exchange differences on translation		-	(13,899)	(59,182)	(6,706)	(79,787)
Balance on December 31, 2019	\$	<u>134,292</u>	<u>749,321</u>	<u>2,129,725</u>	<u>292,275</u>	<u>3,305,613</u>
Balance on January 1, 2018	\$	108,565	1,253,559	1,686,754	297,114	3,345,992
Recognized in profit (loss)		13,235	(176,778)	324,970	99,446	260,873
Recognized in other comprehensive income		-	-	-	418	418
Exchange differences on translation		-	20,611	(2,230)	2,017	20,398
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>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 :

<u>Years of Approval</u>	<u>Company Name</u>
2016	PEGAVISION CORPORATION and ASROCK INCORPORATION
2017	ASROCK RACK, INC., ASUS INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, AZUREWAVE, AZURE LIGHTING TECHNOLOGIES, INC., EZWAVE TECHNOLOGIES, INC., AMA, KINSUS INTERCONNECT TECHNOLOGY CORP., KINSUS INVESTMENT, STARLINK ELECTRONICS CORPORATION, HUA-YUAN INVESTMENT LTD, LUMENS OPTICS, AS FLY TRAVEL SERVICE LTD, FUYANG TECHNOLOGY CORPORATION, and RI-KUAN METAL CORPORATION (Income tax returns through 2016 haven't been approved).
2018	PEGA INTERNATIONAL LIMITED.

(v) Share capital and other equity interests

(i) Ordinary shares

Reconciliation of shares outstanding for 2019 and 2018 was as follows:

<u>(In thousands of shares)</u>	<u>Ordinary Shares</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance on January 1	2,612,377	2,614,090
Retirement of restricted shares of stock	(1,285)	(1,713)
Ending balance on December 31	<u>2,611,092</u>	<u>2,612,377</u>

For the years ended December 31, 2019 and 2018, the Company had retired 1,285 and 1,713 thousand shares, respectively, of restricted stock to employees. 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 2,611,092 and 2,612,377 thousand common shares of stock, as of December 31, 2019 and 2018, respectively. All share proceeds from outstanding capital have been collected.

As of December 31, 2019 and 2018, the restricted company shares of stock issued to employees have expired, of which 300 and 497 thousand shares, respectively, have not been retired.

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(i) 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, 2019 and 2018, the Company has listed, in total, 790 and 1,594 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 3,949 and 7,971 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.

(ii) Capital surplus

The components of the capital surplus were as follows :

	December 31, 2019	December 31, 2018
From issuance of share capital	\$ 65,571,841	64,623,295
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	2,432,387	2,383,056
Changes in ownership interest in subsidiaries	1,215,540	760,025
Employee stock options	1,304	1,304
Restricted stock to employees	323,835	1,401,456
Other	409,917	409,917
	<u>\$ 81,052,101</u>	<u>80,676,330</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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According to the R.O.C. Company Act, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting a deficit. The aforementioned realized capital surplus includes share premiums and donation gains. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital reserves that can be capitalized shall not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

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

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

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

1) Legal reserve

When a company incurs profit, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, of up to 25% of the actual share capital.

2) Special reserve

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

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3) Earnings distribution

On June 21, 2019, and June 21, 2018, the Company's shareholder's meeting resolved to appropriate the 2018 and 2017 earnings. These earnings were appropriated or distributed as follows :

	For the years ended December 31	
	2018	2017
Common stock dividends per share (dollars)		
— Cash	\$ <u>3.50</u>	<u>4.00</u>

(iv) Other equity interest (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, 2019	\$ (7,482,556)	(386,322)	-	(524,686)	(8,393,564)
Exchange differences on foreign operation	(3,493,889)	-	-	-	(3,493,889)
Losses reclassified to profit or loss on disposal of foreign operation	(5,719)	-	-	-	(5,719)
Exchange differences on associates accounted for using equity method	(232)	-	-	-	(232)
Unrealized gain from financial assets measured at fair value through other comprehensive income	-	79,232	-	-	79,232
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	3,436	-	-	3,436
Deferred compensation cost arising from issuance of restricted stock	-	-	-	516,399	516,399
Balance on December 31, 2019	\$ <u>(10,982,396)</u>	<u>(303,654)</u>	<u>-</u>	<u>(8,287)</u>	<u>(11,294,337)</u>
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 associates accounted for using equity method	(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	\$ <u>(7,482,556)</u>	<u>(386,322)</u>	<u>-</u>	<u>(524,686)</u>	<u>(8,393,564)</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(v) Non-controlling interests (net of tax)

	For the years ended December 31	
	2019	2018
Balance on January 1	\$ 36,417,945	33,748,072
(Loss) gain attributable to non-controlling interests	(1,033,633)	1,233
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	(591,472)	(202,446)
Income tax related to remeasurements of defined benefit plans	(3,815)	(2,994)
Changes in ownership interest in subsidiaries	(504,846)	(183,992)
Changes in non-controlling interests	<u>1,296,272</u>	<u>3,058,072</u>
Balance on December 31	<u><u>\$ 35,580,451</u></u>	<u><u>36,417,945</u></u>

(w) Share-based payment

Information on share-based payment transactions as of December 31, 2019 and 2018 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	7.39%、0.73%	8.33%
Estimated future turnover rate for each of the three years of employees	10.21%	-

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
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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
	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	22.46%	33.31%	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 period between three and six month.

Note B : The risk-free interest rate is 0.16% for the period between six and nine month.

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 years ended December 31, 2019 and 2018, 1,088 and 2,017 thousand shares of the restricted shares of stock issued to employees have expired, which were converted to capital surplus of \$10,880 and \$20,165, respectively. As of December 31, 2019 and 2018, the Company has deferred compensation cost arising from the issuance of restricted stock of \$8,287 and \$524,686, respectively.

For the years ended December 31, 2019 and 2018, the Company reversed and recognized salary cost of \$6,548 and \$43,617 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 credited/debited to retained earnings.

(iii) Expenses recognized in profit or loss

The Company incurred expenses of share-based arrangements for the years ended December 31, 2019 and 2018 as follows :

	For the years ended December 31	
	2019	2018
Expenses resulting from the issuance of restricted stock to employees	\$ 300,495	1,182,963

(x) Subsidiary's share-based payments

(i) Restricted stock to employee of AZUREWAVE

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the year ended December 31, 2019, AZUREWAVE retired and cancelled 162 thousand shares of restricted employee stock due to the resignation of its employees. Except for the 102 thousand shares, which have been converted into capital shares – pending cancellation, with the record date of capital decrease on December 27, 2019, 60 thousand shares had been cancelled as of December 31, 2019, including the 28 thousand shares which have yet to be cancelled on January 1, 2018.

For the years ended December 31, 2019 and 2018, AZUREWAVE recognized share-based compensation cost of \$2,291 and \$4,953, respectively. As of December 31, 2019, and 2018, AZUREWAVE has deferred compensation cost resulting from the issuance of restricted stock of \$345 and \$2,636, 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 as 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	- %	3.89 %	7.00 %	
Vested shares after considering employee turnover rate (In thousands)	2,282	1,645	1,591	5,518
Embedded value	NT\$58.80	58.80	58.80	
Service costs	\$ 134,158	96,705	93,575	324,438

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) ASROCK

On September 22, 2017, ASROCK issued restricted shares of stock to employees amounting to 5,704 thousand shares, which was charged to capital surplus - restricted employee stock of \$245,372. ASROCK adjusted its estimated turnover rate to actual rate in June, 2018, resulting in increasing its capital surplus - restricted employee stock by \$47,089. ASROCK then adjusted the estimated turnover rate in August, 2018, resulting in increasing its capital surplus - restricted employee stock by \$26,835. Capital surplus - restricted shares of stock was charged to capital surplus - share premium due to vested shares of the year, resulting in its capital surplus - restricted employee 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 the estimated nonvesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was credited to retained earnings

In August 2019, ASROCK recognized its capital surplus-restricted shares of stock of \$5,142, deriving from the revision of its estimated employee turnover rate. The vested capital surplus-restricted shares of stock in 2019 has been converted into capital surplus – share premiums, resulting in a decrease of \$96,705 in capital shares – restricted surplus. On December 31, 2019, ASROCK has the capital surplus-restricted shares of stock and deferred compensation cost arising from issuance of restricted stock amounting to \$93,575 and \$18,202, respectively.

The cash dividend received by the non-vested employees in 2018 amounting to \$1,094 was debited as salary expense and credited as retained earnings in 2019. In August, 2019, the cash dividends received by the non-vested employees in 2017 and 2018, adjusted to salary expense based on the revised estimated employee turnover rate, each amounted to \$349, with the total amount of \$698, which was debited to retained earnings.

2) ASROCK RACK INCORPORATION

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Employees with restricted stock awards who keep working for ASROCK RACK INCORPORATION for three years, 50% of the restricted shares of stock are vested in year 3, which started at the granted date. During the service, employees cannot violate the law, code of conduct, code of business ethics conduct, etc. Employees with restricted stock awards who keep working for ASROCK RACK INCORPORATION for four years, residual 50% of the restricted shares of stock is vested in year 4, which started at the granted date. Meanwhile, during the service, employees cannot violate the law, code of conduct, code of business ethics conduct etc. The restricted stock is kept by a trust, which is appointed by ASROCK RACK INCORPORATION, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. These shares of stock are entitled to the same right as holders of common shares once issued, except for those shares kept by a trust or shares that do not meet the vesting condition.

The aforesaid information of restricted stock to employee was follows:

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

3) ASROCK INDUSTRIAL COMPUTER CORPORATION

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

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the year ended December 31
	2019
Expected volatility rate	31.74%
Risk-free interest rate	0.5741%
Expected duration of option	2.5 years
Weighted average stock price	NT\$8.10
Pricing model	Binomial options pricing model

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

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

	For the year ended December 31	
	2019	
	Outstanding number of options (In thousand units)	Weighted average exercise price
Outstanding as of January 1	-	NT\$ -
Granted during the period	1,500	10
Exercising during the period	-	-
Outstanding as of December 31	1,500	10
Exercisable as of December 31	-	
Weighted average fair value of the options granted	NT\$ -	

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

December 31, 2019	Exercise price	Weighted average residual duration
Outstanding option	NT\$10	1.125 years

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

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

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

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

- 4) ASROCK did not make any cancellation or amendment to share-based payment transactions for the year ended December 31, 2019.
- 5) The expenses resulting from share-based payment transactions were as follows :

	For the years ended December 31	
	2019	2018
Expense resulting from equity-settled share-based payment	\$ 76,519	166,792

(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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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Information on restricted shares of stock to employee was as follows :

	For the years ended December 31
	2018
Outstanding as of January 1 (In thousands of shares)	1,500
Vested during the period	(750)
Expired during the period	(750)
Outstanding as of December 31 (In thousands of shares)	<u>-</u>

Capital surplus of \$135,000 was recognized from the issuance of restricted employee stock, amounting to \$15,000 with the fair value of NT\$100 per share based on the closing price at grant date. On March 5, 2018, half of the aforesaid restricted employee stock has met certain vesting requirements, and 750 thousand shares has been issued. Capital surplus - restricted employee stock amounting to \$67,500 was converted to capital surplus - share premium.

As of December 31, 2018, CASETEK CAYMAN retired 750 thousand shares of restricted employee stock, and all shares had been cancelled.

The expense resulting from share-based payment transactions for the year ended December 31, 2018 was \$1,858.

(iv) Employee stock option of FUYANG TECHNOLOGY CORPORATION

As of December 31, 2019 and 2018, FUYANG TECHNOLOGY CORPORATION had the following share-based payment transaction:

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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:

	For the year ended December 31 2019
	Employee stock option issued in 2017
<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.

2) Employee stock options

Information on employee stock options was as follows :

	For the years ended December 31			
	2019		2018	
	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	7,990	8.05	10,000
Expired during the year	-	-	8.05	(2,010)
Granted during the year	-	-	-	-
Outstanding as of December 31		<u>7,990</u>		<u>7,990</u>
Exercisable as of December 31		<u>-</u>		<u>-</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) The expense resulting from share-based payment transactions for the years ended December 31, 2019 and 2018, were as follows :

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Expenses resulting from employee stock option	\$ <u>2,585</u>	<u>3,311</u>

(v) Compensated restricted stock to employee of KINSUS

- 1) On May 29, 2018, the shareholders meeting approved to issue 5,500 thousand shares of restricted employee stock for certain qualified employee, with the approval from the Securities and Futures Bureau. On July 30, 2018, the board of KINSUS approved to issue 4,947 thousand shares of restricted stock, with the record date for the capital increase on August 28, 2018. However, only 4,841 thousand shares were actually issued, with a fair value of \$49.1 per share at the granted date.
- 2) On February 28, 2019, the board of KINSUS approved to issue 659 thousand shares of restricted stock, with the record date for the capital increase on March 18, 2019. However, only 599 thousand shares were actually issued, with a fair value of \$43.45 per share at the granted date.

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

<u>Vesting conditions</u>	<u>Vested percentage of restricted stock</u>
One month from grant date	20 %
April 25, 2019	20 %
September 25, 2019	15 %
April 25, 2020	15 %
September 25, 2020	15 %
April 25, 2021	15 %

The restricted obligation before vested was as follows :

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

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PEGATRON CORPORATION AND SUBSIDIARIES

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On August 28, 2018, KINSUS issued a total of 4,841 thousand shares of employee restricted stock, resulting in its capital surplus - restricted employee stock to increase by \$184,530. As of December 31, 2019, 379 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$3,790. On December 31, 2019, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$24,955.

On March 18, 2019, KINSUS issued a total of 599 thousand shares of employee restricted stock, resulting in its capital surplus - restricted employee stock to increase by \$19,396. As of December 31, 2019, 20 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$200. On December 31, 2019, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$3,637.

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

	For the years ended December 31	
	2019	2018
Expense resulting from equity-settled share-based payment	\$ 80,477	82,525

- 4) KINSUS did not made any cancellations or amendments to share-based payment transactions for the year ended December 31, 2019.

- (vi) 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, 2019, 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	83.75%	90.30%
Vested units after considering employee turnover rate (In thousand units)	267	160
Fair value (dollars)	\$ 1.94	1.94
Service costs (In thousand dollars)	\$ 519	310

	For the years ended December 31	
	2019	2018
	Units of stock option (In thousand units)	Units of stock option (In thousand units)
Outstanding as of January 1	\$ 3,290	5,000
Expired during the year	-	(1,710)
Outstanding as of December 31	\$ 3,290	3,290
Exercisable as of December 31	3,290	3,290

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(y) Earnings per share

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

	For the three months ended December 31	
	2019	2018
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ <u>19,317,741</u>	<u>11,114,866</u>
Weighted-average number of ordinary shares	<u>2,611,330</u>	<u>2,612,769</u>
	<u>\$ 7.40</u>	<u>4.25</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ <u>19,317,741</u>	<u>11,114,866</u>
Weighted-average number of ordinary shares	2,611,330	2,612,769
Effect of potentially dilutive ordinary shares		
Employee stock bonus	<u>27,226</u>	<u>20,580</u>
Weighted-average number of ordinary shares (diluted)	<u>2,638,556</u>	<u>2,633,349</u>
	<u>\$ 7.32</u>	<u>4.22</u>

(z) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the year ended December 31, 2019		
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 547,976,653	5,625,336	553,601,989
U.S.A.	446,067,161	25,487,085	471,554,246
Taiwan	124,934,818	7,100,364	132,035,182
China	37,090,465	34,050,918	71,141,383
Japan	64,116,533	1,806,028	65,922,561
Other countries	<u>69,274,557</u>	<u>2,757,408</u>	<u>72,031,965</u>
	<u>\$ 1,289,460,187</u>	<u>76,827,139</u>	<u>1,366,287,326</u>

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	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	<u>61,760,632</u>	<u>1,251,650</u>	<u>63,012,282</u>
	<u>\$ 1,258,054,343</u>	<u>81,947,688</u>	<u>1,340,002,031</u>

(ii) Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes receivable	\$ 20,232	45,327	52,010
Accounts receivable	207,994,571	200,619,185	151,085,518
Less: Allowance for impairment	<u>1,676,398</u>	<u>1,780,928</u>	<u>1,723,316</u>
Total	<u>\$ 206,338,405</u>	<u>198,883,584</u>	<u>149,414,212</u>
Contract liabilities	<u>\$ 1,942,418</u>	<u>1,363,197</u>	<u>1,854,707</u>

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

The amounts of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were \$1,363,197 and \$1,854,707, respectively.

The major change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received. There were no other significant changes for the years ended December 31, 2019 and 2018.

(aa) 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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For the years ended December 31, 2019 and 2018, remuneration of employees of \$1,639,000 and \$896,000, respectively, and remuneration of directors of \$163,000 and \$89,000, 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, 2019 and 2018. Management is expecting that the differences, if any, between the actual distributed amounts and estimated amounts will be treated as changes in accounting estimates and charged to profit or loss. The number of shares to be distributed were calculated based on the closing price of the Company's ordinary shares, one day prior to the Board of Directors meeting. For further relevant information, please refer to Market Observation Post System. There was no difference between the amounts approved in the Board of Directors meeting and recognized for the years ended December 31, 2019 and 2018.

(ab) Non-operating income and expenses

(i) Other income

The details of other income were as follows:

	For the years ended December 31	
	2019	2018
Interest income	\$ 3,599,944	2,309,814
Subsidy income	2,779,484	1,756,306
Rental income	887,908	292,675
Technical service income	569,067	540,224
Other income	339,165	467,176
	\$ 8,175,568	5,366,195

(ii) Other gains and losses

The details of other gain and losses were as follows:

	For the years ended December 31	
	2019	2018
Reversal of expected credit loss	\$ 41,186	12
(Losses) gains on disposals of property, plant and equipment	(8,710)	156,524
Gains on disposals of investments	5,892	42,098
Foreign exchange (losses) gains	(482,765)	567,045
Gains on lease modifications	2,522	-
Impairment loss on non-financial assets	(15,279)	(63,167)
Net gains(losses) on financial assets measured at fair value through profit or loss	4,046,018	(191,266)
Compensation losses	-	(32,410)
	\$ 3,588,864	478,836

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(iii) Finance costs

The details of finance costs were as follows:

	For the years ended December 31	
	2019	2018
Interest expenses	\$ 3,189,505	2,596,132
Financial expense-bank fees and factoring fees, etc.	17,037	18,303
	\$ 3,206,542	2,614,435

(ac) Reclassification adjustments of components of other comprehensive income

	For the years ended December 31	
	2019	2018
Cumulative adjustment		
Cumulative foreign exchange difference from current period	\$ (4,085,361)	2,014,984
Share of other associates accounted for using equity method	(232)	(2,085)
Reclassification to profit or loss on the disposal of other associates accounted for using equity method	-	(10,750)
Reclassification to profit or loss on the disposal of other associates accounted for using equity method	(5,719)	-
Net change in fair value recognized in other comprehensive income	\$ (4,091,312)	2,002,149

(ad) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

As of December 31, 2019 and 2018, the accounts receivable from the Group's top three customers were amounted to \$151,554,738 and \$129,779,524, respectively, representing 73% and 65% of accounts receivable, respectively, which exposes the Group to credit risk.

3) Accounts receivable of credit risk

For credit risk exposure of notes and accounts receivables, please refer to note 6(d). Other financial assets at amortized cost includes other receivables and time deposits, etc.

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).

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The loss allowance provision for the years ended December 31, 2019 and 2018 were determined as follows :

	Other receivables
Balance on January 1, 2019	\$ 14,374
Impairment loss recognized	3,337
Reversal of impairment loss	(9)
Foreign exchange gain	(700)
Balance on December 31, 2019	\$ 17,002
Balance on January 1, 2018	\$ 13,494
Impairment loss recognized	1,113
Foreign exchange gain	(233)
Balance on December 31, 2018	\$ 14,374

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
December 31, 2019					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 74,001,236	74,001,236	67,466,282	857,421	5,677,533
Unsecured ordinary corporate bonds	23,500,000	23,500,000	3,000,000	1,000,000	19,500,000
Non-interest bearing liabilities	249,747,416	249,747,416	249,747,416	-	-
Lease liabilities	2,489,741	2,489,741	1,195,039	914,164	380,538
	\$ 349,738,393	349,738,393	321,408,737	2,771,585	25,558,071
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 bonds	15,000,000	15,000,000	-	3,000,000	12,000,000
Non-interest bearing liabilities	261,781,132	261,781,132	261,781,132	-	-
	\$ 375,608,581	375,608,581	351,096,900	9,707,806	14,803,875

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

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PEGATRON CORPORATION AND SUBSIDIARIES
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(iii) Market risk

1) Currency risk

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

(Unit: Foreign currency / NTD in Thousands)

	December 31, 2019			December 31, 2018		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 18,131,819	29.980	543,591,934	16,701,074	30.715	512,973,488
USD:CNY	433,187	6.9762	12,987,041	402,783	6.8632	12,371,431
CNY:USD	2,178,975	0.1433	9,364,077	2,346,521	0.1457	10,501,427
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	17,505,328	29.980	524,809,733	16,926,775	30.715	519,905,894
USD:CNY	368,450	6.9762	11,046,212	361,240	6.8632	11,095,443
CNY:USD	2,243,752	0.1433	9,642,454	2,702,709	0.1457	12,095,481

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable and other receivables, loans, accounts and other payables that are denominated in foreign currency. A 1% of appreciation or depreciation of each major foreign currency against the Group's functional currency as of December 31, 2019 and 2018 would have increased (decreased) the before-tax net income for the years ended December 31, 2019 and 2018 by \$208,816 and \$58,492, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

3) Foreign exchange gains or losses on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the years ended December 31, 2019 and 2018, foreign exchange (loss) gain (including realized and unrealized portions) amounted to (\$482,765) and \$567,045, respectively.

(iv) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments at the reporting date. For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year at the reporting date. The Group's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

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If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$267,850 and \$261,450 for the years ended December 31, 2019 and 2018, respectively, assuming all other variable factors remaining 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			
	2019		2018	
	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%	\$ 25,745	139,822	24,378	37,798
Decrease 3%	\$ (25,745)	(139,822)	(24,378)	(37,798)

(vi) Fair value of financial instruments

1) Categories of financial instruments and fair value hierarchy

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

	December 31, 2019				
	Book Value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 7,357,795	6,372,879	637,200	347,716	7,357,795
Financial assets at fair value through other comprehensive income					
Receivables-Financial assets at fair value through other comprehensive income	\$ 7,495,000	7,495,000	-	-	7,495,000
Stock of listed companies	\$ 586,407	586,407	-	-	586,407
Stock of unlisted companies	150,000	-	-	150,000	150,000
Stock of overseas unlisted companies	121,751	-	-	121,751	121,751
Subtotal	\$ 8,353,158	8,081,407	-	271,751	8,353,158

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December 31, 2019					
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at amortized cost					
Cash and cash equivalents	\$ 145,795,913	-	-	-	-
Notes and accounts receivable	198,843,405	-	-	-	-
Other receivables	1,472,702	-	-	-	-
Other financial assets	<u>4,046,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>\$ 350,158,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Bank loans	\$ 74,001,236	-	-	-	-
Non-interest bearing liabilities	249,747,416	-	-	-	-
Lease liabilities	2,489,741	-	-	-	-
Unsecured ordinary corporate bonds	<u>23,480,339</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>\$ 349,718,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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	\$ <u>3,532,973</u>	<u>2,930,402</u>	<u>399,600</u>	<u>202,971</u>	<u>3,532,973</u>
Financial assets at fair value through other comprehensive income					
Accounts receivables — 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	150,000	-	-	150,000	150,000
Stock of overseas unlisted companies	<u>132,075</u>	<u>-</u>	<u>-</u>	<u>132,075</u>	<u>132,075</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 bonds	<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>

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2) Valuation techniques for financial instruments not measured at fair value :

The assumptions and methods used in valuing financial instruments that are not measured at fair value are as follows :

a) Financial assets and liabilities measured at amortized cost

Fair value measurement for financial assets and liabilities is based on the latest quoted price and agreed-upon price if these prices are available in active market. When market value is unavailable, fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

3) Valuation techniques for financial instruments measured at fair value :

a) Non-derivative financial instruments

Financial instruments trade in active markets is based on quoted market prices.

If quoted price of a financial instrument can be obtained in time and often from exchanges, brokers, underwriters, industrial union, pricing institute, or authorities and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have quoted price in active market. If a financial instrument does not accord with the definition aforementioned, then it is considered to be without quoted price in active market. In general, market with low trading volume or high bid-ask spreads is an indication of non-active market.

Measurements of fair value of financial instruments without active market are based on valuation technique or quoted price from competitor. Fair value measured by valuation technique can be extrapolated from similar financial instruments, discounted cash flow method or other valuation technique which include model calculating with observable market data at the balance sheet date.

b) Derivative financial instruments

It is based on the valuation model accepted by the most market users, ex: discount rate and option pricing model. Forward exchange agreement is usually based on the current forward rate.

Fair value of structured financial instruments is based on appropriated valuation model, ex: Black-Scholes model, or other valuation model, ex: Monte Carlo simulation.

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the years ended December 31, 2019 and 2018.

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5) Reconciliation of Level 3 fair values

	<u>At fair value through profit or loss</u>	<u>Fair value through other comprehensive income</u>	
	<u>Non derivative mandatorily measured at fair value through profit or loss</u>	<u>Unquoted equity instruments</u>	<u>Total</u>
Opening balance, January 1, 2019	\$ 202,971	282,075	485,046
Total gains and losses recognized:			
In profit or loss	(43,371)	-	(43,371)
In other comprehensive income	-	(10,323)	(10,323)
Purchased	188,116	-	188,116
Ending Balance, December 31, 2019	<u>\$ 347,716</u>	<u>271,752</u>	<u>619,468</u>
Opening balance, January 1, 2018	\$ 71,015	279,494	350,509
Total gains and losses recognized:			
In profit or loss	(259)	-	(259)
In other comprehensive income	-	(22,473)	(22,473)
Purchased	132,215	25,054	157,269
Ending Balance, December 31, 2018	<u>\$ 202,971</u>	<u>282,075</u>	<u>485,046</u>

For the years ended December 31, 2019 and 2018, total gains and losses that were included in “other gains and losses” and “unrealized gains and losses from financial assets at fair value through other comprehensive income” were as follows:

	<u>2019</u>	<u>2018</u>
Total gains and losses recognized:		
In profit or loss, and including “other gains and losses”	<u>\$ (43,371)</u>	<u>(259)</u>
In other comprehensive income, and presented in “unrealized gains and losses from financial assets at fair value through other comprehensive income”	<u>\$ (10,323)</u>	<u>(22,473)</u>

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

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

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

Quantified information of significant unobservable inputs was as follows :

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through profit or loss-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> ·The multiplier of price-to-book ratio (As of December 31, 2019 and December 31, 2018, were 1.0~2.6 and 0.9, respectively.) ·Market illiquidity discount (As of December 31, 2019 and December 31, 2018, were 20%) 	The estimated fair value would increase (decrease) if: ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).
Financial assets at fair value through other comprehensive income-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> ·The multiplier of price-to-book ratio (As of December 31, 2019 and December 31, 2018, were 1.9~6.2 and 1.8~5.7, respectively.) ·Market illiquidity discount (As of December 31, 2019 and December 31, 2018, were 20%) 	The estimated fair value would increase (decrease) if: ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).
Financial assets at fair value through profit or loss-private fund	Net Asset Value Method	·Net Asset Value	Not applicable

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

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

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

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		Fluctuation in inputs	Profit or loss		Other comprehensive income	
Inputs			Favorable	Unfavorable	Favorable	Unfavorable
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)

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, 2019						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 23,050,581	15,787,701	7,262,880	-	-	7,262,880

December 31, 2019						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 15,787,701	15,787,701	-	-	-	-

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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

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	-	-	-	-

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

(ae) 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) Structure of risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has deputized managements of core business departments for developing and monitoring the Group's risk management policies. Management reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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PEGATRON CORPORATION AND SUBSIDIARIES

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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 receivable 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 accounts receivable. 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 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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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, 2019 and 2018.

(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.

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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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.

(af) 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, 2019	December 31, 2018
Total liabilities	\$ 377,274,280	397,903,832
Less: cash and cash equivalents	<u>145,795,913</u>	<u>106,068,046</u>
Net debt	<u>\$ 231,478,367</u>	<u>291,835,786</u>
Total capital (Note)	<u>\$ 424,723,880</u>	<u>478,282,569</u>
Debt to equity ratio	<u>54.50%</u>	<u>61.02%</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, 2019.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ag) 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, 2019 and 2018, were as follows :

Reconciliation of liabilities arising from financing activities were as follows :

	January 1, 2019	Cash flows	Non-cash changes		December 31, 2019
			Foreign exchange movement	Other	
Long-term loans	\$ 11,900,203	(2,498,737)	(209,016)	-	9,192,450
Short-term loans	86,927,246	(22,118,460)	-	-	64,808,786
Bonds payable	14,986,762	8,490,500	-	3,077	23,480,339
Lease liabilities	2,945,584	(1,522,957)	(16,506)	1,083,620	2,489,741
Other payables-restricted employee stock	191,883	(12,500)	-	(82,716)	96,667
Non-controlling interests	<u>36,417,945</u>	<u>2,061,226</u>	<u>(591,472)</u>	<u>(2,307,248)</u>	<u>35,580,451</u>
Total liabilities from financing activities	<u>\$153,369,623</u>	<u>(15,600,928)</u>	<u>(816,994)</u>	<u>(1,303,267)</u>	<u>135,648,434</u>

	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) Key management personnel compensation :

	For the years ended December 31	
	2019	2018
Short-term employee benefits	\$ 316,229	428,094
Post-employment benefits	4,541	3,492
Share-based payments	<u>61,495</u>	<u>270,516</u>
	<u>\$ 382,265</u>	<u>702,102</u>

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged assets:

As of December 31, 2019 and 2018, book value of pledged assets were as follows :

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, lease deposits, short-term loans, travel agency guarantee, etc.	\$ 203,219	144,954
Other financial asset-restricted deposit	Litigation pledge	10,998	-
Property, plant and equipment	Bank loans	1,383,038	-
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	42,985	37,318
		<u>\$ 1,640,240</u>	<u>182,272</u>

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
EUR	\$ 29	2,273
JPY	1,029,071	961,880
USD	3,376	6,718

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
NTD	\$ <u>34,263</u>	<u>60,780</u>

(iii) As of December 31, 2019 and 2018 the significant contracts for purchase of properties by the Group amounted to \$15,002,411 and \$18,655,532, of which \$2,215,402 and \$3,786,909, respectively, were unpaid.

(iv) As of December 31, 2019 and 2018, the Group provided endorsement guarantee for bank loans, including Group entities, amounting to \$1,259,160 and \$1,290,031, respectively.

(v) As of December 31, 2019 and 2018, the Group issued a tariff guarantee of \$1,764,424 and \$2,185,813, respectively, to the bank for the purpose of importing goods.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Significant contingent liability :

In May 2017, QUALCOMM INCORPORATED filed a lawsuit against the Group for royalty payment under the license agreement in the U.S. District Court for the Southern District of California. In July 2017, the Group counterclaimed and the lawsuit has still been in cognizance. In April 2019, the Group has already compromised and both parties have revoked the lawsuit. It is not expected to have a material effect on the Group's operation.

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

(12) Other:

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

	For the years ended December 31					
	2019			2018		
By function	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
By item						
Employee benefit						
Salary	\$ 50,726,332	14,442,619	65,168,951	55,716,331	14,486,548	70,202,879
Health and labor insurance	4,385,633	952,320	5,337,953	4,930,542	944,050	5,874,592
Pension	4,530,485	837,289	5,367,774	5,723,251	894,234	6,617,485
Others	1,407,397	999,542	2,406,939	1,385,852	912,627	2,298,479
Depreciation	16,455,096	1,831,515	18,286,611	14,559,380	1,646,852	16,206,232
Amortization	145,699	132,038	277,737	137,452	129,264	266,716

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

	2019	2018
Depreciation in investment property	\$ <u>3,051</u>	<u>3,125</u>

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Notes to 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 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, 2019 (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	None
6	Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock	None
7	Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock	Table 5
8	Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock	Table 6
9	Trading in derivative instruments	None
10	Business relationships and significant intercompany transactions	Table 9

(b) Information on investees:

Please refer to Table 7 for the information on investees for the year ended December 31, 2019.

(c) Information on investment in mainland China:

- (i) Please refer to Table 8 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to 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.

Please refer to Note 6(z) for information on revenue for the years ended December 31, 2019 and 2018. The Group's operating segment information and reconciliation were as follows :

	2019			
	DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue :				
Revenue from external customers	\$ 1,289,230,818	77,056,508	-	1,366,287,326
Intersegment revenues	520,876	4,459,189	(4,980,065)	-
Total revenue	<u>\$ 1,289,751,694</u>	<u>81,515,697</u>	<u>(4,980,065)</u>	<u>1,366,287,326</u>
Share of profit (loss) of associates and joint ventures accounted for using equity method	<u>\$ (808,944)</u>	<u>(984,482)</u>	<u>1,853,707</u>	<u>60,281</u>
Other significant non-monetary items:				
Goodwill	<u>\$ -</u>	<u>1,048,562</u>	<u>-</u>	<u>1,048,562</u>
Reportable segment profit or loss	<u>\$ 25,169,232</u>	<u>(1,555,034)</u>	<u>1,853,707</u>	<u>25,467,905</u>
Assets:				
Investments accounted for using equity method	<u>\$ 41,647,782</u>	<u>115,094,952</u>	<u>(156,486,641)</u>	<u>256,093</u>
Reportable segment assets	<u>\$ 492,727,088</u>	<u>234,288,174</u>	<u>(156,495,469)</u>	<u>570,519,793</u>
Reportable segment liabilities	<u>\$ 335,062,026</u>	<u>42,221,082</u>	<u>(8,828)</u>	<u>377,274,280</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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	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 of associates and joint ventures accounted for using equity method	<u>\$ (531,447)</u>	<u>520,921</u>	<u>(16,445)</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>1,535,322</u>	<u>(14,616)</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>

(c) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, please refer to Note 6(z) and segment assets are based on the geographical location of the assets.

(i) External Sales

Region	For the years ended December 31	
	2019	2018
Europe	\$ 553,601,989	543,881,520
USA	471,554,246	473,857,313
Taiwan	132,035,182	113,229,970
China	71,141,383	73,175,995
Japan	65,922,561	72,844,951
Others	72,031,965	63,012,282
	<u>\$ 1,366,287,326</u>	<u>1,340,002,031</u>

(ii) Non-current assets

Region	December 31, 2019	December 31, 2018
Taiwan	\$ 28,290,509	28,108,628
China	59,643,098	65,895,149
Others	1,297,409	711,944
Total	<u>\$ 89,231,016</u>	<u>94,715,721</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Non-current assets include property, plant and equipment, right-of-use assets, 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 2019 and 2018 were as follows:

<u>Customer</u>	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
A	\$ 828,174,033	844,032,246
B	106,817,483	79,615,762
C	<u>61,543,760</u>	<u>62,651,088</u>
	<u>\$ 996,535,276</u>	<u>986,299,096</u>

Notes to the Consolidated Financial Statements

Table 1 : Loans to other parties
December 31, 2019

No. (Note 1)	Creditor	Borrower	General ledger Account (Note 2)	Is a related party	Maximum outstanding balance during the year ended December 31, 2019	Balance at December 31, 2019	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)	Expensed in thousands of NTD Ceiling on total loans granted (Note 6)
1	MANITEK COMPUTER (SUZHOU) CO., LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Other Receivables	Y	3,897,400	1,499,000	1,499,000	2.59%	2	-	Fund accommodation	-	-	13,536,730	27,073,861
2	ASUSPOWER CORPORATION	PEGATRON CORPORATION	Other Receivables	Y	4,497,000	4,497,000	4,497,000	0.00%	2	-	Fund accommodation	-	-	7,262,854	14,525,708
2	ASUSPOWER CORPORATION	PEGATRON SERVICE	Other Receivables	Y	210,050	210,050	210,050	0.00%	2	-	Fund accommodation	-	-	7,262,854	14,525,708
3	STARLINK ELECTRONICS CORPORATION	FUYANG TECHNOLOGY	Other Receivables	Y	160,000	-	-	0.66%	2	-	Fund accommodation	-	-	190,118	190,118
4	Azavea Holding (Samoa) Inc.	ASUSPOWER CORPORATION (SHANGHAI)	Other Receivables	Y	29,980	29,980	22,485	0.00%	2	-	Cash flow adequacy	-	-	470,429	470,429
5	RH LI International Limited	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	Long-Term Accounts Receivable	Y	8,694,200	8,694,200	8,694,600	1.00%	2	-	Business operation	-	-	34,220,461	34,220,461
6	RE-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	Long-Term Accounts Receivable	Y	1,719,000	1,719,000	1,719,000	1.00%	2	-	Business operation	-	-	8,867,754	8,867,754
6	RE-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD	RE-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Short-Term Accounts Receivable	Y	4,297,500	1,074,375	1,074,375	1.00%	2	-	Business operation	-	-	8,867,754	8,867,754
7	RIPEL COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD	Short-Term Accounts Receivable	Y	300,825	214,875	214,875	1.00%	2	-	Business operation	-	-	5,085,163	5,085,163
7	RIPEL COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Long-Term Accounts Receivable	Y	429,750	257,850	257,850	1.00%	2	-	Business operation	-	-	5,085,163	5,085,163
7	RIPEL COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	Long-Term Accounts Receivable	Y	2,578,500	2,578,500	2,578,500	1.00%	2	-	Business operation	-	-	5,085,163	5,085,163
8	KAHHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	Long-Term Accounts Receivable	Y	214,875	214,875	214,875	1.00%	2	-	Business operation	-	-	465,845	465,845
9	RE-MING (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	Long-Term Accounts Receivable	Y	644,625	644,625	300,825	1.00%	2	-	Business operation	-	-	9,744,792	9,744,792
10	ASAROCK TECHNOLOGY LIMITED	CALROCK HOLDINGS LLC	Other Receivables	Y	107,870	-	-	2.50%	2	-	Fund accommodation	-	-	3,802,238	3,802,238
11	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Other Receivables	Y	343,800	-	-	3.00%	2	-	Fund accommodation	-	-	442,955	442,955

Note 1 : The number column is organized as follows:

(1) : The number of 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, temporary payments, etc., are loans, the amount will be disclosed in the table.

Note 3 : Reference for the Nature of loan column

(11): the borrower has business contact with the creditor

(12): the borrower has short-term financing necessities

Note 4 : Fill in 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.

According to our MANITEK COMPUTER (SUZHOU) CO., LTD) policy for loans granted, the ceiling on total loans granted to all parties is 100% of our MANITEK COMPUTER (SUZHOU) CO., LTD) net assets.
According to our MANITEK COMPUTER (SUZHOU) CO., LTD) policy for loans granted, the ceiling on total loans granted to all parties is 100% of our MANITEK COMPUTER (SUZHOU) CO., LTD) net assets.
According to our ASUSPOWER CORPORATION policy for loans granted, the ceiling on total loans granted to all parties is 60% 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 ASUSPOWER CORPORATION 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.
When there is a short-term financing need, the ceiling on total loans granted to all other parties is 40% of our RH LI International Limited net assets, the ceiling on total loans granted to all other parties is 40% of our RH LI International Limited net assets.
According to our RH 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), when there is a short-term financing need, the ceiling on total loans granted to all parties is 100% of our RH LI International Limited net assets.
According to our RIPEL 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), when there is a short-term financing need, the ceiling on total loans granted to all parties is 100% of our RIPEL COMPUTER ACCESSORY (SHANGHAI) CO., LTD) net assets.
According to our KAHE 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), when there is a short-term financing need, the ceiling on total loans granted to all parties is 100% of our KAHE COMPUTER ACCESSORY (SUZHOU) CO., LTD) net assets.
According to our RE-MING (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), when there is a short-term financing need, the ceiling on total loans granted to all parties is 100% of our RE-MING (SHANGHAI) CO., LTD) net assets.
According to our KAEDAR ELECTRONICS (KUNSHAN) 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), when there is a short-term financing need, the ceiling on total loans granted to all parties is 100% of our KAEDAR ELECTRONICS (KUNSHAN) CO., LTD) 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 ASAROCK TECHNOLOGY LIMITED policy for loans granted, the ceiling on total loans granted to all parties is 40% of our ASAROCK TECHNOLOGY LIMITED 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) net assets.
According to our MANITEK COMPUTER (SUZHOU) CO., LTD) policy for loans granted, the ceiling on total loans granted to single party is 50% of our MANITEK COMPUTER (SUZHOU) CO., LTD) net assets.
According to our MANITEK COMPUTER (SUZHOU) CO., LTD) policy for loans granted, the ceiling on total loans granted to a single party is 30% of our 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 Consolidated Financial Statements

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 RHL 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), when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our RHL International Limited net assets, the ceiling on total loans granted to other single party is 40% of our RHL International Limited net assets.

According to our RITECH 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), when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our RITECH COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) net assets, the ceiling on total loans granted to other single party is 40% of our RITECH COMPUTER ACCESSORY (SHANGHAI) CO., LTD.) net assets.

According to our RITECH 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), when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our RITECH COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets, the ceiling on total loans granted to other single party is 40% of our RITECH COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets.

According to our RITECH 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), when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our RITECH COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets, the ceiling on total loans granted to other single party is 40% of our RITECH COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets.

According to our KAI HE 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), when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets, the ceiling on total loans granted to other single party is 40% of our KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.) 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 ASAROCK TECHNOLOGY LIMITED policy for loans granted, the ceiling on total loans granted to a single party is 50% of our ASAROCK TECHNOLOGY LIMITED 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 a single party is 50% of our KADAR ELECTRONICS (KUNSHAN) CO., LTD.'s net assets.

Note 7 : If the amounts were based on foreign currencies, please refer to the spot exchange rate on the financial statement date. (exchange rate on December 31, 2019 was USD/NTD: 29.98 ; CNY/NTD: 4.2975 ; AUD/NTD: 21.0050)

Notes to the Consolidated Financial Statements

Table 2 Guarantees and endorsements for other parties
December 31, 2019

No. (Note 1)	Endorser/ Guarantor	Party being endorsed/ guaranteed	Relationship (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2019	Outstanding endorsement/ guarantee amount at December 31, 2019 (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 NTD
0	PEGATRON CORPORATION	PROTEK COMPUTER (SUZHOU) CO., LTD.	(6)	31,533,012	440,706	440,706	55,088	-	0.28%	78,832,531	Y	N	Y
1	KINSUS INTERCONNECT TECHNOLOGY CORP.	PROTEK COMPUTER (SUZHOU) CO., LTD.	(6)	5,113,404	458,694	458,694	57,337	-	1.79%	12,783,511	Y	N	Y
2	AZURE WAVE TECHNOLOGIES, INC.	AZURE LIGHTING TECHNOLOGIES, INC.	(2)	802,960	509,660	359,760	-	-	22.40%	802,960	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 subsidiary.

(4) The endorser / guarantor company and the endorsed / guaranteed party both be held more than 90% 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 PEGATRON CORPORATION'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 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.

Ceiling on endorsements/ guarantees provided for a single party

According to PEGATRON CORPORATION'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 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 amounts were based on foreign currencies, please refer to the spot exchange rate on the financial statement date (exchange rate on December 31, 2019 is USD/NTD: 29.98; CNY/NTD: 4.2975)

Note 5 : The amount is approved by the Board of Directors.

Notes to the Consolidated Financial Statements

Table 3 Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2019

Securities held by PEGATRON CORPORATION	Marketable securities		Relationship (Note 2)	General ledger account	As of December 31, 2019				Maximum Ownership	Footnote
	Category	Item			Number of shares	Book value	Ownership	Fair value		
	Stock	ABILITY ENTERPRISE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	33,135,300	551,703	11.73%	551,703	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	225,050	0.28%	225,050	0.28%	
"	Fund	China Renewable Energy Fund, LP(CREF)	-	financial asset measured at fair value through profit or loss-Non current	-	259,706	13.46%	259,706	13.46%	
PROTEK (SHANGHAI) LTD.	Stock	LUXSHARE ICT CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	22,135,035	3,471,939	0.41%	3,471,939	0.79%	
ASUSPOWER INVESTMENT CO., LTD.	Stock	SPORTON INTERNATIONAL INC.	-	financial asset measured at fair value through profit or loss-Current	265,300	56,509	0.29%	56,509	0.31%	
"	Stock	Topoint Technology Co., Ltd	-	financial asset measured at fair value through other comprehensive income-Non current	1,171,891	26,426	0.82%	26,426	1.22%	
"	Stock	ABILITY ENTERPRISE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,495	108	- %	108	- %	
"	Stock	ZOWIE Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	90,973	-	0.54%	-	0.54%	
"	Stock	Syntromix CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,778	-	0.02%	-	0.02%	
"	Stock	FRESCO LOGIC INC.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	39,135	8.18%	39,135	8.18%	
"	Stock	Valens Semiconductor Ltd.	-	financial asset measured at fair value through profit or loss-Non current	4,667,570	71,510	4.18%	71,510	4.18%	
"	Stock	MedicusTek International Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	1,136,363	-	1.65%	-	1.65%	
ASUS INVESTMENT CO., LTD.	Stock	SPEED TECH CORPORATION	-	financial asset measured at fair value through profit or loss-Current	8,000,000	637,200	4.72%	637,200	4.77%	
"	Stock	Lightel Technologies Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	59,410	7.66%	59,410	7.66%	

Notes to the Consolidated Financial Statements

Marketable securities				As of December 31, 2019				Expressed in thousands of NTD	
Securities held by	Category	Item	Relationship (Note 2)	General ledger account	Number of shares	Book value	Ownership - %	Fair value	Maximum Ownership - %
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	268,292	-	268,292	-
"	Fund	FSITC Money Market	-	financial asset measured at fair value through profit or loss-Current	1,168,258	209,235	-	209,235	-
"	Fund	Mega Diamond Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	21,355,432	268,888	-	268,888	-
KINSUS INTERCONNECT TECHNOLOGY CORP.	Fund	Jih Sun Money Market	-	financial asset measured at fair value through profit or loss-Current	17,776,549	264,473	-	264,473	-
KINSUS INVESTMENT CO., LTD.	Fund	Taishin Ta-Chong Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	829,070	11,824	-	11,824	-
"	Stock	Ethos 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%
PEGAVISION CORPORATION	Fund	Yuanta Wan Tai Money Market	-	financial asset measured at fair value through profit or loss-Current	11,778,166	179,058	0.00%	179,058	0.00%
"	Fund	Yuanta De-Li Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	8,372,796	137,062	0.00%	137,062	0.00%
Lumens Digital Optics Inc. (Lumens Optics)	Fund	Fuh Hwa Money Market	-	financial asset measured at fair value through profit or loss-Current	69,719,779	1,010,309	-	1,010,309	-
"	Fund	The RSIT Enhanced Money Market	-	financial asset measured at fair value through profit or loss-Current	7,344,735	88,229	-	88,229	-
HUA-YUAN INVESTMENT LIMITED	Stock	Nuvoton Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	174,758	8,170	0.06%	8,170	0.22%
"	Stock	Chicony Power Technology Co. Ltd.	-	financial asset measured at fair value through profit or loss-Current	611,644	38,411	0.16%	38,411	0.19%
"	Stock	Ethos 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	143,600	0.61%	143,600	0.61%
"	Stock	NewSmart Technology Co., Ltd.	-	financial asset measured at fair value through profit or loss-Current	500,000	16,500	4.05%	16,500	4.05%
RIH KUAN METAL CORPORATION	Stock	Ethos 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	-	23,206	10.00%	23,206	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 Statements

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, 2019

Investor	Marketable securities		Relationship with the investor	Balance as at January 1, 2019		Addition		Disposal		Gain (loss) on 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, 2019	Amount
PEGATRON CORPORATION	Stock	PT. PEGATRON TECHNOLOGY INDONESIA	Counterparty	-	-	39,999	1,249,569 (Note 4)	-	-	-	-	39,999	1,127,261
General ledger account: Equity investments under equity method													
CASETEK HOLDINGS LIMITED(CAYMAN)	Stock	RIH LI International Limited	-	715,499,000	35,893,223	20,000,000	599,601 (Note 4)	-	-	-	-	735,499,000	35,549,325
Equity investments under equity method													
RIH LI International Limited	Capital	RIKAI COMPUTER ACCESSORY CO., LTD.	-	-	1,896,606	-	1,187,722 (Note 4)	-	-	-	-	-	4,443,336
Equity investments under equity method													
PROTEK (SHANGHAI) LTD.	Stock	LUXSHARE ICT CO., LTD.	-	4,685,574	287,766	37,442,972	2,465,488 (Note 4)	19,993,511	2,905,815	1,668,547	1,668,547	22,135,035	3,471,939
Financial asset measured at fair value through profit or loss-													
PEGAVISION CORPORATION	Fund	Yunia Wan Tai Money Market	-	-	-	28,565,798	434,000 (Note 4)	16,787,632	255,046	63	63	11,778,166	179,058
Financial asset measured at fair value through profit or loss- Current													
41 (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, 2019: USD/NTD: 29.98, CNY/NTD: 4.2975)

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 additional paid-in capital of the investee.

Note 7 : Which is unrealized loss arising from upstream transactions.

Notes to the Consolidated Financial Statements

Table 5 Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock December 31, 2019

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions				Expressed in thousands of NTD	
			Purchases (sales)	Amount	Percentage of total	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Notes/accounts receivable (payable)	Footnote
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note 2	Purchase	1,190,218	0.10%	Open Account 90 days	-	Open Account 90 days	(21,632)	(0.00%)	-	
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note 2	Sale	(1,750,427)	(0.14%)	Open Account 90 days	-	Open Account 90 days	162,288	0.03%	-	
PEGATRON CORPORATION	ASROCK Rack Incorporation	Note 2	Purchase	105,009	0.01%	90 days on delivery	-	90 days on delivery	(31,375)	(0.01%)	-	
PEGATRON CORPORATION	PEGATRON Czech s.r.o.	Note 2	Sale	(2,381,497)	(0.20%)	120 days on delivery	-	120 days on delivery	835,423	0.16%	-	
PEGATRON CORPORATION	AZURE WAVE TECHNOLOGIES, INC.	Note 2	Purchase	507,116	0.04%	Open Account 60 days	-	Open Account 60 days	(19,268)	(0.00%)	-	
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note 2	Purchase	89,864,641	7.38%	Open Account 60 days	-	Open Account 60 days	(49,959,452)	(10.65%)	-	
PEGATRON CORPORATION	MAINTENK COMPUTER (SUZHOU) CO., LTD.	Note 2	Purchase	32,753,452	2.69%	Open Account 60 days	-	Open Account 60 days	(679,812)	(0.14%)	-	
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note 2	Sale	(269,479)	(0.02%)	Open Account 60 days	-	Open Account 60 days	362,103,328	7.09%	-	
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note 2	Purchase	3,815,352	0.31%	Open Account 60 days	-	Open Account 60 days	(6,935)	(0.00%)	-	
PEGATRON CORPORATION	PROTEK COMPUTER (SUZHOU) CO., LTD.	Note 2	Purchase	190,174	0.02%	Open Account 60 days	-	Open Account 60 days	(6,456)	(0.00%)	-	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note 2	Purchase	1,819,022	0.15%	Open Account 60 days	-	Open Account 60 days	(185,317,389)	(39.49%)	-	
PEGATRON CORPORATION	CASETEK COMPUTER SERVICE INC.	Note 2	Sale	(282,979)	(0.02%)	90 days on delivery	-	90 days on delivery	84,914	0.02%	-	
PEGATRON CORPORATION	RI-TENG COMPUTER ACCESSORY	Note 2	Purchase	306,891	0.03%	Open Account 60 days	-	Open Account 60 days	(53,118)	(0.01%)	-	
PEGATRON CORPORATION	(SHANGHAI) CO., LTD.	Note 2	Purchase	273,273	0.02%	Open Account 60 days	-	Open Account 60 days	(32,111)	(0.01%)	-	
PEGATRON CORPORATION	COTEX ELECTRONICS (SUZHOU) CO., LTD.	Note 2	Purchase	1,470,716	0.12%	Open Account 60 days	-	Open Account 60 days	(2,146,286)	(0.46%)	-	
PEGATRON CORPORATION	POWTEK (SHANGHAI) LTD.	Note 2	Sale	(168,877)	(0.01%)	120 days on delivery	-	120 days on delivery	155,001	0.03%	-	
PEGATRON CORPORATION	PT. PEGATRON TECHNOLOGY INDONESIA	Note 2	Purchase	(146,402)	(0.01%)	120 days on delivery	-	120 days on delivery	8,556,161	1.68%	-	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note 1	Purchase	282,979	78.08%	90 days on delivery	-	90 days on delivery	(84,914)	(90.37%)	-	
PEGATRON CORPORATION	PEGATRON CORPORATION	Note 1	Purchase	2,381,497	83.61%	120 days on delivery	-	120 days on delivery	(835,423)	(91.74%)	-	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note 1	Sale	(1,819,022)	(0.33%)	Open Account 60 days	-	Open Account 60 days	185,317,389	89.71%	-	
PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	Note 3	Sale	(68,394,303)	(12.37%)	Open Account 90 days	-	Open Account 90 days	20,595,772	9.97%	-	
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note 3	Purchase	1,023,513	0.20%	Open Account 60 days	-	Open Account 60 days	(119,520)	(0.05%)	-	
PROTEK (SHANGHAI) LTD.	RI SHIAN COMPUTER ACCESSORY (JIA SHIAN) CO., LTD.	Note 3	Purchase	657,846	0.13%	Open Account 60 days	-	Open Account 60 days	(144,683)	(0.06%)	-	
PROTEK (SHANGHAI) LTD.	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note 3	Purchase	144,001	0.03%	Open Account 60 days	-	Open Account 60 days	(36,408)	(0.02%)	-	
PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	Note 1	Sale	(99,864,641)	(29.28%)	Open Account 60 days	-	Open Account 60 days	49,959,452	95.87%	-	
PEGAGLOBE (KUNSHAN) CO., LTD.	GRAND UPRIGHT TECHNOLOGY LTD.	Note 3	Sale	(14,031,145)	(4.57%)	Open Account 60 days	-	Open Account 60 days	433,680	0.83%	-	
PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	Note 3	Sale	(1,023,513)	(0.33%)	Open Account 60 days	-	Open Account 60 days	119,520	(32.17%)	-	
PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	Note 3	Purchase	68,394,306	24.50%	Open Account 90 days	-	Open Account 90 days	(20,595,772)	(0.16%)	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	COTEX ELECTRONICS (SUZHOU) CO., LTD.	Note 3	Purchase	3,280,314	1.30%	Open Account 60 days	-	Open Account 60 days	(38,422)	(1.25%)	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	4,109,445	1.62%	Open Account 60 days	-	Open Account 60 days	(465,155)	(1.80%)	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Note 1	Sale	(32,753,452)	(11.73%)	Open Account 60 days	-	Open Account 60 days	679,812	3.24%	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Purchase	(1,241,752)	(0.44%)	Open Account 60 days	-	Open Account 60 days	1,220,389	(0.14%)	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	PROTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	311,315	0.12%	Open Account 60 days	-	Open Account 60 days	(53,364)	(0.06%)	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note 3	Purchase	143,015	0.06%	Open Account 60 days	-	Open Account 60 days	(21,659)	(0.06%)	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	MAINTENK COMPUTER (SUZHOU) CO., LTD.	Note 3	Sale	(3,280,314)	(16.14%)	Open Account 60 days	-	Open Account 60 days	58,422	2.35%	-	
MAINTENK COMPUTER (SUZHOU) CO., LTD.	MAINTENK COMPUTER (SUZHOU) CO., LTD.	Note 1	Sale	(1,470,716)	(7.24%)	Open Account 60 days	-	Open Account 60 days	2,146,286	86.45%	-	
COTEX ELECTRONICS (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Sale	(113,124)	(0.56%)	Open Account 60 days	-	Open Account 60 days	72,285	2.91%	-	
COTEX ELECTRONICS (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Purchase	337,419	85.81%	Open Account 60 days	-	Open Account 60 days	-	-	-	
CHONGQING ZUANSUO TRADING CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Sale	(522,292)	(80.27%)	Open Account 60 days	-	Open Account 60 days	94,045	61.54%	-	
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	CHONGQING ZUANSUO TRADING CO., LTD.	Note 3	Sale	(337,419)	(0.26%)	Open Account 60 days	-	Open Account 60 days	-	-	-	
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	KAEDAR ELECTRONICS (CHONGQING) CO., LTD.	Note 3	Purchase	522,292	0.40%	Open Account 60 days	-	Open Account 60 days	(94,045)	(0.25%)	-	
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Note 1	Purchase	269,479	0.21%	Open Account 60 days	-	Open Account 60 days	(362,103,328)	(95.85%)	-	
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Note 1	Sale	(3,815,352)	(2.89%)	Open Account 60 days	-	Open Account 60 days	32,541,457	99.89%	-	
DIGITEK (CHONGQING) LTD.	PROTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	227,509	0.17%	Open Account 60 days	-	Open Account 60 days	(38,344)	(0.10%)	-	
DIGITEK (CHONGQING) LTD.	MAINTENK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	1,241,752	0.95%	Open Account 60 days	-	Open Account 60 days	(1,220,589)	(3.23%)	-	
DIGITEK (CHONGQING) LTD.	COTEX ELECTRONICS (SUZHOU) CO., LTD.	Note 3	Purchase	113,124	0.09%	Open Account 60 days	-	Open Account 60 days	(72,285)	(0.19%)	-	
CASETEK COMPUTER (SUZHOU) CO., LTD.	MAINTENK COMPUTER (SUZHOU) CO., LTD.	Note 3	Sale	(4,109,445)	(86.31%)	Open Account 60 days	-	Open Account 60 days	465,155	69.64%	-	
CASETEK COMPUTER (SUZHOU) CO., LTD.	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note 1	Sale	(306,891)	(6.45%)	Open Account 60 days	-	Open Account 60 days	53,118	7.95%	-	
CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Note 3	Purchase	398,006	12.98%	Open Account 60 days	-	Open Account 60 days	(42,972)	(5.35%)	-	
PROTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Note 1	Sale	(190,174)	(7.15%)	Open Account 60 days	-	No comparable non-related party	6,456	1.00%	-	
PROTEK COMPUTER (SUZHOU) CO., LTD.	PROTEK (HK) TRADING LIMITED	Note 3	Sale	(342,299)	(12.88%)	Open Account 60 days	-	Open Account 60 days	23,834	3.70%	-	
PROTEK COMPUTER (SUZHOU) CO., LTD.	MAINTENK COMPUTER (SUZHOU) CO., LTD.	Note 3	Sale	(311,315)	(11.71%)	Open Account 60 days	-	Open Account 60 days	53,364	8.28%	-	
PROTEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Sale	(227,509)	(8.56%)	Open Account 60 days	-	Open Account 60 days	38,344	5.95%	-	
PROTEK (HK) TRADING LIMITED	PROTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	342,299	100.00%	Open Account 60 days	-	Open Account 60 days	(23,834)	(100.00%)	-	
AZURE WAVE TECHNOLOGIES, INC.	PEGATRON CORPORATION	Note 1	Sale	(507,116)	(10.06%)	Open Account 60 days	-	Open Account 60 days	19,268	0.82%	-	
KINISUS INTERCONNECT TECHNOLOGY CORP.	KINISUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Note 2	Purchase	2,181,488	28.69%	Open Account 30 days	-	Open Account 30-90 days	(240,392)	(16.29%)	-	
KINISUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	KINISUS INTERCONNECT TECHNOLOGY CORP.	Note 1	Sale	(2,181,488)	(90.89%)	Open Account 30 days	-	No comparable non-related party	240,392	77.63%	-	
MEGA MERIT LIMITED	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note 3	Purchase	714,283	2.84%	Open Account 30-60 days	-	Open Account 30-60 days	(50,756)	(1.34%)	-	
MEGA MERIT LIMITED	RI-MING (SHANGHAI) CO., LTD.	Note 3	Purchase	4,597,077	18.30%	Open Account 90 days	-	Open Account 90 days	(1,471,718)	(38.79%)	-	
MEGA MERIT LIMITED	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note 3	Purchase	10,707,053	42.62%	Open Account 30-60 days	-	Open Account 30-60 days	(1,061,952)	(27.99%)	-	
MEGA MERIT LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	Note 3	Purchase	8,301,076	33.04%	Open Account 30-60 days	-	Open Account 30-60 days	(941,402)	(24.82%)	-	
MEGA MERIT LIMITED	RI SHIAN COMPUTER ACCESSORY (JIA SHIAN) CO., LTD.	Note 3	Purchase	803,619	3.20%	Open Account 30-60 days	-	Open Account 30-60 days	(224,970)	(5.93%)	-	

Notes to the Consolidated Financial Statements

Transaction				Differences in transaction terms compared to third party transactions				Notes/accounts receivable (payable)	
Relationship p with the counterparty	Purchases (sales)	Percentage of total		Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
		Amount	(% total)						
PEGATRON CORPORATION MEGA MERIT LIMITED MEGA MERIT LIMITED MEGA MERIT LIMITED RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Sale	(273,273)	(9.35%)	Open Account 60 days	-	-	32,111	3.88%	
	Sale	(713,110)	(24.41%)	Open Account 30-60 days	-	-	50,756	6.14%	
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Sale	(4,576,659)	(47.99%)	Open Account 90 days	-	-	1,471,718	48.28%	
	Sale	(1,611,748)	(16.90%)	Open Account 30-60 days	-	-	18,678	0.61%	
RI KAI COMPUTER ACCESSORY CO., LTD. RIH KUAN METAL CORPORATION MEGA MERIT LIMITED MEGA MERIT LIMITED RI-MING (SHANGHAI) CO., LTD.	Sale	(731,891)	(7.67%)	Open Account 30-60 days	-	-	37,715	1.24%	
	Sale	(2,379,287)	(24.98%)	Open Account 90 days	-	-	1,512,791	49.63%	
RI-MING (SHANGHAI) CO., LTD. RI KAI COMPUTER ACCESSORY CO., LTD. RI KAI COMPUTER ACCESSORY CO., LTD. RI-MING (SHANGHAI) CO., LTD.	Sale	(10,692,009)	(90.11%)	Open Account 30-60 days	-	-	1,061,952	91.07%	
	Purchase	663,159	13.75%	Open Account 30-60 days	-	-	(18,438)	(1.74%)	
RI KAI COMPUTER ACCESSORY CO., LTD. RI-MING (SHANGHAI) CO., LTD. RI KAI COMPUTER ACCESSORY CO., LTD. RI-MING (SHANGHAI) CO., LTD.	Sale	(840,533)	(7.08%)	Open Account 30-60 days	-	-	103,641	8.91%	
	Sale	(312,211)	(2.63%)	Open Account 30-60 days	-	-	(2,728)	(0.69%)	
RI-MING (SHANGHAI) CO., LTD. MEGA MERIT LIMITED RI KAI COMPUTER ACCESSORY CO., LTD. RIH KUAN METAL CORPORATION	Purchase	292,303	11.01%	Open Account 30-60 days	-	-	941,402	78.39%	
	Sale	(8,256,625)	(89.10%)	Open Account 30-60 days	-	-	256,269	21.34%	
RI KAI COMPUTER ACCESSORY CO., LTD. RI-MING (SHANGHAI) CO., LTD. RI KAI COMPUTER ACCESSORY CO., LTD. SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Sale	(1,002,060)	(10.81%)	Open Account 90 days	-	-	110,236	61.74%	
	Sale	(798,615)	(59.90%)	Open Account 30-60 days	-	-	48,388	27.09%	
RI-MING (SHANGHAI) CO., LTD. RI KAI COMPUTER ACCESSORY CO., LTD. PROTEK (SHANGHAI) LTD. PEGAGLOBE (KUNSHAN) CO., LTD.	Sale	(431,295)	(32.35%)	Open Account 30-60 days	-	-	19,937	1.66%	
	Sale	(103,391)	(7.75%)	Open Account 30-60 days	-	-	144,683	20.17%	
RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD RI-TENG COMPUTER ACCESSORY	Sale	(657,846)	(28.61%)	Open Account 60 days	-	-	148,431	20.69%	
	Sale	(428,020)	(18.62%)	Open Account 60 days	-	-	118,781	16.56%	
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. MEGA MERIT LIMITED RI-MING (SHANGHAI) CO., LTD.	Sale	(270,571)	(11.77%)	Open Account 30-60 days	-	-	224,970	31.36%	
	Sale	(815,265)	(35.46%)	Open Account 30-60 days	-	-	(1,512,791)	(85.37%)	
RI KAI COMPUTER ACCESSORY CO., LTD. RIH KUAN METAL CORPORATION FUYANG ELECTRONICS (SUZHOU) CO., LTD. FUYANG TECHNOLOGY CORPORATION	Purchase	2,342,033	67.45%	Open Account 90 days	-	-	(256,269)	(14.46%)	
	Purchase	996,623	28.70%	Open Account 90 days	-	-	(1,161,625)	(68.47%)	
FUYANG ELECTRONICS (SUZHOU) CO., LTD. FUYANG TECHNOLOGY CORPORATION ASIA ROCK TECHNOLOGY LIMITED	Sale	1,292,252	35.43%	Open Account 60 days	-	-	1,161,625	97.96%	
	Purchase	(1,292,252)	(96.86%)	Open Account 60 days	-	-	(1,341,641)	(98.77%)	
ASIA ROCK AMERICA, INC. ASIA ROCK EUROPE B.V. ASIA ROCK TECHNOLOGY LIMITED	Purchase	7,659,478	99.29%	Open Account 90 days	-	No comparable vendor	1,063,308	59.51%	
	Sale	(2,432,887)	(26.53%)	Open Account 45 days	-	-	193,519	10.83%	
ASIA ROCK EUROPE B.V. ASIA ROCK TECHNOLOGY LIMITED ASIA ROCK EUROPE B.V. PEGATRON CORPORATION	Purchase	(2,586,680)	(28.20%)	Open Account 60 days	-	-	(439,144)	(77.55%)	
	Purchase	1,183,213	97.57%	Open Account 60 days	-	-	16,542	18.93%	
PEGATRON CORPORATION ASIA ROCK TECHNOLOGY LIMITED ASIA ROCK TECHNOLOGY LIMITED ASIA ROCK TECHNOLOGY LIMITED	Sale	(126,232)	(10.98%)	Open Account 90 days	-	-	(162,288)	(1.37%)	
	Purchase	1,750,427	14.33%	Open Account 90 days	-	-	21,632	0.86%	
ASIA ROCK INCORPORATION ASIA ROCK TECHNOLOGY LIMITED ASIA ROCK TECHNOLOGY LIMITED	Sale	(1,190,218)	(9.71%)	Open Account 60 days	-	-	1,341,641	53.20%	
	Sale	(7,659,478)	(62.49%)	Open Account 60 days	-	-	439,144	17.45%	
ASIA ROCK INDUSTRIAL COMPUTER CORPORATION ASIA ROCK TECHNOLOGY LIMITED ASIA ROCK TECHNOLOGY LIMITED	Sale	(1,183,213)	(9.66%)	Open Account 90 days	-	-	709,548	28.20%	
	Sale	(2,061,046)	(16.82%)	Open Account 90 days	-	-	(1,063,308)	(100.00%)	
ASIA ROCK INCORPORATION ASIA ROCK AMERICA, INC. ASIA ROCK EUROPE B.V. AZURE WAVE TECHNOLOGIES, INC.	Purchase	2,432,887	100.00%	Open Account 45 days	-	No comparable non-related party	(193,519)	(100.00%)	
	Purchase	2,586,680	100.00%	Open Account 30-60 days	-	-	71,945	5.00%	
AZURE WAVE TECHNOLOGIES (SHANGHAI) INC. AZURE WAVE TECHNOLOGIES, INC. AZURE WAVE TECHNOLOGIES, INC. PEGAVISISION CORPORATION	Sale	(1,663,344)	(21.00%)	Open Account 30-60 days	-	No comparable non-related party	-	-	
	Purchase	1,663,344	99.00%	Open Account 30-60 days	-	-	-	-	
PEGAVISISION CORPORATION PEGAVISISION CORPORATION PEGAVISISION CORPORATION PEGAVISISION CORPORATION	Sale	(1,353,073)	(43.70%)	Open Account 90 days	-	Telex transfer-Open Account 90 days	146,953	35.37%	
	Purchase	1,353,073	100.00%	Open Account 90 days	-	No other comparable vendors	(146,953)	(100.00%)	
PEGAVISISION (SHANGHAI) LIMITED PEGAVISISION CORPORATION PEGAVISISION CORPORATION PEGAVISISION CORPORATION	Sale	(127,282)	(4.11%)	Open Account 180 days	-	Telex transfer-Open Account 90 days	124,211	29.90%	
	Purchase	127,282	100.00%	Open Account 180 days	-	Telex transfer-Open Account 90 days	(124,211)	(100.00%)	
Gemvision Technology (Zhejiang) Limited. Gemvision Technology (Zhejiang) Limited. ASIA ROCK TECHNOLOGY LIMITED ASIA ROCK TECHNOLOGY LIMITED	Sale	(118,586)	(29.15%)	Open Account 180 days	-	Same as other vendors	66,761	59.43%	
	Purchase	118,586	67.55%	Open Account 180 days	-	Same as other clients	(66,761)	(56.55%)	
PEGATRON CORPORATION CASETEK COMPUTER (SUZHOU) CO., LTD. KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. MAINTAK COMPUTER (SUZHOU) CO., LTD.	Purchase	2,061,046	96.16%	Open Account 90 days	-	Same as other vendors	(709,548)	(94.99%)	
	Sale	(105,009)	(4.00%)	90 days on delivery	-	No comparable client	31,375	11.99%	
ASIA ROCK TECHNOLOGY LIMITED KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. PROTEK (SHANGHAI) LTD.	Sale	(398,006)	(40.34%)	Open Account 60 days	-	-	42,972	23.21%	
	Sale	(143,015)	(14.50%)	Open Account 60 days	-	-	21,659	11.70%	
PROTEK (SHANGHAI) LTD. Lumens Digital Optics Inc. (Lumens Optics) Lumens Integration Inc. Lumens Digital Optics Inc. (Lumens Optics)	Sale	(144,001)	(14.60%)	Open Account 60 days	-	-	36,408	19.67%	
	Sale	(197,314)	(23.52%)	Open Account 75-90 days	-	0-90 days	38,700	27.80%	
Lumens Digital Optics Inc. (Lumens Optics) Lumens Integration Inc. POWERTEK (SHANGHAI) LTD. PEGATRON CORPORATION	Purchase	197,314	97.00%	Open Account 75-90 days	-	0-90 days	(97,522)	(99.99%)	
	Purchase	168,877	83.61%	120 days on delivery	-	0-90 days	(155,001)	(95.42%)	
PEGATRON CORPORATION PEGAGLOBE (KUNSHAN) CO., LTD. PEGAGLOBE (KUNSHAN) CO., LTD. PT. PEGATRON TECHNOLOGY INDONESIA	Purchase	146,402	1.73%	120 days on delivery	-	-	(8,556,161)	(100.00%)	
	Purchase	14,031,145	100.00%	Open Account 60 days	-	-	(433,680)	(100.00%)	

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 Statements

Table 6 Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock
December 31, 2019

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Expressed in thousands of NTD
					Amount	Action taken		
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Subsidiary measured by equity method	2,474,286	2.95 Times	-	-	-	-
"	PROTEK (SHANGHAI) LTD.	Subsidiary measured by equity method	232,022,397	2.39 Times	-	-	20,794,689	-
"	POWTEK (SHANGHAI) LTD.	Subsidiary measured by equity method	155,001	2.16 Times	-	-	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Subsidiary measured by equity method	41,110,704	2.83 Times	-	-	-	-
"	DIGITEK (CHONGQING) LTD.	Subsidiary measured by equity method	36,210,328	3.92 Times	-	-	-	-
"	PEGATRON Czech s.r.o.	Subsidiary measured by equity method	835,423	3.11 Times	-	-	1,070	-
"	ASIAROCK TECHNOLOGY LIMITED	Subsidiary measured by equity method	162,288	3.94 Times	-	-	35,783	-
"	PT. PEGATRON TECHNOLOGY INDONESIA	Subsidiary measured by equity method	8,556,161	1.76 Times	-	-	-	-
ASUSPOWER CORPORATION	PEGATRON CORPORATION	Parent Company	4,497,000	N/A (Note 1)	-	-	-	-
"	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Affiliate	210,050	N/A (Note 1)	-	-	-	-
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Parent Company	32,541,457	4.98 Times	-	-	5,042,835	-
COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	2,146,286	4.31 Times	-	-	-	-
PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	Parent Company	49,959,452	4.45 Times	-	-	14,539,230	-
"	PROTEK (SHANGHAI) LTD.	Affiliate	119,520	7.35 Times	-	-	-	-
"	GRAND UPRIGHT TECHNOLOGY LTD.	Affiliate	433,680	7.29 Times	-	-	-	-
PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Parent Company	185,317,389	3.00 Times	-	-	39,581,161	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Affiliate	20,595,772	4.12 Times	-	-	-	-
MAINTEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Affiliate	1,220,589	2.03 Times	-	-	-	-
"	PEGATRON CORPORATION	Affiliate	679,812	15.35 Times	-	-	3,057,155	-
PT. Pegatron Technology Indonesia	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Affiliate	1,499,000	N/A (Note 1)	-	-	-	-
CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	4,822,021	3.06 Times	-	-	1,202,454	-
KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Affiliate	465,155	7.14 Times	-	-	10,314	-
CASETEK HOLDINGS LIMITED(CAYMAN)	KINSUS INTERCONNECT TECHNOLOGY CORP.	Parent Company	240,392	10.20 Times	-	-	-	-
"	MEGA MERIT LIMITED	Subsidiary measured by equity method	611,502	N/A (Note 1)	-	-	160,753	-
RIH LI International Limited	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Subsidiary measured by equity method	8,094,600	N/A (Note 1)	-	-	-	-
"	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Subsidiary measured by equity method	167,708	N/A (Note 1)	-	-	-	-
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Subsidiary measured by equity method	1,718,993	N/A (Note 1)	-	-	-	-
"	RI-MING (SHANGHAI) CO., LTD.	Affiliate	1,074,363	N/A (Note 1)	-	-	-	-
RI-MING (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Affiliate	300,819	N/A (Note 1)	-	-	-	-
"	RIH KUAN METAL CORPORATION	Affiliate	1,512,791	3.01 Times	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	1,471,718	2.19 Times	-	-	527,948	-
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Affiliate	214,867	N/A (Note 1)	-	-	351,066	-
"	MEGA MERIT LIMITED	Affiliate	1,061,952	7.67 Times	-	-	-	-
"	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Affiliate	2,578,490	N/A (Note 1)	-	-	-	-
"	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Affiliate	257,858	N/A (Note 1)	-	-	-	-
"	RI-MING (SHANGHAI) CO., LTD.	Affiliate	103,941	5.72 Times	-	-	-	-
RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	Affiliate	941,402	5.75 Times	-	-	207,012	-
"	RIH KUAN METAL CORPORATION	Affiliate	256,269	7.50 Times	-	-	-	-
RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	Affiliate	144,683	3.65 Times	-	-	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Affiliate	148,431	4.18 Times	-	-	71,502	-
"	MEGA MERIT LIMITED	Affiliate	224,970	6.95 Times	-	-	109,577	-
"	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Affiliate	118,781	4.37 Times	-	-	-	-

Notes to the Consolidated Financial Statements

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	RI KAI COMPUTER ACCESSORY CO., LTD.	Affiliate	173,344	N/A (Note 1)	-	-	-	-
KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	RISHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Affiliate	214,867	N/A (Note 1)	-	-	-	-
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	Affiliate	110,236	4.18 Times	-	-	1,259	-
ASROCK INCORPORATION	ASROCK AMERICA, INC.	Subsidiary measured by equity method	1,063,308	2.38 Times	-	-	170,005	-
ASROCK TECHNOLOGY LIMITED	ASROCK EUROPE B.V.	Subsidiary measured by equity method	193,519	14.13 Times	-	-	159,875	-
"	ASROCK INCORPORATION	Parent Company	1,341,641	6.66 Times	-	-	-	-
"	ASRock Rack Incorporation	Affiliate	709,548	2.83 Times	-	-	7,776	-
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	ASRock Industrial Computer Corporation	Affiliate	439,144	3.95 Times	-	-	8,753	-
FUYANG TECHNOLOGY CORPORATION	FUYANG TECHNOLOGY CORPORATION	Parent Company	1,161,625	1.25 Times	-	-	-	-
KINSUS INTERCONNECT TECHNOLOGY CORP.	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Subsidiary measured by equity method	1,195,626	0.76 Times	-	-	-	-
PEGAVISION CORPORATION	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP	Subsidiary measured by equity method	235,816	N/A (Note 1)	-	-	-	-
PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	Subsidiary measured by equity method	124,211	0.78 Times	-	-	81,616	-
PEGAVISION CORPORATION	Pegavision Japan Inc.	Subsidiary measured by equity method	146,953	10.70 Times	-	-	59,313	-

Note 1 : Since the receivables are not caused by selling and purchasing transactions, the turnover rate is not applicable.

Notes to the Consolidated Financial Statements

Table 7 Information on investees
December 31, 2019

			Initial investment amount		Shares held as at December 31, 2019		Expressed in thousands of NTD				
Investor	Investee	Location	Main business activities	Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership	Book value	Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Footnote
PEGATRON CORPORATION	ASUSPOWER INVESTMENT CO., LTD.	Taipei	Investment holding	13,033,429	13,033,429	932,844,700	100.00%	15,348,149	440,505	440,505	
	ASUS INVESTMENT CO., LTD.	Taipei	Investment holding	16,184,982	16,184,982	979,254,600	100.00%	15,996,091	179,036	179,036	
	ASUSTEK INVESTMENT CO., LTD.	Taipei	Investment holding	14,593,543	14,593,543	951,278,300	100.00%	14,510,988	(507,717)	(507,717)	
	Pegatron Holding Ltd.	Cayman Islands	Investment holding	33,462,716	33,462,716	961,906,463	100.00%	80,513,033	10,406,602	10,406,602	
	PEGATRON USA, INC.	CA, USA	Repairing and marketing center in Northern America	16,085	16,085	50,000	100.00%	18,336	39	39	
	PEGATRON HOLLAND HOLDING B.V.	Nijmegen, NETHERLANDS	Investment holding	1,278,287	1,278,287	-	100.00%	2,826,764	260,660	260,660	
	AMA PRECISION INC.	Taipei	Research and design of computer components	408,394	408,394	33,500,000	100.00%	435,048	20,493	20,493	
	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	23.75%	378,959	(114,386)	(27,136)	
	Unihan Holding Ltd.	Cayman Islands	Investment holding	6,659,684	6,659,684	199,110,010	100.00%	6,982,282	632,196	632,196	
	CASETEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	442,409	442,409	4,808,794	1.14%	383,016	(630,830)	(7,384)	Note 1
ASUSPOWER INVESTMENT CO., LTD.	PT. PEGATRON SERVICE AUSTRALIA PTY. LTD.	Australia	Investment holding	30,955	30,955	6,000,000	100.00%	134,640	9,583	9,583	
	PT. PEGATRON TECHNOLOGY INDONESIA	Indonesia	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	1,249,369	-	39,999	100.00%	1,127,261	(63,923)	(73,782)	
	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%	237,648	(1,337)	Not required to disclose	
	KINSUS INTERCONNECT TECHNOLOGY CORP.	Taoyuan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	727,473	727,473	55,556,221	12.32%	3,142,391	(2,025,035)	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%	141,605	597,842	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%	74,181	(114,386)	Not required to disclose	
	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	508,932	508,932	10,043,490	50.22%	1,067,710	124,623	Not required to disclose	
	PEGAVISION CORPORATION	Taoyuan	Manufacture of medical equipment	70,721	70,721	5,480,121	7.83%	317,812	475,492	Not required to disclose	
	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	3,752,682	3,752,682	109,000,000	31.23%	7,560,631	(282,915)	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%	1,150,477	288,520	Not required to disclose	
ASUS INVESTMENT CO., LTD.	PEGATRON LOGISTIC SERVICE INC.	CA, USA	Transferring and marketing center in Northern America	30	30	1,000	100.00%	11,928	-	Not required to disclose	
	Huawei Investment Co., Ltd.	Taipei	Investment holding	48,780	48,780	-	48.78%	243,784	139,702	Not required to disclose	
	PEGA INTERNATIONAL LIMITED	Taipei	Design service and commercial affairs	31,885	31,885	-	100.00%	31,690	(52)	Not required to disclose	
	PEGATRON JAPAN Inc.	Japan	Repairing and marketing center in Japan	27,287	27,287	-	100.00%	603,637	266,088	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%	135,634	1,116	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%	477,277	80,773	Not required to disclose	
	PT. PEGATRON TECHNOLOGY INDONESIA	Indonesia	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	31	-	1	0.00%	28	(63,923)	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%	142,389	(1,337)	Not required to disclose	
	KINSUS INTERCONNECT TECHNOLOGY CORP.	Taoyuan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	938,098	938,098	60,128,417	13.33%	3,400,006	(2,025,035)	Not required to disclose	
	ASROCK INCORPORATION	Taipei	Manufacture of data storage, date processing equipment and communication equipment. Sale of computer equipment and electronic material	155,718	155,718	57,217,754	47.43%	2,902,956	597,842	Not required to disclose	
ASUSPOWER CORPORATION	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	7,338	7,338	587,079	2.94%	62,412	124,623	Not required to disclose	
	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	3,488,741	3,488,741	103,000,000	29.51%	7,144,227	(282,915)	Not required to disclose	
	ASFLY TRAVEL SERVICE LIMITED	Taipei	Travel industry	6,000	6,000	-	100.00%	12,414	(2,729)	Not required to disclose	

Notes to the Consolidated Financial Statements

			Initial investment amount			Shares held as at December 31, 2019			Expressed in thousands of NT\$		
Investor	Investee	Location	Investment holding	Main business activities	Balance as at December 31, 2018	Balance as at December 31, 2019	Number of shares	Ownership	Book value	Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the Company for the year ended December 31, 2019
ASUS INVESTMENT CO., LTD.	HUA-YUAN INVESTMENT LIMITED	Taipei	Investment holding		500,000	500,000	-	100.00%	553,330	84,597	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%	199,182	1,116	Not required to disclose
"	FUYANG TECHNOLOGY CORPORATION	Hsinchu	Manufacture of wire, cable and electronic components. Sale of electronic material.		464,711	464,711	32,088,436	17.83%	269,176	(541,059)	Not required to disclose
ASUSTEK INVESTMENT CO., LTD.	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%	95,059	(1,337)	Not required to disclose
"	KINSUS INTERCONNECT TECHNOLOGY CORP.	Taoyuan	Manufactures of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.		794,252	794,252	58,233,091	12.91%	3,292,879	(2,025,035)	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	6.18%	378,153	597,842	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	4.45%	70,990	(114,386)	Not required to disclose
"	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.		5,117	5,117	409,427	2.05%	43,526	124,623	Not required to disclose
"	PEGAVISION CORPORATION	Taoyuan	Manufacture of medical equipment		64,292	64,292	4,934,434	7.05%	286,166	475,492	Not required to disclose
"	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs		4,652,885	4,652,885	137,000,000	39.26%	9,504,655	(282,915)	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%	538,202	(541,059)	Not required to disclose
PEGATRON SERVICE SINGAPORE PTE. LTD.	PEGATRON SERVICE KOREA LLC.	Korea	Repairing and marketing center in Korea		44,970	44,970	360,000	100.00%	251,387	46,312	Not required to disclose
Pegatron Holding Ltd.	MAGNIFICENT BRIGHTNESS LIMITED	Virgin Islands	Investment holding and commercial affairs		7,806,218	7,806,218	177,961,090	100.00%	26,860,010	1,738,398	Not required to disclose
"	PROTEK GLOBAL HOLDINGS LTD.	Virgin Islands	Investment holding and commercial affairs		8,975,968	8,975,968	308,100,000	100.00%	32,718,305	5,697,024	Not required to disclose
"	ASLINK PRECISION CO., LTD.	Cayman Islands	Investment holding and commercial affairs		5,852,298	5,852,298	199,711,968	100.00%	11,904,139	2,835,111	Not required to disclose
"	DIGITEK GLOBAL HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs		1,470,474	1,470,474	49,050,000	100.00%	5,469,063	400,148	Not required to disclose
"	COTEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs		2,069,070	2,069,070	81,275,000	100.00%	1,610,644	365,752	Not required to disclose
"	TOP QUARK LIMITED	HongKong	Investment holding		317,623	317,623	9,550,000	100.00%	162,468	(9,198)	Not required to disclose
"	POWTEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs		394,102	394,102	8,050,000	100.00%	938,889	17,886	Not required to disclose
"	PIOTEK HOLDINGS LTD.(CAYMAN)	Cayman Islands	Investment holding		2,766,359	2,766,359	92,000,000	49.00%	446,621	(477,304)	Not required to disclose
"	GRAND UPRIGHT TECHNOLOGY LTD.	Samoa	Investment holding and commercial affairs		39,760	39,760	1,000	100.00%	383,468	(348)	Not required to disclose
KINSUS INTERCONNECT TECHNOLOGY CORP.	KINSUS INVESTMENT CO., LTD.	Taoyuan	Investment holding	Design substrate, analyze market strategy, development new customer and new technology.	1,600,000	1,600,000	160,000,000	100.00%	2,300,446	(33,605)	Not required to disclose
"	KINSUS CORP. (USA)	CA, USA	Investment holding		14,990	14,990	500,000	100.00%	53,310	6,215	Not required to disclose
"	KINSUS HOLDING (SAMOA) LIMITED	Samoa	Investment holding		4,985,935	4,985,935	166,308,720	100.00%	1,868,801	(180,094)	Not required to disclose
KINSUS INVESTMENT CO., LTD.	PEGAVISION CORPORATION	Taoyuan	Manufacture of medical equipment		252,455	286,418	21,233,736	30.33%	1,299,647	475,492	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%	538,259	(541,059)	Not required to disclose
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION	Samoa	Investment holding		108,827	63,857	3,630,000	100.00%	36,437	(5,280)	Not required to disclose
"	PEGAVISION JAPAN INC.	Japan	Sale of medical equipment		2,732	2,732	198	100.00%	26,102	16,418	Not required to disclose
KINSUS HOLDING (SAMOA) LIMITED	KINSUS HOLDING (CAYMAN) LIMITED	Cayman Islands	Investment holding		2,158,560	2,158,560	72,000,000	100.00%	1,403,963	63,326	Not required to disclose

Notes to the Consolidated Financial Statements

			Initial investment amount		Shares held as at December 31, 2019				Expressed in thousands of NTD	
Investor	Investee	Location	Main business activities	Balance as at	Balance as at	Number of shares	Ownership	Book value	Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the Company for the year ended December 31, 2019
				December 31, 2019	December 31, 2018					
				2,827,384	2,827,384	95,755,000	51.00%	464,840	(477,291)	Not required to disclose
KINSUS HOLDING (SAMOA) LIMITED	PIOTEK HOLDINGS LTD.(CAYMAN)	Cayman Islands	Investment holding							
PIOTEK HOLDINGS LTD. (CAYMAN)	PIOTEK HOLDING LIMITED	Virgin Islands	Investment holding	4,192,427	4,192,427	139,840,790	100.00%	911,482	(477,291)	Not required to disclose
PIOTEK HOLDING LIMITED	PIOTEK (HK) TRADING LIMITED	HongKong	Commercial affairs	779	779	200,000	100.00%	79,567	4,634	Not required to disclose
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD.	Cayman Islands	Investment holding and commercial affairs	1,357,292	1,357,292	44,000,000	100.00%	578,127	(466,847)	Not required to disclose
ASROCK INCORPORATION	ASRock Back Incorporation	Taipei	Manufacture and sale of computer related products	291,006	98,302	19,465,411	62.02%	190,503	92,004	Not required to disclose
"	ASAROCK TECHNOLOGY LIMITED	Virgin Islands	Investment holding	1,320,886	1,320,886	40,000,000	100.00%	3,700,936	45,337	Not required to disclose
"	Leader Insight Holdings Ltd.	Virgin Islands	Investment holding	71,559	71,559	2,100,000	100.00%	(20,602)	(8,971)	Not required to disclose
"	ASRock Industrial Computer Corporation	Taipei	Manufacture and sale of computer related products	235,822	123,700	23,582,200	67.38%	290,120	79,925	Not required to disclose
"	Yabo Trading Co., Ltd.	HongKong	International trade	577	577	150,000	100.00%	578	-	Not required to disclose
ASAROCK TECHNOLOGY LIMITED	ASROCK EUROPE BV.	Nijmegen, NETHERLANDS	Sale of data storage devices and electronic materials	5,816	5,816	200,000	100.00%	506,903	40,223	Not required to disclose
"	CalRock Holdings, LLC.	CA, USA	Renting offices	59,960	59,960	2,000,000	100.00%	66,817	(925)	Not required to disclose
"	Orweb Inc. (BVI)	Virgin Islands	Installation of computer equipment and sale of computer related product.	29,980	29,980	4,000,000	27.59%	-	(16,864)	Not required to disclose
Leader Insight Holdings Ltd.	First place International Ltd.	Virgin Islands	Investment holding	61,459	61,459	2,050,000	100.00%	(20,648)	(8,971)	Not required to disclose
First place International Ltd.	ASROCK AMERICA, INC.	CA, USA	Sale of data storage devices and electronic materials	59,960	59,960	2,000,000	100.00%	(21,652)	(8,975)	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.	36,306	36,306	1,222,000	100.00%	58,653	(1,186)	Not required to disclose
"	Lumens Digit' Image Inc.	Samoa	Investment holding	7,495	7,495	250,000	100.00%	32,364	(13,439)	Not required to disclose
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	10,578,356	10,578,356	245,016,988	58.27%	17,832,075	(630,830)	Not required to disclose
PEGATRON TECHNOLOGY SERVICE INC.	PEGATRON SERVIÇOS DE INFORMATICA LTDA.	Brazil	Repairing service	19,487	19,487	-	100.00%	11,157	1,641	Not required to disclose
Unihain Holding Ltd.	CASETEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	4,913,746	4,913,746	115,375,668	100.00%	5,567,092	592,280	Not required to disclose
CASETEK HOLDINGS LIMITED	SLITEK HOLDINGS LIMITED	Samoa	Investment holding and commercial affairs	36,276	36,276	1,210,000	100.00%	13,620	(7,886)	Not required to disclose
"	KAEDAR HOLDINGS LIMITED	HongKong	Investment holding and commercial affairs	749,500	749,500	25,000,000	100.00%	1,164,440	103,418	Not required to disclose
"	KAEDAR TRADING LTD.	Samoa	Investment holding and commercial affairs	149,900	149,900	5,000,000	100.00%	567,291	16,409	Not required to disclose
AMA PRECISION INC.	AMA Holdings Limited	Samoa	Investment holding	169,744	169,744	5,131,948	100.00%	124,239	11,218	Not required to disclose
AZURE WAVE TECHNOLOGIES, INC.	Azwave Holding (Samoa) Inc.	Samoa	Investment holding	1,585,683	1,585,683	50,177,160	100.00%	1,176,074	231,065	Not required to disclose
"	EZWAVE TECHNOLOGIES, INC.	Taipei	Information product service industry	5,015	5,015	500,000	100.00%	(21,682)	(714)	Not required to disclose
"	AZURE LIGHTING TECHNOLOGIES, INC.	New Taipei City	Sale of electronic materials	25,000	25,000	2,000,000	100.00%	29,856	1,949	Not required to disclose
"	Azurewave Technologies (USA) INC.	CA, USA	Market development	19,820	15,165	650,000	100.00%	786	(4,860)	Not required to disclose
"	VENCE PRECISION & TOOLS CO.,LTD.	New Taipei City	Sale of electronic materials	-	10,000	-	-	-	-	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 2019, the others are translated at the spot exchange rate on the financial statement date.

Note 3 : VENCE PRECISION & TOOLS CO., LTD. was liquidated in March, 2019.

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Table 8 Information on investments in Mainland China
December 31, 2019

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 as of January 1, 2019	Mainland China /Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note 2, (2))	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019
					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.	6,853,128 USD 228,590,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	5,300,464 USD 176,800,000	-	-	5,300,464 USD 176,800,000	1,738,385 USD 56,275,548	100%	1,738,385 USD 56,275,548	27,073,861 USD 903,064,064	-
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	9,233,840 USD 308,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	9,233,840 USD 308,000,000	-	-	9,233,840 USD 308,000,000	5,697,061 USD 184,427,009	100%	5,697,061 USD 184,427,009	32,824,746 USD 1,094,888,129	-
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.	4,997,666 USD 166,700,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,362,479 USD 45,446,280	-	-	1,362,479 USD 45,446,280	(481,691) USD 15,593,449	68.67%	(330,756) USD 10,707,336	571,166 USD 19,051,554	-
COTEK ELECTRONICS	Develop, manufacture and sale of new electrical component, plugs and corresponding precision mold. The company also provides after sale service.	2,428,380 USD 81,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	2,068,620 USD 69,000,001	-	-	2,068,620 USD 69,000,001	354,772 USD 11,484,802	100%	354,772 USD 11,484,802	1,611,670 USD 53,758,167	-
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.	209,860 USD 7,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	316,124 USD 10,544,482	-	-	316,124 USD 10,544,482	(9,090) USD 294,271	100%	(9,090) USD 294,271	162,309 USD 5,413,909	-
POWTEK (SHANGHAI) LTD.	Sale of computer motherboard, computer, laptop, service machine and computer related items. The company also provides after sale service.	239,840 USD 8,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	394,102 USD 13,145,510	-	-	394,102 USD 13,145,510	17,941 USD 580,806	100%	17,941 USD 580,806	938,432 USD 31,301,945	-
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.	1,469,020 USD 49,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,469,020 USD 49,000,000	-	-	1,469,020 USD 49,000,000	400,098 USD 12,952,090	100%	400,098 USD 12,952,090	5,500,546 USD 183,473,834	-
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.	5,816,120 USD 194,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	5,816,120 USD 194,000,000	-	-	5,816,120 USD 194,000,000	2,833,915 USD 91,740,376	100%	2,833,915 USD 91,740,376	11,883,748 USD 396,389,196	-

Notes to the Consolidated Financial Statements

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 remittances from Taiwan as of January 1, 2019	Mainland China /Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note2, (2))	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019
					Remitted to Mainland China	Remitted back to Taiwan						
Investee in Mainland China	Manufacture, development and research and sale of computer, computer system and its component. The company also provides after sale service.	1,678,880 USD 56,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,678,880 USD 56,000,000	-	-	1,678,880 USD 56,000,000	467,174 USD 15,123,509	100%	467,174 USD 15,123,509	3,063,954 USD 102,199,945	-
	Manufacture of plastic injection products.	524,650 USD 17,500,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	734,723 USD 24,507,092	-	-	734,723 USD 24,507,092	103,333 USD 3,345,121	100%	103,333 USD 3,345,121	1,149,089 USD 38,328,527	-
	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.	359,760 USD 12,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	359,760 USD 12,000,000	-	-	359,760 USD 12,000,000	2,854 USD 92,380	100%	2,854 USD 92,380	198,513 USD 6,621,510	-
	Research and develop, manufacture and inspect computer and implication system. Manufacture molds, precision molds, plastic components. Sale of automatic products.	299,800 USD 10,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	299,800 USD 10,000,000	-	-	299,800 USD 10,000,000	2,675 USD 86,588	100%	2,675 USD 86,588	272,083 USD 9,075,472	-
Zhangjiagang East High-tech LTD.	Process, sale and transportation of steel.	179,880 USD 6,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	35,976 USD 1,200,000	-	-	35,976 USD 1,200,000	(39,341) (USD 1,273,558)	20%	(7,868) (USD 254,712)	12,309 USD 410,580	-
FUYUANG ELECTRONICS (SUZHOU) CO., LTD.	Research and develop, manufacture, test, repair and sale of Multilayer flexible board and computer number signal processor.	1,319,120 USD 44,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,319,120 USD 44,000,000	-	-	1,319,120 USD 44,000,000	(466,261) (USD 15,093,942)	67.22%	(313,421) (USD 10,146,148)	386,888 USD 12,904,853	-
(Note 13) HONGJIE (SHANGHAI) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	149,900 USD 5,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	27,964 USD 932,769	-	-	27,964 USD 932,769	-	-	-	-	-
(Note 14) HONGJIE (SUZHOU) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	399,033 USD 13,309,984	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	180,652 USD 6,025,762	-	-	180,652 USD 6,025,762	-	-	-	-	-
(Note 14) Suzhou Esitie Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	152,898 USD 5,100,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	34,685 USD 1,156,954	-	-	34,685 USD 1,156,954	-	-	-	-	-
(Note 14) HONGJIE (CHONGQING) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	14,990 USD 500,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	2,293 USD 76,500	-	-	2,293 USD 76,500	-	-	-	-	-
(Note 14) Hongruiheng (Chengdu) packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	78,248 USD 2,610,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	18,977 USD 633,000	-	-	18,977 USD 633,000	-	-	-	-	-
(Note 12) Heilongjiang Hongjie Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	73,751 USD 2,460,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	13,275 USD 442,800	-	-	13,275 USD 442,800	-	-	-	-	-
(Note 11) Suzhou Lianshuo Electronics LTD.	Manufacture of Plugs	209,394 USD 6,994,441	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	229,534 USD 7,656,224	-	-	229,534 USD 7,656,224	-	-	-	-	-
(Note 6) Shanghai Yiding Electronics LTD.	Research and develop, manufacture and sale of portable micro computer, laptop and related products.	929,380 USD 31,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	587,608 USD 19,600,000	-	-	587,608 USD 19,600,000	-	-	-	-	-
(Note 8)												

Notes to the Consolidated Financial Statements

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 as of January 1, 2019	Mainland China / Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)
					Remitted to Mainland China	Remitted back to Taiwan			
Jinhong Precision Mold (Suzhou) Co., Ltd. (Note 10)	Design, process, sale and manufacture of non-metal molds, manufacture and sale of precision molds, standard molds, plastic and hardware.	26,982 USD 900,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	51,416 USD 1,715,000	-	-	51,416 USD 1,715,000	-	-
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.	191,872 USD 6,400,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	94,017 USD 3,136,000	-	-	94,017 USD 3,136,000	-	-
2. Limitation on investment in Mainland China									
Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019 (Note 16)					Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 15)		Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 4)		
31,774,860 USD 1,059,868,572					33,516,725 USD 1,117,969,490		115,947,308		

US dollar exchange rate : year end exchange rate 29.98 ; average exchange rate 30.8906

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 reinvest 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.
 3. Others: The financial statements of significant subsidiaries were audited by CPA, and the self-assessed financial statements of non-significant subsidiaries were not audited by 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 the higher of its net asset or 60% of the consolidated net assets.

Note 5: MAINTENANCE COMPUTER (SUZHOU) CO., LTD. % paid-in capital includes capital increase by retained earnings of USD51,790,000.

Note 6: Suzhou Lianshuo Electronics LTD has completed liquidation process. As of December 31, 2019, 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 Group has disposed of shares of Induced Holdings Limited (indirectly invested in Shanghai Yiding Electronics LTD.). As of December 31, 2019, the funds have not been remitted.

Note 9: Honghua Technology (Suzhou) LTD. has completed liquidation process. As of December 31, 2019, the funds have not been remitted.

Note 10: The Group has disposed shares of Jinhong Precision Mold Industrial (Suzhou) Co., Ltd.. As of December 31, 2019, the funds have not been remitted.

Note 11: The Group has disposed shares of Heilongjiang Hongjie Packaging LTD.. As of December 31, 2019, the funds have not been remitted.

Note 12: Hongguisheng (Chengdu) packaging LTD. has completed liquidation process. As of December 31, 2019, the funds have not been remitted.

Note 13: Accumulated investment amount includes FUYANG TECHNOLOGY CORPORATION transferred out USD26,000,000.

Note 14: The Group has disposed all shares of E-Packing. As of December 31, 2019, the funds have not been remitted.

Note 15: Due to the reinvestment of the Group's investee, China Renewable Energy Fund, LP (CREF), in Mainland China, the Group increased its line of credit to USD10,161,116, with the approval from the Investment Commission of MOEA.

Note 16: The difference of USD4,850,198 between the accumulated amounts of remittance from Taiwan to Mainland China as of December 31, 2019 was the actual amount of investment in Mainland China made by China Renewable Energy Fund, LP (CREF).

Notes to the Consolidated Financial Statements

Table 9 Business relationships and significant intercompany transactions
December 31, 2019

					Expressed in thousands of NTD		
No. (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)
					Amount	Transaction terms	
0	PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	1	Sales	1,750,427	Open Account 90 days	0.13%
0	PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	1	Account Receivables	162,288	Open Account 90 days	0.03%
0	PEGATRON CORPORATION	PEGATRON Czech s.r.o.	1	Sales	2,581,497	120 days on delivery	0.19%
0	PEGATRON CORPORATION	PEGATRON Czech s.r.o.	1	Account Receivables	835,423	120 days on delivery	0.15%
0	PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	1	Account Receivables	2,474,286	Open Account 90 days	0.43%
0	PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	1	Account Receivables	232,022,397	Open Account 60 days	40.67%
0	PEGATRON CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	1	Account Receivables	155,001	Open Account 90 days	0.03%
0	PEGATRON CORPORATION	PEGAGLOBE (KUNSHAN) CO., LTD.	1	Account Receivables	41,110,704	Open Account 90 days	7.21%
0	PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	1	Account Receivables	36,210,328	Open Account 60 days	6.35%
0	PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	1	Sales	269,479	Open Account 60 days	0.02%
0	PEGATRON CORPORATION	PEGATRON TECHNOLOGY SERVICE INC.	1	Sales	282,979	90 days on delivery	0.02%
0	PEGATRON CORPORATION	PT. PEGATRON TECHNOLOGY INDONESIA	1	Sales	146,402	120 days on delivery	0.01%
0	PEGATRON CORPORATION	PT. PEGATRON TECHNOLOGY INDONESIA	1	Account Receivables	8,556,161	120 days on delivery	1.50%
0	PEGATRON CORPORATION	POWTEK (SHANGHAI) LTD.	1	Sales	168,877	120 days on delivery	0.01%
0	PEGATRON CORPORATION	POWTEK (SHANGHAI) LTD.	1	Account Receivables	155,001	120 days on delivery	0.03%
1	PT. PEGATRON TECHNOLOGY INDONESIA	PEGATRON CORPORATION	2	Account Receivables	4,822,021	Open Account 60 days	0.85%
2	PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	2	Account Receivables	185,317,389	Open Account 60 days	32.48%
2	PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	2	Sales	1,819,022	Open Account 60 days	0.13%
2	PROTEK (SHANGHAI) LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Sales	68,394,303	Open Account 90 days	5.01%
2	PROTEK (SHANGHAI) LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Account Receivables	20,595,772	Open Account 60 days	3.61%
3	PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	2	Sales	89,864,641	Open Account 60 days	6.58%
3	PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	2	Account Receivables	49,959,452	Open Account 60 days	8.76%
3	PEGAGLOBE (KUNSHAN) CO., LTD.	GRAND UPRIGHT TECHNOLOGY LTD.	3	Sales	14,031,145	Open Account 60 days	1.03%
3	PEGAGLOBE (KUNSHAN) CO., LTD.	GRAND UPRIGHT TECHNOLOGY LTD.	3	Account Receivables	433,680	Open Account 60 days	0.08%
3	PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	3	Sales	1,023,513	Open Account 60 days	0.07%
3	PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	3	Account Receivables	119,520	Open Account 60 days	0.02%
4	MAINTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Sales	32,753,452	Open Account 60 days	2.40%
4	MAINTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Account Receivables	679,812	Open Account 60 days	0.12%
4	MAINTEK COMPUTER (SUZHOU) CO., LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	3	Other Receivables	1,499,000	Mutual Agreement	0.26%
4	MAINTEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	3	Sales	1,241,752	Open Account 60 days	0.09%
4	MAINTEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	3	Account Receivables	1,220,589	Open Account 60 days	0.21%
5	COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Account Receivables	2,146,286	Open Account 60 days	0.38%
5	COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Sales	1,470,716	Open Account 60 days	0.11%
5	COTEK ELECTRONICS (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	3,280,314	Open Account 60 days	0.24%
5	COTEK ELECTRONICS (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	3	Sales	113,124	Open Account 60 days	0.01%
6	DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	2	Sales	3,815,352	Open Account 60 days	0.28%
6	DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	2	Account Receivables	32,541,457	Open Account 60 days	5.70%
6	DIGITEK (CHONGQING) LTD.	CHONGQING ZUANSHUO TRADING CO., LTD.	3	Sales	337,419	Open Account 60 days	0.02%
7	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	DIGITEK (CHONGQING) LTD.	3	Sales	522,292	Open Account 60 days	0.04%
8	CASETEK COMPUTER (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	4,109,445	Open Account 60 days	0.30%
8	CASETEK COMPUTER (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Account Receivables	465,155	Open Account 60 days	0.08%
8	CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Sales	306,891	Open Account 60 days	0.02%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	2	Sales	190,174	Open Account 60 days	0.01%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	PIOTEK (H.K.) TRADING LIMITED	3	Sales	342,299	Open Account 60 days	0.03%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	311,315	Open Account 60 days	0.02%
9	PIOTEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	3	Sales	227,509	Open Account 60 days	0.02%
10	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP	KINSUS INTERCONNECT TECHNOLOGY CORP.	2	Sales	2,181,488	Open Account 30 days	0.16%
10	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP	KINSUS INTERCONNECT TECHNOLOGY CORP.	2	Account Receivables	240,392	Open Account 30 days	0.04%
11	CASETEK HOLDINGS LIMITED(CAYMAN)	MEGA MERIT LIMITED	1	Other Receivables	611,502	Mutual Agreement	0.11%
12	RHI LI International Limited	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	1	Long-term Receivables	8,094,600	Mutual Agreement	1.42%
12	RHI LI International Limited	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	1	Long-term Receivables	167,708	Mutual Agreement	0.03%
13	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	PEGATRON CORPORATION	2	Sales	273,273	Open Account 60 days	0.02%
13	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Sales	713,110	Open Account 30-60 days	0.05%
13	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	3	Long-term Receivables	1,074,363	Mutual Agreement	0.19%
13	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	3	Long-term Receivables	1,718,993	Mutual Agreement	0.30%
14	RI-MING (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Sales	4,576,659	Open Account 90 days	0.33%
14	RI-MING (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Account Receivables	1,471,718	Open Account 30-60 days	0.26%
14	RI-MING (SHANGHAI) CO., LTD.	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	3	Sales	1,611,748	Open Account 30-60 days	0.12%
14	RI-MING (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Sales	731,891	Open Account 30-60 days	0.05%
14	RI-MING (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	3	Other Receivables	300,819	Mutual Agreement	0.05%
14	RI-MING (SHANGHAI) CO., LTD.	RHI KUAN METAL CORPORATION	3	Account Receivables	1,512,791	Open Account 90 days	0.27%
14	RI-MING (SHANGHAI) CO., LTD.	RHI KUAN METAL CORPORATION	3	Sales	2,379,287	Open Account 90 days	0.17%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Sales	10,692,009	Open Account 30-60 days	0.78%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	MEGA MERIT LIMITED	3	Account Receivables	1,061,952	Open Account 30-60 days	0.19%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	3	Sales	312,211	Open Account 30-60 days	0.02%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	3	Account Receivables	103,941	Open Account 30-60 days	0.02%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	3	Short-term Receivables	214,867	Mutual Agreement	0.04%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	3	Long-term Receivables	2,578,490	Mutual Agreement	0.45%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Sales	840,533	Open Account 30-60 days	0.06%
15	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	3	Long-term Receivables	257,858	Mutual Agreement	0.05%
16	RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	3	Sales	8,256,625	Open Account 30-60 days	0.60%
16	RI KAI COMPUTER ACCESSORY CO., LTD.	MEGA MERIT LIMITED	3	Account Receivables	941,402	Open Account 30-60 days	0.17%
16	RI KAI COMPUTER ACCESSORY CO., LTD.	RHI KUAN METAL CORPORATION	3	Account Receivables	256,269	Open Account 90 days	0.04%
16	RI KAI COMPUTER ACCESSORY CO., LTD.	RHI KUAN METAL CORPORATION	3	Sales	1,002,060	Open Account 90 days	0.07%
17	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	3	Sales	798,615	Open Account 30-60 days	0.06%
17	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	3	Account Receivables	110,236	Open Account 30-60 days	0.02%
17	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	3	Sales	431,295	Open Account 30-60 days	0.03%
17	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Sales	103,391	Open Account 30-60 days	0.02%
18	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	3	Long-term Receivables	214,867	Mutual Agreement	0.04%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	PROTEK (SHANGHAI) LTD.	3	Account Receivables	144,683	Open Account 60 days	0.03%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	PROTEK (SHANGHAI) LTD.	3	Sales	657,846	Open Account 60 days	0.05%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Sales	428,020	Open Account 60 days	0.03%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	PEGAGLOBE (KUNSHAN) CO., LTD.	3	Account Receivables	148,431	Open Account 60 days	0.03%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	3	Sales	270,571	Open Account 30-60 days	0.02%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	MEGA MERIT LIMITED	3	Account Receivables	224,970	Open Account 30-60 days	0.04%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	MEGA MERIT LIMITED	3	Sales	815,265	Open Account 30-60 days	0.06%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	3	Account Receivables	118,781	Open Account 30-60 days	0.02%
19	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	RI KAI COMPUTER ACCESSORY CO., LTD.	3	Other Receivables	173,344	Open Account 30-60 days	0.03%
20	FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	1	Account Receivables	1,161,625	Open Account 60 days	0.20%
21	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	2	Sales	1,292,252	Open Account 60 days	0.09%
21	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	2	Account Receivables	1,195,626	Open Account 60 days	0.21%
22	ASROCK INCORPORATION	ASROCK AMERICA, INC.	1	Sales	2,432,887	Open Account 90 days	0.18%
22	ASROCK INCORPORATION	ASROCK AMERICA, INC.	1	Account Receivables	1,063,308	Open Account 90 days	0.19%
22	ASROCK INCORPORATION	ASROCK EUROPE B.V.	1	Sales	2,586,680	Open Account 45 days	0.19%
22	ASROCK INCORPORATION	ASROCK EUROPE B.V.	1	Account Receivables	193,519	Open Account 45 days	0.03%
23	ASIAROCK TECHNOLOGY LIMITED	PEGATRON CORPORATION	2	Sales	1,190,218	Open Account 90 days	0.09%
23	ASIAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	2	Sales	7,659,478	Open Account 60 days	0.56%
23	ASIAROCK TECHNOLOGY LIMITED	ASROCK INCORPORATION	2	Account Receivables	1,341,641	Open Account 60 days	0.24%
23	ASIAROCK TECHNOLOGY LIMITED	ASRock Industrial Computer Corporation	3	Sales	1,183,213	Open Account 60 days	0.09%
23	ASIAROCK TECHNOLOGY LIMITED	ASRock Industrial Computer Corporation	3	Account Receivables	439,144	Open Account 60 days	0.08%
23	ASIAROCK TECHNOLOGY LIMITED	ASRock Rack Incorporation	3	Sales	2,061,046	Open Account 90 days	0.15%
23	ASIAROCK TECHNOLOGY LIMITED	ASRock Rack Incorporation	3	Account Receivables	709,548	Open Account 90 days	0.12%
24	ASRock Industrial Computer Corporation	ASROCK EUROPE B.V.	3	Sales	126,232	Open Account 60 days	0.01%
25	ASROCK RACK INCORPORATION	PEGATRON CORPORATION	2	Sales	105,009	90 days on delivery	0.01%
26	AZURE WAVE TECHNOLOGIES, INC.	PEGATRON CORPORATION	2	Sales	507,116	Open Account 60 days	0.04%
27	PEGAVISION CORPORATION	Pegavision Japan Inc.	1	Sales	1,353,073	Open Account 90 days	0.10%
27	PEGAVISION CORPORATION	Pegavision Japan Inc.	1	Account Receivables	146,953	Open Account 90 days	0.03%

Notes to the Consolidated Financial Statements

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)
27	PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	1	Sales	127,282	Open Account 180 days	0.01%
27	PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	1	Account Receivables	124,211	Open Account 180 days	0.02%
27	PEGAVISION CORPORATION	GEMVISION TECHNOLOGY (ZHEJIANG) LIMITED	3	Sales	118,586	Open Account 180 days	0.01%
28	ASUSPOWER CORPORATION	PEGATRON CORPORATION	2	Other Receivables	4,497,000	Mutual Agreement	0.79%
28	ASUSPOWER CORPORATION	PEGATRON SERVICE AUSTRALIA PTY. LTD.	3	Other Receivables	210,050	Mutual Agreement	0.04%
29	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	AZURE WAVE TECHNOLOGIES, INC.	2	Sales	1,663,344	Open Account 30-60 days	0.12%
30	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	398,006	Open Account 60 days	0.03%
30	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Sales	143,015	Open Account 60 days	0.01%
30	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	3	Sales	144,001	Open Account 60 days	0.01%
31	Lumens Digital Optics Inc. (Lumens Optics)	Lumens Integration Inc.	1	Sales	197,314	Open Account 60-90 days	0.01%
32	KINSUS INTERCONNECT TECHNOLOGY CORP.	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP	1	Other Receivables	235,816	Mutual Agreement	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, 2019 AND 2018

(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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 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(m) 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, 2019 and 2018 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(f) 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 2019 and 2018 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 1.90% and 2.24% of the related total assets as of December 31, 2019 and 2018, respectively, and the related investment gain represented (2.25)% and 2.09% of profit before tax for the years ended December 31, 2019 and 2018, 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, 2019. 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 26, 2020

Notes to Readers

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

The independent auditors' audit report and the accompanying parent company only 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' audit report and parent company only financial statements, the Chinese version shall prevail.

PEGATRON CORPORATION

Non-Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		<u>December 31, 2019</u>		<u>December 31, 2018</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Assets					
Current assets:					
1100	Cash and cash equivalents (Note 6(a))	\$ 35,040,374	5	18,535,500	3
1170	Notes and accounts receivable, net (Notes 6(d) and 6(u))	187,491,683	26	177,248,274	25
1180	Accounts receivable due from related parties, net (Notes 6(d) and 7)	321,644,303	44	313,983,330	45
1200	Other receivables, net (Notes 6(e) and 7)	240,938	-	118,063	-
130X	Inventories (Note 6(f))	31,244,098	4	49,765,612	7
1476	Other current financial assets (Notes 6(k) and 8)	828,075	-	41,670	-
1479	Other current assets (Note 6(k))	<u>385,443</u>	<u>-</u>	<u>452,584</u>	<u>-</u>
		<u>576,874,914</u>	<u>79</u>	<u>560,145,033</u>	<u>80</u>
Non-current assets:					
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	484,756	-	340,320	-
1520	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	551,703	-	477,148	-
1550	Investments accounted for using equity method (Note 6(g))	138,654,566	20	129,941,116	19
1600	Property, plant and equipment (Note 6(h))	8,123,507	1	7,384,642	1
1755	Right-of-use assets (Note 6(i))	138,486	-	-	-
1780	Intangible assets (Note 6(j))	143,655	-	293,045	-
1840	Deferred tax assets (Note 6(q))	677,775	-	706,630	-
1980	Other non-current financial assets (Notes 6(k) and 8)	27,708	-	22,722	-
1990	Other non-current assets (Note 6(k))	<u>29,975</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>148,832,131</u>	<u>21</u>	<u>139,165,623</u>	<u>20</u>
Total assets		<u><u>\$ 725,707,045</u></u>	<u><u>100</u></u>	<u><u>699,310,656</u></u>	<u><u>100</u></u>

See accompanying notes to financial statements.

PEGATRON CORPORATION

Non-Consolidated Balance Sheets (CONT'D)

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (Note 6(l))	\$ 38,674,200	5	59,433,525	9
2130	Current contract liabilities (Note 6(u))	671,460	-	609,002	-
2150	Notes and accounts payable	193,609,774	27	199,651,449	29
2180	Accounts payable to related parties (Note 7)	275,709,758	38	244,035,178	35
2219	Other payables (Note 7)	15,046,652	2	14,225,184	2
2230	Current tax liabilities	1,756,116	-	687,951	-
2281	Current lease liabilities (Note 6(n))	57,034	-	-	-
2321	Bonds payable, current portion (Note 6(m))	3,000,000	-	-	-
2399	Other current liabilities (Note 7)	<u>18,885,318</u>	<u>3</u>	<u>15,566,177</u>	<u>2</u>
		<u>547,410,312</u>	<u>75</u>	<u>534,208,466</u>	<u>77</u>
Non-Current liabilities:					
2530	Bonds payable (Note 6(m))	20,480,339	3	14,986,762	2
2570	Deferred tax liabilities (Note 6(q))	-	-	35,426	-
2580	Non-current lease liabilities (Note 6(n))	82,012	-	-	-
2670	Other non-current liabilities (Note 7)	<u>69,320</u>	<u>-</u>	<u>51,164</u>	<u>-</u>
		<u>20,631,671</u>	<u>3</u>	<u>15,073,352</u>	<u>2</u>
		<u>568,041,983</u>	<u>78</u>	<u>549,281,818</u>	<u>79</u>
Total liabilities					
Equity (Notes 6(r) and 6(s)):					
3100	Share capital	<u>26,110,919</u>	<u>4</u>	<u>26,123,773</u>	<u>4</u>
Capital surplus:					
3210	Capital surplus, premium on capital stock	76,645,504	10	75,696,958	10
3280	Capital surplus, others	<u>4,406,597</u>	<u>1</u>	<u>4,979,372</u>	<u>1</u>
		<u>81,052,101</u>	<u>11</u>	<u>80,676,330</u>	<u>11</u>
Retained earnings:					
3310	Legal reserve	11,774,310	2	10,662,823	2
3320	Special reserve	7,868,877	1	8,815,213	1
3350	Unappropriated retained earnings	<u>42,156,192</u>	<u>6</u>	<u>32,149,237</u>	<u>4</u>
		<u>61,799,379</u>	<u>9</u>	<u>51,627,273</u>	<u>7</u>
Other equity interest:					
3410	Exchange differences on translation of foreign financial statements	(10,982,396)	(2)	(7,482,556)	(1)
3420	Unrealized losses on financial assets measured at fair value through other comprehensive income	(303,654)	-	(386,322)	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(t))	<u>(8,287)</u>	<u>-</u>	<u>(524,686)</u>	<u>-</u>
		<u>(11,294,337)</u>	<u>(2)</u>	<u>(8,393,564)</u>	<u>(1)</u>
3500	Treasury stock	<u>(3,000)</u>	<u>-</u>	<u>(4,974)</u>	<u>-</u>
		<u>157,665,062</u>	<u>22</u>	<u>150,028,838</u>	<u>21</u>
Total equity		<u>157,665,062</u>	<u>22</u>	<u>150,028,838</u>	<u>21</u>
Total liabilities and equity		<u>\$ 725,707,045</u>	<u>100</u>	<u>699,310,656</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, 2019 and 2018

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

		For the years ended December 31			
		2019		2018	
		Amount	%	Amount	%
4110	Operating revenue (Notes 6(u) and 7)	\$ 1,266,262,359	100	1,237,004,302	100
4170	Less: Sales returns and allowances	1,429,474	-	2,671,004	-
	Operating revenue, net	1,264,832,885	100	1,234,333,298	100
5000	Cost of sales (Notes 6(f), 6(o), 6(s), 6(v) and 7)	1,240,714,073	98	1,216,545,408	99
5900	Gross profit from operations	24,118,812	2	17,787,890	1
5920	Add: Realized loss (profit) on from sales	11,723	-	(2,453)	-
5950	Gross profit from operations	24,130,535	2	17,785,437	1
6000	Operating expenses (Notes 6(n), 6(o), 6(p), 6(s), 6(v) and 7):				
6100	Selling expenses	2,086,169	-	2,177,669	-
6200	General and administrative expenses	2,126,375	-	2,266,231	-
6300	Research and development expenses	8,202,644	1	8,177,714	1
6300	Total operating expenses	12,415,188	1	12,621,614	1
	Net operating income	11,715,347	1	5,163,823	-
	Non-operating income and expenses:				
7010	Other income (Notes 6(x) and 7)	1,047,776	-	1,052,471	-
7020	Other gains and losses (Note 6(x))	(851,471)	-	536,602	-
7050	Finance costs (Notes 6(d), 6(m), 6(n) and 6(x))	(1,733,019)	-	(1,642,423)	-
7070	Share of profit (loss) of associates and joint ventures accounted for using equity method, net (Note 6(g))	11,333,095	1	6,634,627	1
7590	Miscellaneous disbursements (Note 6(g))	(8,282)	-	(2,071)	-
	Total non-operating income and expenses	9,788,099	1	6,579,206	1
	Profit (loss) from continuing operations before tax	21,503,446	2	11,743,029	1
7950	Less: Income tax expenses (Note 6(q))	2,185,705	-	628,163	-
	Profit (loss)	19,317,741	2	11,114,866	1
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Gains (losses) on remeasurements of defined benefit plans	(4,156)	-	5,036	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	74,555	-	(182,244)	-
8330	Share of other comprehensive income 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	5,102	-	(45,496)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		75,501	-	(222,704)	-
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8380	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(3,499,840)	-	2,204,595	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	(3,499,840)	-	2,204,595	-
8300	Other comprehensive income, net	(3,424,339)	-	1,981,891	-
8500	Total comprehensive income for the year	\$ 15,893,402	2	13,096,757	1
	Earnings per share, net of tax (Note 6(t))				
9750	Basic earnings per share	\$ 7.40		4.25	
9850	Diluted earnings per share	\$ 7.32		4.22	

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, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Retained earnings			Total other equity interest							
						Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Deferred compensation cost	Total other equity interest	Treasury stock	Total equity	
Common stock													
\$	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
	-	-	-	-	1,031,638	1,031,638	11,223	(161,048)	(883,161)	-	(1,032,986)	-	(1,348)
Balance at January 1, 2018	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
Effects of retrospective application	-	-	-	-	11,114,866	11,114,866	-	-	-	-	-	-	11,114,866
Equity at beginning of period after adjustments	-	-	-	-	2,570	2,570	2,204,595	(225,274)	-	-	1,979,321	-	1,981,891
Profit for the year	-	-	-	-	11,117,436	11,117,436	2,204,595	(225,274)	-	-	1,979,321	-	13,096,757
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-
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)	-	(524,686)	(8,393,564)	(4,974)	150,028,838
Profit for the year	-	-	-	-	19,317,741	19,317,741	-	-	-	-	-	-	19,317,741
Other comprehensive income for the year	-	-	-	-	(7,167)	(7,167)	(3,499,840)	79,232	-	-	(3,420,608)	-	(3,427,775)
Total comprehensive income	-	-	-	-	19,310,574	19,310,574	(3,499,840)	79,232	-	-	(3,420,608)	-	15,889,966
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	1,111,487	-	(1,111,487)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(946,336)	946,336	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(9,141,580)	(9,141,580)	-	-	-	-	-	-	(9,141,580)
Changes in ownership interests in subsidiaries	-	504,846	-	-	-	-	-	-	-	-	-	-	504,846
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(3,436)	(3,436)	-	3,436	-	-	3,436	-	-
Expiration of restricted shares of stock issued to employees	(12,854)	143,453	-	-	6,548	6,548	-	-	-	-	-	1,974	139,121
Compensation cost arising from restricted shares of stock	-	(272,528)	-	-	-	-	-	-	516,399	-	516,399	-	243,871
Balance at December 31, 2019	\$ 26,110,919	81,052,101	11,774,310	7,868,877	42,156,192	61,799,379	(10,982,396)	(303,654)	-	(8,287)	(11,294,337)	(3,000)	157,665,062

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, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2019	2018
Cash flows used in operating activities:		
Profit before tax	\$ 21,503,446	11,743,029
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	761,683	541,412
Amortization expense	176,795	181,072
Expected credit (gain) loss (Reversal of provision for bad debt expense)	(35,412)	47,364
Net loss on financial assets and liabilities at fair value through profit or loss	27,180	1,895
Interest expense	1,723,283	1,631,036
Interest income	(371,457)	(364,268)
Dividend income	(22,595)	(26,508)
Compensation cost arising from employee stock options	300,495	1,182,963
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(11,333,095)	(6,634,627)
Gain on disposal of property, plant and equipment	(45)	(8)
Reversal of impairment loss on non-financial assets	-	(32)
Realized (loss) gain profit from sales	(11,723)	2,453
Amortization of issuance costs on bonds payable	3,077	2,286
Gain (loss) on foreign currency exchange	(607,525)	178,875
Other loss	(38)	-
Increase (decrease) in other current liabilities	(92,683)	39,598
Decrease in other current assets	24,081	4,981
Total adjustments to reconcile profit (loss)	(9,457,979)	(3,211,508)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in financial assets at fair value through profit or loss	(171,616)	(342,215)
Increase in notes and accounts receivable	(17,868,970)	(171,289,982)
Increase in other receivables	(74,537)	(15,324)
Decrease (increase) in inventories	18,521,514	(14,504,893)
Decrease (increase) in other current assets	(39,504)	(198,904)
Increase in other financial assets	(786,405)	(54)
Increase in other non-current assets	-	(350,718)
Total changes in operating assets	(419,518)	(186,702,090)
Changes in operating liabilities:		
Increase (decrease) in contract liabilities	62,458	(29,616)
Increase in accounts and notes payable	25,632,905	139,647,968
Increase (decrease) in other payables	330,933	(599,487)
Increase in other current liabilities	3,411,824	1,407,278
Increase in other non-current liabilities	14,001	5,215
Total changes in operating liabilities	29,452,121	140,431,358
Total changes in operating assets and liabilities	29,032,603	(46,270,732)
Total adjustments	19,574,624	(49,482,240)
Cash outflow generated from operations	41,078,070	(37,739,211)
Interest received	323,119	373,815
Dividends received	1,018,137	1,724,902
Interest paid	(1,772,381)	(1,488,264)
Income taxes paid	(743,147)	(664,036)
Net cash flows used in operating activities	39,903,798	(37,792,794)

PEGATRON CORPORATION

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

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the year ended December 31	
	2019	2018
Cash flows used in investing activities:		
Acquisition of investments accounted for using equity method	(1,357,502)	(473,364)
Acquisition of property, plant and equipment	(977,181)	(2,862,341)
Proceeds from disposal of property, plant and equipment	1,632	1,151
Acquisition of intangible assets	(27,087)	(157,156)
(Increase) decrease in other financial assets	(4,986)	10,627
Increase in prepayments on purchase of equipment	(29,975)	-
Net cash flows used in investing activities	(2,395,099)	(3,481,083)
Cash flows from financing activities:		
Increase in short-term loans	(20,262,050)	37,363,500
Proceeds from issuing bonds	8,490,500	7,992,000
Repayments of lease liabilities	(79,815)	-
Cash dividends paid	(9,141,580)	(10,454,652)
Redemption of restricted stock	(10,880)	(20,165)
Net cash flows from (used in) financing activities	(21,003,825)	34,880,683
Net decrease in cash and cash equivalents	16,504,874	(6,393,194)
Cash and cash equivalents, beginning of the year	18,535,500	24,928,694
Cash and cash equivalents, end of the year	\$ 35,040,374	18,535,500

See accompanying notes to financial statements.

PEGATRON CORPORATION

Notes to the Non-Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(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 26, 2020.

(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 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.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 financial statements. The extent and impact of signification changes are as follows:

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(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”.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below :

1) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(m).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Company applied this approach to all leases.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- a) Applied a single discount rate to a portfolio of leases with similar characteristics.
- b) Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- c) Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
 - d) Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
 - e) Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional \$148,029 thousands of both right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.40%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements	\$ 153,204
Recognition exemption for:	
short-term leases	(6,844)
Residual value guarantees	4,360
	<u>\$ 150,720</u>
Discounted using the incremental borrowing rate at January 1, 2019	<u>\$ 148,029</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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

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

(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 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

(4) Summary of significant accounting policies:

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

(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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(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) Financial assets at fair value through other comprehensive income are measured at fair value ;
- 3) The net defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets.

(ii) Functional and presentation currency

The functional currency of each 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 into the respective functional currencies of Company entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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

- an investment in equity securities designated as at fair value through other comprehensive income ;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective ; or
- qualifying cash flow hedges to the extent that the hedges are effective.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(ii) Foreign operations

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

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the 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 receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future. Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation 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.

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) The Company 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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(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

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

(i) Financial assets

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

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 :

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

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

(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 :

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

Some accounts 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. However, they are included in the ‘ trade receivables’ line item.

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 instrument-by-instrument basis.

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

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

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

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

(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 :

- 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 ;
- how the performance of the portfolio is evaluated and reported to the Company's management ;
- 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 ;
- 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 :

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

6) Impairment of financial assets

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

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

- debt securities that are determined to have low credit risk at the reporting date ; and
- 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 trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the 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 and informed credit assessment as well as 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 debtor is unlikely to pay its credit obligations to the Company in full.

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

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

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

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the 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 :

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

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

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

7) Derecognition of financial assets

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Treasury shares

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

4) Financial liabilities

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

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

5) Derecognition of financial liabilities

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

7) Financial guarantee contract

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

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

(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 present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(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, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses. The cost of certain items of property, plant and equipment on January 1, 2012, the Group's date of transition to the Standards, was determined with reference to its fair value at that date.

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows :

Buildings	3-50 years
Machine	0-7 years
Instrument equipment	0-5 years
Miscellaneous equipment	0-10 years

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

(j) Leases

Applicable from January 1, 2019

(i) Identifying a lease

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified ; and
 - 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use ; and
 - 3) the customer has the right to direct the use of the asset throughout the period of use only if either :
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use ; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and :
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions ; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.
- (ii) As a lessee

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

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

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

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

- fixed payments ;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date ;
- amounts expected to be payable under a residual value guarantee ; and

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- payments for purchase or termination options that are reasonably certain to be exercised.

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

- there is a change in future lease payments arising from the change in an index or rate ;
or
- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee ; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset ; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option ; or
- there is any lease modifications

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

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

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

(iii) As a lessor

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Applicable before January 1, 2019

(i) 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.

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.

(ii) 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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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.

(k) Intangible assets

(i) Recognition and measurement

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 expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

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

The estimated useful lives for current and comparative periods are as follows :

Computer software cost 0-5 years

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

(l) Impairment of non-financial assets

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

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

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

(m) Revenue from contracts with customers

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.

(i) 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.

(ii) Services

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) 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.

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(o) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognized in profit or loss.

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

(p) Income Taxes

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

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are measured using tax rates enacted or substantively enacted at the reporting date.

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 recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(q) **Business combination**

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

Non-controlling equity interest is measured either at fair value at acquisition-date or at the share of the acquirer's identifiable net assets in each acquisition.

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the 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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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.

(r) 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.

(s) Operating segments

Please refer to the consolidated financial report of Pegatron Corporation for the years ended December 31, 2019 and 2018 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, 2019 and 2018 for judgment regarding control of subsidiaries.

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(f) for further description of the valuation of inventories.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 150	150
Cash in banks	4,924,444	7,360,108
Time deposits	25,717,580	6,939,442
Cash equivalent-repurchase bonds	<u>4,398,200</u>	<u>4,235,800</u>
	<u>\$ 35,040,374</u>	<u>18,535,500</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(k) and 8 for details.
- (ii) Please refer to Note 6(x) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

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

	December 31, 2019	December 31, 2018
Non-current mandatorily measured at fair value through profit or loss :		
Non-derivative financial assets		
Shares of stock of listed companies	\$ 225,050	217,000
Beneficiary certificates	<u>259,706</u>	<u>123,320</u>
Total	<u>\$ 484,756</u>	<u>340,320</u>

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

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

	December 31, 2019	December 31, 2018
Equity instruments at fair value through other comprehensive income :		
Shares of stock of listed companies	\$ 551,703	477,148
Shares of stock of unlisted companies	<u>-</u>	<u>-</u>
Total	<u>\$ 551,703</u>	<u>477,148</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

The Company holds these equity instruments, which are not held for trading at designated fair value through other comprehensive income, for longterm strategic purposes.

For the year ended December 31, 2019 and 2018, the Company has recognized the dividend income of \$16,568 and \$26,508, respectively, from equity instruments designated at fair value through other comprehensive income. Please refer to Note 6(w).

No strategic investments were disposed for the year ended December 31, 2019 and 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(ii) Please refer to Note 6(x) for credit risk and market risk.

(iii) The aforesaid financial assets were not pledged as collateral.

(d) Notes and accounts receivable, net

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

	December 31, 2019	December 31, 2018
Notes receivables from operating activities	\$ -	14
Accounts receivables-measured at amortized cost	181,520,899	163,450,388
Accounts receivables-fair value through other comprehensive income	7,495,000	15,357,500
Accounts receivables-related parties	321,644,303	313,983,330
Less : Allowance for impairment	<u>1,524,216</u>	<u>1,559,628</u>
	<u>\$ 509,135,986</u>	<u>491,231,604</u>

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

The loss allowance provision was determined as follows :

	December 31, 2019		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 451,799,637	0%~0.001%	(1,885)
Overdue 0 to 30 days	55,293,013	0%~1%	(18,427)
Overdue 31 to 120 days	2,062,988	0%~50%	(900)
Overdue 121 to 365 days	3,111	0%~100%	(1,551)
Over 365 days past due	1,501,453	100%	(1,501,453)
	\$ 510,660,202		(1,524,216)

	December 31, 2018		
	Gross carrying amount	Expected loss rate	Loss allowance provision
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	1,538,263	100%	(1,538,263)
	\$ 492,791,232		(1,559,628)

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

	For the years ended December 31	
	2019	2018
Balance on January 1	\$ 1,559,628	1,512,264
Impairment losses recognized	-	47,364
Impairment losses reversed	(35,412)	-
Balance on December 31	\$ 1,524,216	1,559,628

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(x) for the Company's notes receivable and accounts receivable exposure to credit risk and currency risk.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iv) Accounts receivable factoring

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

As of December 31, 2019 and 2018, the relevant information on accounts receivables factored by the Company, but unsettled, were as follows :

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

December 31, 2018							
Purchaser	Amount	Factoring Line	Amount Advanced		Collateral	Range of Interest	Significant Factoring Terms
	Derecognized	(thousands)	Unpaid	Paid		Rate	
ANZ (Note)	<u>\$ 4,668,680</u>	<u>USD 1,200,000</u>	<u>USD 1,048,000</u>	<u>USD 152,000</u>	None	1.99%~2.89%	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.

Note : In October 2017, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

For the years ended December 31, 2019 and 2018, the Company recognized a fee and interest on bank advance payment of \$68,962 and \$156,295, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

(e) Other receivables

	December 31, 2019	December 31, 2018
Other receivables	\$ 240,938	118,063
Less : Allowance for impairment	-	-
	<u>\$ 240,938</u>	<u>118,063</u>

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(f) Inventories

	December 31, 2019	December 31, 2018
Merchandise	\$ 29,596,926	49,921,122
Finished goods	259,013	99,070
Work in process	319,155	148,129
Raw materials	<u>1,687,643</u>	<u>769,575</u>
Subtotal	31,862,737	50,937,896
Less: Allowance for inventory market decline and obsolescence	<u>618,639</u>	<u>1,172,284</u>
Total	<u>\$ 31,244,098</u>	<u>49,765,612</u>

For the years ended December 31, 2019 and 2018, the components of cost of goods sold were as follows :

	For the years ended December 31 2019	2018
Cost of goods sold	\$ 1,241,225,348	1,216,378,764
Provision on (reversal of) inventory market price decline	(553,645)	112,569
Loss on disposal of inventory	42,370	37,123
Unallocated manufacturing overhead	<u>-</u>	<u>16,952</u>
	<u>\$ 1,240,714,073</u>	<u>1,216,545,408</u>

For the years ended December 31, 2019, the Company recognized a gain from the reversal of allowance for inventory valuation loss resulting from destocking. Such gain was deducted from cost of goods sold. For the year ended December 31, 2018, the Company recognized a inventory valuation loss because of the decreasing value from the carrying amount to the net realized value, and converted the amount to cost of goods sold.

As of December 31, 2019 and 2018, the aforesaid inventories were not pledged as collateral.

(g) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
Subsidiary	<u>\$ 138,654,566</u>	<u>129,941,116</u>

(i) Subsidiaries

Please refer to the consolidated financial statement for the years ended December 31, 2019 and 2018.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- (ii) For the years ended December 31, 2019, the Company had participated in the capital increase of PEGETRON SERVICE AUSTRALIA PTY. LTD. and PT. PEGATRON TECHNOLOGY INDONESIA with the amounts of USD3,500 thousand (approximately NTD108,133 thousand) and USD39,999 thousand (approximately NTD1,249,369 thousand), respectively. For the year ended December 31, 2018, the Company had participated in the capital increase of CASETEK HOLDINGS LIMITED (CAYMAN) and PEGETRON SERVICE AUSTRALIA PTY. LTD. with the amounts of NTD442,409 thousand and USD1,000 thousand (approximately NTD30,955 thousand), respectively.
- (iii) For the years ended December 31, 2019 and 2018, the Company received cash dividend of \$995,542 and \$1,698,394, respectively, from its investee companies accounted for under equity method.
- (iv) As of December 31, 2019 and 2018, the investments in aforesaid equity-accounted investees were not pledged as collateral.
- (h) 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, 2019 and 2018 were as follows :

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress and equipment under test	Total
Cost or deemed cost:							
Balance on January 1, 2019	\$ 4,377,733	3,025,754	64,684	282,249	827,797	108,723	8,686,940
Additions	-	40,611	276,243	214,928	551,842	239,444	1,323,068
Disposals and obsolescence	-	(37,878)	(11,383)	(106,820)	(507,601)	-	(663,682)
Reclassifications	-	45,070	-	-	138,079	(84,495)	98,654
Balance on December 31, 2019	<u>\$ 4,377,733</u>	<u>3,073,557</u>	<u>329,544</u>	<u>390,357</u>	<u>1,010,117</u>	<u>263,672</u>	<u>9,444,980</u>
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	<u>\$ 4,377,733</u>	<u>3,025,754</u>	<u>64,684</u>	<u>282,249</u>	<u>827,797</u>	<u>108,723</u>	<u>8,686,940</u>
Depreciation and impairment loss :							
Balance on January 1, 2019	\$ -	809,020	14,305	150,197	328,776	-	1,302,298
Depreciation for the year	-	98,002	39,772	101,095	442,401	-	681,270
Disposals and obsolescence	-	(37,878)	(11,384)	(106,819)	(506,014)	-	(662,095)
Balance on December 31, 2019	<u>\$ -</u>	<u>869,144</u>	<u>42,693</u>	<u>144,473</u>	<u>265,163</u>	<u>-</u>	<u>1,321,473</u>
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>

(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 and equipment under test</u>	<u>Total</u>
Carrying amounts :							
Balance on December 31, 2019	\$ 4,377,733	2,204,413	286,851	245,884	744,954	263,672	8,123,507
Balance on January 1, 2018	\$ 2,358,521	1,375,831	13,324	151,400	261,704	562,132	4,722,912
Balance on December 31, 2018	\$ 4,377,733	2,216,734	50,379	132,052	499,021	108,723	7,384,642

(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(w) for details.

(ii) Please refer to Note 6(w) for gain or loss on disposal of property, plant and equipment.

(iii) As of December 31, 2019 and 2018, the property, plant and equipment were not pledged as collateral.

(i) Right-of-use assets

The movements in the cost and depreciation of the leased land and buildings were as follows :

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
Balance on January 1, 2019	\$ -	-	-
Effects of retrospective application	6,553	141,476	148,029
Additions	11,139	74,928	86,067
Reductions	-	(19,860)	(19,860)
Balance on December 31, 2019	\$ <u>17,692</u>	<u>196,544</u>	<u>214,236</u>
Accumulated depreciation:			
Balance on January 1, 2019	\$ -	-	-
Effects of retrospective application	-	-	-
Depreciation for the period	5,582	74,831	80,413
Reductions	-	(4,663)	(4,663)
Balance on December 31, 2019	\$ <u>5,582</u>	<u>70,168</u>	<u>75,750</u>
Carrying amounts:			
Balance on December 31, 2019	\$ <u>12,110</u>	<u>126,376</u>	<u>138,486</u>

For the years ended December 31, 2018, the Company leased offices, warehouses, and parking lots under an operating lease, please refer to Note 6(o).

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(j) Intangible assets

The intangible assets of the Company consisted of computer software and golf certificate. The movements in the costs, amortization, and impairment loss of the Company were as follows :

Costs:

Balance on January 1, 2019	\$ 548,404
Additions	27,087
Disposals	(145,020)
Reclassifications	<u>318</u>
Balance on December 31, 2019	<u><u>\$ 430,789</u></u>
Balance on January 1, 2018	\$ 464,692
Additions	157,156
Disposals	<u>(73,444)</u>
Balance on December 31, 2018	<u><u>\$ 548,404</u></u>

Amortization and Impairment Loss:

Balance on January 1, 2019	\$ 255,359
Amortization for the year	176,795
Disposals	<u>(145,020)</u>
Balance on December 31, 2019	<u><u>\$ 287,134</u></u>
Balance on January 1, 2018	\$ 147,731
Amortization for the year	181,072
Disposals	<u>(73,444)</u>
Balance on December 31, 2018	<u><u>\$ 255,359</u></u>

Carrying amounts:

Balance on December 31, 2019	<u><u>\$ 143,655</u></u>
Balance on January 1, 2018	<u><u>\$ 316,961</u></u>
Balance on December 31, 2018	<u><u>\$ 293,045</u></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, 2019 and 2018, the intangible assets were not pledged as collateral.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(k) Other financial assets and other assets

Other financial assets and other assets were as follows :

	December 31, 2019	December 31, 2018
Other financial assets-current	\$ 828,075	41,670
Other financial assets-noncurrent	27,708	22,722
Other current assets	385,443	452,584
Other noncurrent assets	29,975	-
	<u>\$ 1,271,201</u>	<u>516,976</u>

- (i) Other financial assets are assets that do not qualify as cash equivalents which consisted of time deposits, restricted time deposits, and guarantee deposits. Please refer to Note 8 for details.
- (ii) Other current assets consisted of prepayments, temporary payments, right to returned goods and others.
- (iii) Other noncurrent assets consisted of prepayments for equipment.

(l) Short-term loans

	December 31, 2019	December 31, 2018
Unsecured bank loans	<u>\$ 38,674,200</u>	<u>59,433,525</u>
Interest rate	<u>0.6%~4.70%</u>	<u>0.51%~5.11%</u>

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

(m) Bonds payable

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

	December 31, 2019	December 31, 2018
Ordinary corporate bonds issued	\$ 23,500,000	15,000,000
Unamortized discount on bonds payable	(19,661)	(13,238)
Bonds payable, end of the year	23,480,339	14,986,762
Less: current portion	(3,000,000)	-
	<u>\$ 20,480,339</u>	<u>14,986,762</u>

	For the years ended December 31 2019	2018
Interest expense	<u>\$ 190,068</u>	<u>146,821</u>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

Item	1st unsecured ordinary bonds issued in 2017
1.Issuing amount	The Bonds are issued at \$7,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$3,000,000, \$2,000,000 and \$2,000,000, respectively.
2.Par value	Each unit is valued at \$1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from July 13, 2017 and matures on July 13, 2020. The issuance period of Tranche B commences from July 13, 2017 and matures on July 13, 2022. The issuance period of Tranche C commences from July 13, 2017 and matures on July 13, 2024.
5.Coupon rate	Tranche A, B and C bear annual coupon rates of 0.91%, 1.06% and 1.20%, respectively.
6.Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7.Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8.Guarantee	The Bonds are unsecured ordinary corporate bonds.
Item	2nd unsecured ordinary bonds issued in 2017
1.Issuing amount	The Bonds are issued at \$8,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$1,000,000, \$4,500,000 and \$2,500,000, respectively.
2.Par value	Each unit is valued at \$1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from January 10, 2018 and matures on January 10, 2021. The issuance period of Tranche B commences from January 10, 2018 and matures on January 10, 2023. The issuance period of Tranche C commences from January 10, 2018 and matures on January 10, 2025.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

On March 14, 2019, the Company's Board of Directors approved to issue unsecured ordinary corporate bonds, which were approved and declared effective by the Taipei Exchange (TPEX) on June 3, 2019, the offering information and main rights and obligations were as follows :

Item	2nd unsecured ordinary bonds issued in 2019
1.Issuing amount	The Bonds are issued at \$8,500,000, which comprise Tranche A, and Tranche B. The issuing amounts of Tranche A and Tranche B are \$6,000,000 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 and Tranche B has 5year term and 7year term, respectively. The issuance period of Tranche A commences from June 13, 2019 and matures on June 13, 2024. The issuance period of Tranche B commences from June 13, 2019 and matures on June 13, 2026.
5.Coupon rate	Tranche A, and B bear annual coupon rates of 0.85% and 0.95%, respectively.
6.Repayment	Tranche A, and Tranche B 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(n) Lease liabilities

The Company's lease liabilities were as follows :

	December 31, 2019
Current	\$ <u>57,034</u>
Non-current	\$ <u>82,012</u>

For the maturity analysis, please refer to Note 6(x).

The amounts recognized in profit or loss were as follows :

	For the years ended December 31 2019
Interest on lease liabilities	\$ <u>1,698</u>
Expenses relating to short-term leases	\$ <u>7,948</u>

The amounts recognized in the statement of cash flows for the Company was as follows :

	For the years ended December 31 2019
Total cash outflow for leases	\$ <u>89,461</u>

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

The Company leases partial offices and parking lots that are shortterm leases. The Company has chosen to apply the exemption and not to recognize rightofuse assets and lease liabilities for these leases.

(o) Operating leases

(i) Lessee

As of December 31, 2018, the Company's lease commitments were as follows:

	December 31, 2018
Less than one year	\$ 84,781
Between one and five years	<u>68,423</u>
	<u>\$ 153,204</u>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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 year ended December 31, 2018, expenses recognized in profit or losses in respect of operating leases were as follows:

	For the years ended December 31 2018
Cost of sales	\$ 51,801
Operating expenses	<u>101,146</u>
	<u>\$ 152,947</u>

(p) Employee benefits

(i) Defined benefit plans

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

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	\$ 39,144	32,800
Fair value of plan assets	<u>(11,760)</u>	<u>(10,827)</u>
Net defined benefit liabilities	<u>\$ 27,384</u>	<u>21,973</u>

The Company's employee benefit liabilities were as follows :

	December 31, 2019	December 31, 2018
Short-term employee benefits	\$ 160,121	136,953
Cash-settled share-based payment liabilities	<u>94,337</u>	<u>187,933</u>
Total employee benefit liabilities	<u>\$ 254,458</u>	<u>324,886</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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

As of December 31, 2019, the Company's contributions to the pension funds which amounted to \$11,760 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, 2019 and 2018 were as follows :

	For the years ended December 31	
	2019	2018
Defined benefit obligation, January 1	\$ 32,800	34,614
Current service costs and interest	1,860	2,987
Re-measurement of the net defined benefit liability		
— Actuarial losses arose from changes in demographic assumptions	1,391	(1,754)
— Actuarial gains arose from changes in financial assumption	4,057	1,366
— Experience adjustment	(964)	(4,413)
Defined benefit obligation, December 31	<u><u>\$ 39,144</u></u>	<u><u>32,800</u></u>

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, 2019 and 2018 were as follows :

	For the years ended December 31	
	2019	2018
Fair value of plan assets, January 1	\$ 10,827	9,984
Interests revenue	154	160
Re-measurement of the net defined benefit liability		
— Experience adjustment	328	235
Benefits paid by the plan	451	448
Fair value of plan assets, December 31	<u><u>\$ 11,760</u></u>	<u><u>10,827</u></u>

4) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2019 and 2018 were as follows :

	For the years ended December 31	
	2019	2018
Current service cost	\$ 1,394	2,434
Net interest on net defined benefit liability	312	393
	<u><u>\$ 1,706</u></u>	<u><u>2,827</u></u>
Operating expense	<u><u>\$ 1,706</u></u>	<u><u>2,827</u></u>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- 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, 2019 and 2018 were as follows :

	For the years ended December 31	
	2019	2018
Cumulative amount, January 1	\$ 12,834	7,798
Recognized during the year	(4,156)	5,036
Cumulative amount, December 31	\$ 8,678	12,834

- 6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows :

	December 31, 2019	December 31, 2018
Discount rate	0.92 %	1.42 %
Future salary increase rate	3.00 %	3.00 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is \$451.

The weighted-average duration of the defined benefit plans is 23 years.

- 7) Sensitivity Analysis

As of December 31, 2019 and 2018, 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, 2019		
Discount rate	(4,190)	4,750
Future salary increase rate	4,624	(4,129)
December 31, 2018		
Discount rate	(3,554)	4,030
Future salary increase rate	3,944	(3,519)

(Continued)

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Notes to the Non-Consolidated Financial Statements

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, 2019 and 2018 amounted to \$320,783 and \$316,281, respectively.

(q) Income Tax

- (i) The components of income tax expense for the years ended December 31, 2019 and 2018 were as follows :

	For the years ended December 31	
	2019	2018
Current income tax expense		
Current period incurred	\$ 2,042,940	472,062
Prior years income tax adjustment	7,219	265,151
10% surtax on undistributed earnings	142,117	-
Deferred tax expense		
The origination and reversal of temporary differences	(6,571)	(9,847)
Adjustment in tax rate	-	(99,203)
Income tax expense	\$ 2,185,705	628,163

- (ii) The amounts of income tax recognized directly in equity for the years ended December 31, 2019 and 2018 were as follows :

	For the years ended December 31	
	2019	2018
Profit before income tax	\$ 21,503,446	11,743,029
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	4,300,689	2,348,606
Adjustment in tax rate	-	(99,203)
Permanent differences	(17,260)	573,690
Changes in unrecognized temporary differences	(2,247,060)	(2,460,081)
Prior years income tax adjustment	7,219	265,151
10% surtax on undistributed earnings	142,117	-
Income tax expense	\$ 2,185,705	628,163

(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, 2019 and 2018, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future.

	December 31, 2019	December 31, 2018
The aggregate temporary differences associated with investments in subsidiaries	\$ 55,849,448	44,614,150
Unrecognized deferred tax liabilities	\$ 11,169,890	8,922,830

2) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2019 and 2018 were as follows :

	Gain on foreign investments	Others	Total
Deferred tax liabilities:			
Balance on January 1, 2019	\$ -	35,426	35,426
Recognized in (profit)	<u>-</u>	<u>(35,426)</u>	<u>(35,426)</u>
Balance on December 31, 2019	\$ -	-	-
Balance on January 1, 2018	\$ -	-	-
Recognized in loss	<u>-</u>	<u>35,426</u>	<u>35,426</u>
Balance on December 31, 2018	\$ -	35,426	35,426
	Gain or loss on valuation of inventory	Others	Total
Deferred tax assets:			
Balance on January 1, 2019	\$ 234,457	472,173	706,630
Recognized in (loss) of profit	<u>(110,729)</u>	<u>81,874</u>	<u>(28,855)</u>
Balance on December 31, 2019	\$ 123,728	554,047	677,775
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	\$ 234,457	472,173	706,630

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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.

(r) Share capital and other interests

(i) Ordinary shares

Reconciliation of shares outstanding for 2019 and 2018 was as follows :

(In thousands of shares)	Ordinary Shares	
	2019	2018
Beginning balance on January 1	2,612,377	2,614,090
Retirement of restricted shares of stock	(1,285)	(1,713)
Ending balance on December 31	2,611,092	2,612,377

For the years ended December 31, 2019 and 2018, the Company had retired 1,285 and 1,713 thousand shares, respectively, of restricted stock to employees. 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 were consisted of 2,611,092 and 2,612,377 thousand common shares of stock, as of December 31, 2019 and 2018, respectively. All share proceeds from outstanding capital have been collected.

As of December 31, 2019 and 2018, the restricted Company shares of stock issued to employees have expired, of which 300 and 497 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

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

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Guidelines for Offering and Issuing by Issuer of Overseas Securities". As of December 31, 2019 and 2018, the Company has listed, in total, 790 and 1,594 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 3,949 and 7,971 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

(iii) Capital surplus

The components of the capital surplus were as follows :

	December 31, 2019	December 31, 2018
From issuance of share capital	\$ 65,571,841	64,623,295
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	2,432,387	2,383,056
Changes in ownership interest in subsidiaries	1,215,540	760,025
Employee stock options	1,304	1,304
Restricted stock to employees	323,835	1,401,456
Other	409,917	409,917
	<u>\$ 81,052,101</u>	<u>80,676,330</u>

According to the R.O.C. Company Act, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting a deficit. The aforementioned realized capital surplus includes share premiums and donation gains. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital reserves that can be capitalized shall not exceed 10% of the total common stock outstanding.

(iv) Retained earnings

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Legal reserve

When a company incurs profit, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, of up to 25% of the actual share capital.

2) Special reserve

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

3) Earnings Distribution

Earnings distribution for 2018 and 2017 was decided by the resolution adopted, at the general meeting of shareholders held on June 21, 2019 and June 20, 2018, respectively. The relevant dividend distributions to shareholders were as follows :

		For the years ended December 31			
		2018		2017	
Common stock dividends per share (dollars)					
— Cash		\$ 3.50		4.00	
(v) Other equity interest (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, 2019	\$ (7,482,556)	(386,322)	-	(524,686)	(8,393,564)
Exchange differences on subsidiaries accounted for using equity method	(3,499,840)	-	-	-	(3,499,840)
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	74,555	-	-	74,555
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	3,436	-	-	3,436
Unrealized losses on subsidiaries accounted for using equity method from financial assets measured at fair value through other comprehensive income	-	4,677	-	-	4,677
Deferred compensation cost arising from issuance of restricted stock	-	-	-	516,399	516,399
Balance on December 31, 2019	\$ (10,982,396)	(303,654)	-	(8,287)	(11,294,337)

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

	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	-	(182,244)	-	-	(182,244)
Unrealized losses on subsidiaries accounted for using equity method from financial assets measured at fair value through other comprehensive income	-	(43,030)	-	-	(43,030)
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>

(s) Share-based payment

Information on share-based payment transactions as of December 31, 2019 and 2018 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	7.39%、0.73%	8.33%
Estimated future turnover rate for each or the three years of employees	10.21%	-

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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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.

(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	22.46%	33.31%	33.37%
Expected dividend yield	-%	-%	-%
Risk-free interest rate	(Note A)	(Note B)	(Note C)

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Notes to the Non-Consolidated Financial Statements

Note A : The risk-free interest rate is 0.13% for the period between three and six month.

Note B : The risk-free interest rate is 0.16% for the period between six and nine month.

Note C : The risk-free interest rate is 0.7992% for the 3rd year.

(ii) Restricted stock to employee

For the years ended December 31, 2019 and 2018, 1,088 and 2,017 thousand shares of the restricted shares of stock issued to employees have expired, which were converted to capital surplus of \$10,880 and \$20,165, respectively. As of December 31, 2019 and 2018, the Company has deferred compensation cost arising from issuance of restricted stock of \$8,287 and \$524,686, respectively.

For the years ended December 31, 2019 and 2018, the Company reversed and recognized salary cost of \$6,548 and \$43,617 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 credited/debited to retained earnings.

(iii) Expenses recognized in profit or loss

The Company incurred expenses of share-based arrangements for the years ended December 31, 2019 and 2018 as follows :

	For the years ended December 31	
	2019	2018
Expenses resulting from the issuance of restricted stock to employees	\$ <u><u>300,495</u></u>	<u><u>1,182,963</u></u>

(t) Earnings per share

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

	For the years ended December 31	
	2019	2018
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ <u><u>19,317,741</u></u>	<u><u>11,114,866</u></u>
Weighted-average number of ordinary shares	<u>2,611,330</u>	<u>2,612,769</u>
	\$ <u><u>7.40</u></u>	<u><u>4.25</u></u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ <u><u>19,317,741</u></u>	<u><u>11,114,866</u></u>
Weighted-average number of ordinary shares	<u>2,611,330</u>	<u>2,612,769</u>
Effect of potentially dilutive ordinary shares		
Employee stock bonus	<u>27,226</u>	<u>20,580</u>
Weighted-average number of ordinary shares (diluted)	<u>2,638,556</u>	<u>2,633,349</u>
	\$ <u><u>7.32</u></u>	<u><u>4.22</u></u>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(u) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the years ended December 31	
	2019	2018
Primary geographical markets		
Europe	\$ 546,492,308	539,191,013
U.S.A.	443,159,372	440,529,466
Taiwan	121,270,205	102,927,767
China	23,045,520	19,571,350
Japan	63,241,132	71,375,381
Other countries	<u>67,624,348</u>	<u>60,738,321</u>
	<u>\$ 1,264,832,885</u>	<u>1,234,333,298</u>

(ii) Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes receivable	\$ -	14	-
Accounts receivable	189,015,899	178,807,888	131,243,680
Less: Allowance for impairment	<u>(1,524,216)</u>	<u>1,559,628</u>	<u>(1,510,916)</u>
Total	<u>\$ 187,491,683</u>	<u>177,248,274</u>	<u>129,732,764</u>
Contract liabilities	<u>\$ 671,460</u>	<u>609,002</u>	<u>638,618</u>

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

The amount of revenue recognized for the year ended December 31, 2019 and 2018 that was included in the contract liability balance at the beginning of the period was \$295,806 and \$446,340, respectively.

The major change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received. There were no other significant changes for the year ended December 31, 2019 and 2018.

(v) 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

For the years ended December 31, 2019 and 2018, remuneration of employees of \$1,639,000 and \$896,000, respectively, and remuneration of directors of \$163,000 and \$89,000, 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, 2019 and 2018. 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, 2019 and 2018. For further information, please refer to Market Observation Post System.

(w) Non-operating income and expenses

(i) Other income

	For the years ended December 31	
	2019	2018
Interest income	\$ 371,457	364,268
Rental income	124,604	116,790
Technical service income	390,185	334,166
Other income	161,530	237,247
	\$ 1,047,776	1,052,471

(ii) Other gains and losses

	For the years ended December 31	
	2019	2018
Reversal of expected credit loss	\$ 35,412	-
Gains on disposal of property, plant and equipment	45	8
Foreign exchange (losses) gains	(859,786)	538,457
Gain on lease modifications	38	-
Net losses on evaluation of financial assets measured at fair value through profit or loss	(27,180)	(1,895)
Reversal of impairment loss on property, plant and equipment	-	32
	\$ (851,471)	536,602

(iii) Finance costs

	For the years ended December 31	
	2019	2018
Interest expenses	\$ 1,723,283	1,631,036
Finance expense-bank fees	9,736	11,387
	\$ 1,733,019	1,642,423

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(x) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Credit risk concentrations

As of December 31, 2019 and 2018, the accounts receivable from the Company's top three customers amounted to \$393,102,840 and \$366,583,720, representing 77% and 75% of accounts receivable, respectively, which exposes the Company to credit risk.

3) Accounts receivable of credit risk

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

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

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, 2019					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 38,674,200	38,674,200	38,674,200	-	-
Unsecured ordinary corporate bond	23,500,000	23,500,000	3,000,000	1,000,000	19,500,000
Non-interest bearing liabilities	484,408,121	484,408,121	484,408,121	-	-
Lease liabilities	<u>139,046</u>	<u>139,046</u>	<u>57,034</u>	<u>40,315</u>	<u>41,697</u>
	<u>\$ 546,721,367</u>	<u>546,721,367</u>	<u>526,139,355</u>	<u>1,040,315</u>	<u>19,541,697</u>
December 31, 2018					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 59,433,525	59,433,525	59,433,525	-	-
Issuance of unsecured ordinary corporate bonds	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>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

The liquidity of the aforesaid bank loans, bonds payable, and lease liabilities, does not include the 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.

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, 2019			December 31, 2018		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 17,754,578	29.980	532,282,248	16,289,400	30.715	500,328,921
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	17,153,161	29.980	514,251,767	16,579,638	30.715	509,243,581

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, 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, 2019 and 2018 would have increased or decreased the before-tax net income by \$180,305 and \$89,147, 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, 2019 and 2018, the foreign exchange losses, including both realized and unrealized, amounted to \$859,786 and \$538,457, respectively.

Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and nonderivative 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 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.

(Continued)

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Notes to the Non-Consolidated Financial Statements

If the interest rate increases / decreases by 1%, the Company's net income will decrease /increase by \$167,888 and \$135,637 for the years ended December 31, 2019 and 2018, respectively, assuming all other variable factors remain constantly. This is mainly due to the Company'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			
	2019		2018	
	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%	\$ <u>16,551</u>	<u>6,752</u>	<u>14,314</u>	<u>6,510</u>
Decrease 3%	\$ <u>(16,551)</u>	<u>(6,752)</u>	<u>(14,314)</u>	<u>(6,510)</u>

(vi) Fair value of financial instruments

1) Categories of financial instruments and fair value hierarchy

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 :

	December 31, 2019				
	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	\$ <u>484,756</u>	<u>225,050</u>	<u>-</u>	<u>259,706</u>	<u>484,756</u>
Financial assets at fair value through other comprehensive income					
Receivables-Financial assets at fair value through other comprehensive income	\$ <u>7,495,000</u>	<u>7,495,000</u>	<u>-</u>	<u>-</u>	<u>7,495,000</u>
Stock of listed companies	<u>551,703</u>	<u>551,703</u>	<u>-</u>	<u>-</u>	<u>551,703</u>
Subtotal	<u>8,046,703</u>	<u>8,046,703</u>	<u>-</u>	<u>-</u>	<u>8,046,703</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

December 31, 2019					
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost					
Cash and cash equivalents	\$ 35,040,374	-	-	-	-
Notes and accounts receivable	501,640,986	-	-	-	-
Other receivables	240,938	-	-	-	-
Other financial assets	855,783	-	-	-	-
Subtotal	537,778,081	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$ 38,674,200	-	-	-	-
Non-interest bearing liabilities	484,408,121	-	-	-	-
Lease liabilities	139,046	-	-	-	-
Unsecured ordinary corporate bond	23,480,339	-	-	-	-
Subtotal	546,701,706	-	-	-	-
December 31, 2018					
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 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
Financial assets carried at cost	-	-	-	-	-
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	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$ 59,433,525	-	-	-	-
Non-interest bearing liabilities	457,941,002	-	-	-	-
Unsecured ordinary corporate bond	14,986,762	-	-	-	-
Subtotal	532,361,289	-	-	-	-

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

2) Valuation techniques for financial instruments not measured at fair value :

The assumptions and methods used in valuing financial instruments that are not measured at fair value are as follows :

a) Financial assets and liabilities measured at amortized cost

Fair value measurement for financial assets and liabilities is based on the latest quoted price and agreed-upon price if these prices are available in active market. When market value is unavailable, fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

3) Valuation techniques for financial instruments measured at fair value :

a) Non-derivative financial instruments

Financial instruments trade in active markets is based on quoted market prices.

If quoted price of a financial instrument can be obtained in time and often from exchanges, brokers, underwriters, industrial union, pricing institute, or authorities and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have quoted price in active market. If a financial instrument does not accord with the definition aforementioned, then it is considered to be without quoted price in active market. In general, market with low trading volume or high bid-ask spreads is an indication of non-active market.

Measurements of fair value of financial instruments without active market are based on valuation technique or quoted price from competitor. Fair value measured by valuation technique can be extrapolated from similar financial instruments, discounted cash flow method or other valuation technique which include model calculating with observable market data at the balance sheet date.

b) Derivative financial instruments

It is based on the valuation model accepted by the most market users, ex: Discount rate and option pricing model. Forward exchange agreement is usually based on the current forward rate.

Fair value of structured financial instruments is based on appropriated valuation model, ex: Black-Scholes model, or other valuation model, ex: Monte Carlo simulation.

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the years ended December 31, 2019 and 2018.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

5) Reconciliation of Level 3 fair values

	Non derivative mandatorily measured at fair value through profit or loss
Opening balance, January 1, 2019	\$ 123,320
Total gains and losses recognized:	
In profit or loss	(35,230)
Purchased	171,616
Ending Balance, December 31, 2019	<u>\$ 259,706</u>
Opening balance, January 1, 2018	\$ -
Total gains and losses recognized:	
In profit or loss	(8,895)
Purchased	132,215
Ending Balance, December 31, 2018	<u>\$ 123,320</u>

For the years ended December 31, 2019 and 2018, total gains and losses that were included in “other gains and losses” were as follows:

	For the years ended December 31	
	2019	2018
Total gains and losses recognized:		
In profit or loss, and including “other gains and losses”	\$ <u>(35,230)</u>	<u>(8,895)</u>

6) 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, 2019						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 58,655,071	52,072,003	6,583,068	-	-	6,583,068
December 31, 2019						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 52,072,003	52,072,003	-	-	-	-
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	\$ 89,871,072	76,858,784	13,012,288	-	-	13,012,288
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	\$ 76,858,784	76,858,784	-	-	-	-

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(y) 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.

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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. As of December 31, 2019, please refer to Note 13 and table 2 for the Company's endorsement and guarantees.

(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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(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.

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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(z) Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, paid-in capital, retained earnings and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Company used the 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 Company's debt to equity ratios at the balance sheet date were as follows:

	December 31, 2019	December 31, 2018
Total liabilities	\$ 568,041,983	549,281,818
Less: cash and cash equivalents	<u>(35,040,374)</u>	<u>(18,535,500)</u>
Net debt	533,001,609	530,746,318
Total capital (Note)	<u>157,665,062</u>	<u>150,028,838</u>
Adjusted capital	<u>\$ 690,666,671</u>	<u>680,775,156</u>
Debt to equity ratio	<u>77.17%</u>	<u>77.96%</u>

Note : Total capital includes share capital, capital surplus, retained earnings, other equity and net debt.

The Company's approach to the capital management for the year ended December 31, 2019 was no change.

(aa) 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, 2019 and 2018, were as follows :

Reconciliation of liabilities arising from financing activities were as follows :

	January 1, 2019	Cash flows	Non-cash changes Foreign exchange movement	Other	December 31, 2019
Short-term loans	\$ 59,433,525	(20,262,050)	(497,275)	-	38,674,200
Bonds payable	14,986,762	8,490,500	-	3,077	23,480,339
Lease liabilities	148,029	(79,815)	-	70,832	139,046
Other payables-related parties	4,607,250	-	(110,250)	-	4,497,000
Other payables-restricted employee stock	<u>187,933</u>	<u>(10,880)</u>	<u>-</u>	<u>(82,716)</u>	<u>94,337</u>
Total liabilities from financing activities	<u>\$ 79,363,499</u>	<u>(11,862,245)</u>	<u>(607,525)</u>	<u>(8,807)</u>	<u>66,884,922</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

	January 1, 2018	Cash flows	Non-cash changes Foreign exchange movement	Other	December 31, 2018
Short-term loans	\$ 22,034,400	37,363,500	35,625	-	59,433,525
Bonds payable	6,992,476	7,992,000	-	2,286	14,986,762
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
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.

Name of related party	Relationship with the Company	Notes
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	
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	
TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD.	The Company's subsidiary	Note 2
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 ZUANSUO 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	

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Name of related party	Relationship with the Company	Notes
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	The Company's subsidiary	
PEGAVISION (SHANGHAI) LIMITED	The Company's subsidiary	
GEMVISION TECHNOLOGY (ZHEJIANG) 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	
RI SHAN COMPUTER ACCESSORY (JIA SHAN) 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	Note 3
APLUS PRECISION LIMITED	The Company's subsidiary	
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	
GREEN PACKING LIMITED	Other related party	Note 1
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	

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>	<u>Notes</u>
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 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	
PT. PEGATRON TECHNOLOGH INDONESIA	The Company's subsidiary	
RIH LI INTERNATIONAL LIMITED	The Company's subsidiary	
RITENG USA INC	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	
UNITED NEW LIMITED	The Company's subsidiary	

Note 1: On June 29, 2018, the Company disposed commons 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 2019.

Note 3: It was written off in December 2019.

(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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Subsidiaries	\$ <u>5,288,801</u>	<u>6,203,760</u>	<u>321,644,303</u>	<u>313,983,330</u>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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:

	Purchases		Payables to Related Parties	
	For the years ended December 31		December 31,	December 31,
	2019	2018	2019	2018
Subsidiaries	\$ <u><u>130,872,357</u></u>	<u><u>81,819,369</u></u>	<u><u>275,709,758</u></u>	<u><u>244,035,178</u></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.

(iii) Warranty repair expense paid to Related Parties

	For the years ended December 31	
	2019	2018
Subsidiaries	\$ <u><u>47,215</u></u>	<u><u>54,956</u></u>

(iv) Other income and losses from Related Parties

	For the years ended December 31	
	2019	2018
Subsidiaries	\$ <u><u>26,424</u></u>	<u><u>38,608</u></u>

(v) Rental revenue

For the years ended December 31, 2019 and 2018, the Company incurred subsidiaries transactions of \$108,971 and \$108,518, 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, 2019 and 2018, the Company incurred subsidiaries transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$748,767 and \$853,313, respectively.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(vii) Purchase and sales of real estate property and other assets

For the years ended December 31, 2019 and 2018, molds and equipment purchased from subsidiaries are amounted to \$411,037 and \$62,399, respectively.

(viii) Other related party transactions accounted for as assets and liabilities in the balance sheet

	December 31, 2019	December 31, 2018
Other receivables		
Subsidiaries	\$ <u>12,441</u>	<u>22,281</u>
Other payables		
Subsidiaries	\$ <u>511,503</u>	<u>670,235</u>
Other current liabilities		
Subsidiaries	\$ <u>3,945</u>	<u>30,731</u>
Other non-current liabilities		
Subsidiaries	\$ <u>10,438</u>	<u>10,570</u>

(ix) Borrowings from related parties

	December 31, 2019	December 31, 2018
Subsidiaries	\$ <u>4,497,000</u>	<u>4,607,250</u>
Interest rate	<u>0%~1.9727%</u>	<u>1.3041%~1.9727%</u>
Interest expense	\$ <u>47,396</u>	<u>74,801</u>

(x) As of December 31, 2019, please refer to Note 13 for endorsements and guarantees for related party.

(c) Key management personnel compensation

	For the years ended December 31 2019	2018
Short-term employee benefits	\$ 181,316	152,577
Post-employment benefits	2,367	2,142
Share-based payments	<u>49,049</u>	<u>239,826</u>
	\$ <u>232,732</u>	<u>394,545</u>

Please refer to Note 6(s) for further explanations related to share-based payment transactions.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(8) Pledged assets:

As of December 31, 2019 and 2018, pledged assets were as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other financial asset-restricted deposits	Deposits for customs duties	\$ 108,075	41,670
Other financial asset-refundable deposits	Deposits for performance guarantee	27,708	22,722
		<u>\$ 135,783</u>	<u>64,392</u>

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
EUR	\$ -	2,273

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
NTD	\$ 34,263	60,780

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

(10) Losses due to major disasters: None.

(11) Subsequent events: None

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(12) Other:

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

	For the years ended December 31					
	2019			2018		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
By function						
By item						
Employee benefit						
Salary	\$ 1,376,392	7,854,272	9,230,664	1,353,305	8,046,671	9,399,976
Health and labor insurance	117,348	497,207	614,555	95,583	491,155	586,738
Pension	51,245	271,244	322,489	46,310	272,798	319,108
Remuneration of directors	-	163,000	163,000	-	89,000	89,000
Others	204,196	657,191	861,387	136,810	590,091	726,901
Depreciation	404,510	357,173	761,683	230,651	310,761	541,412
Amortization	113,548	63,247	176,795	104,955	76,117	181,072

For the years ended December 31, 2019 and 2018, the information on the number of employees and employee benefit expense of the Company is as follows :

	2019	2018
Number of employees	<u>7,365</u>	<u>7,159</u>
Number of directors (non-employee)	<u>8</u>	<u>7</u>
Average employee benefit expense	<u>\$ 1,499</u>	<u>1,543</u>
Average employee salary expense	<u>\$ 1,255</u>	<u>1,314</u>
Percentage of average employee salary expense	<u>(4.49)%</u>	

(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, 2019 (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, 2019.

(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:

Please refer to the consolidated financial statements for the year ended December 31, 2019.

Notes to the Parent Company Only Financial Statements

Table 1 Loans to other parties
December 31, 2019

No. (Note 1)	Creditor	Borrower	General ledger Account (Note 2)	Is a related party	Maximum outstanding balance during the year ended December 31, 2019	Balance at December 31, 2019	Actual amount drawn down	Interest rate	Nature of loan (Note 3)	Amount of transaction with the borrower (Note 4)	Reason for short-term financing (Note 5)	Allowances for doubtful accounts	Collateral	Limit on loans granted to a single party (Note 6)	Expressed in thousands of NTD Ceiling on total loans granted (Note 6)
1	MAINTERK COMPUTER (SUZHOU) CO., LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Other Receivables	Y	3,897,400	1,499,000	1,499,000	2.59%	2	-	Fund accommodation	-	-	13,536,930	27,073,861
2	ASUSPOWER CORPORATION	PEGATRON CORPORATION	Other Receivables	Y	210,050	4,497,000	4,497,000	0.00%	2	-	Fund accommodation	-	-	7,262,854	14,525,708
3	STARLINK ELECTRONICS CORPORATION	AUSTRALIA PTY. LTD.	Other Receivables	Y	160,000	-	-	0.66%	2	-	Fund accommodation	-	-	190,118	190,118
4	Azaware Holding (Sinnai) Inc.	AGALE CORPORATION	Other Receivables	Y	29,980	29,980	22,485	0.00%	2	-	Cash flow adequacy	-	-	470,429	470,429
5	RH LI International Limited	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Long-Term Accounts Receivable	Y	8,694,200	8,694,200	8,694,600	1.00%	2	-	Business operation	-	-	34,220,461	34,220,461
6	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Long-Term Accounts Receivable	Y	1,719,000	1,719,000	1,719,000	1.00%	2	-	Business operation	-	-	8,867,754	8,867,754
6	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RAMING (SHANGHAI) CO., LTD.	Short-Term Accounts Receivable	Y	4,297,500	1,074,375	1,074,375	1.00%	2	-	Business operation	-	-	8,867,754	8,867,754
7	RIPEL COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Short-Term Accounts Receivable	Y	300,825	214,875	214,875	1.00%	2	-	Business operation	-	-	5,085,163	5,085,163
7	RIPEL COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Long-Term Accounts Receivable	Y	429,750	257,850	257,850	1.00%	2	-	Business operation	-	-	5,085,163	5,085,163
7	RIPEL COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Long-Term Accounts Receivable	Y	2,578,500	2,578,500	2,578,500	1.00%	2	-	Business operation	-	-	5,085,163	5,085,163
8	KAIHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Long-Term Accounts Receivable	Y	214,875	214,875	214,875	1.00%	2	-	Business operation	-	-	465,845	465,845
9	RAMING (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Long-Term Accounts Receivable	Y	644,625	644,625	300,825	1.00%	2	-	Business operation	-	-	9,744,792	9,744,792
10	ASIAROCK TECHNOLOGY LIMITED	CALROCK HOLDINGS LLC	Other Receivables	Y	107,870	-	-	2.50%	2	-	Fund accommodation	-	-	3,802,238	3,802,238
11	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Other Receivables	Y	343,800	-	-	3.00%	2	-	Fund accommodation	-	-	442,955	442,955

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, temporary payments, etc., are loans, the amount will be disclosed in the table.

Note 3: If the nature of accounts receivable (including affiliated enterprises and related parties), shareholder transactions, advance payments, temporary payments, etc., are loans, the amount will be disclosed in the table.

Note 4: If the borrower has business contact with the creditor.

Note 5: Fill in business contact amount if nature of loan conforms to situation 1.

Note 6: 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 MAINTERK COMPUTER (SUZHOU) CO., LTD.'s net assets.

According to our (ASUSPOWER CORPORATION) policy for loans granted, the ceiling on total loans granted to all parties is 40% 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 ASUSPOWER CORPORATION's 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 (AZWAVE 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.

When there is a short-term financing need, the ceiling on total loans granted to which is 100% of our (RH 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),

when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our (RH LI International Limited) net assets.

According to our (RIPEL 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),

when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our (RIPEL 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),

when there is a short-term financing need, the ceiling on total loans granted to which is 100% of our (KAIHE COMPUTER ACCESSORY (SUZHOU) CO., LTD.) net assets.

According to our (RAMING (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),

when there is a short-term financing need, the amount of loans permitted to single borrower shall not exceed 100% of the net assets of RAMING (SHANGHAI) CO., LTD., and the amount of loans permitted to others shall not exceed 40% of the net assets of RAMING (SHANGHAI) CO., LTD.

According to our (ASIAROCK TECHNOLOGY LIMITED) policy for loans granted, the ceiling on total loans granted to all parties is 40% of our (ASIAROCK TECHNOLOGY LIMITED) 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.

According to our (KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.) policy for loans granted, the ceiling on total loans granted to all parties is 100% 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.

Ceiling on total loans granted to single party

According to our (MAINTEK COMPUTER (SUZHOU) CO., LTD.) policy for loans granted, the ceiling on total loans granted to single party is 50% 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 MAINTERK COMPUTER (SUZHOU) CO., LTD.'s net assets.

According to our (ASUSPOWER CORPORATION) policy for loans granted, the ceiling on total loans granted to single party is 30% of our (ASUSPOWER CORPORATION) net assets.

Notes to the Parent Company Only Financial Statements

Table 2 Guarantees and endorsements for other parties
December 31, 2019

No. (Note 1)	Endorser/ Guarantor	Party being endorsed/ guaranteed	Relationship (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2019	Outstanding endorsement/ guarantee amount as of December 31, 2019 (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 NTD
0	PEGATRON CORPORATION	PROTEK COMPUTER (SUZHOU) CO., LTD.	(6)	31,533,012	440,706	440,706	55,088	-	0.28%	78,832,531	Y	N	Y
1	KINSUS INTERCONNECT TECHNOLOGY CORP.	PROTEK COMPUTER (SUZHOU) CO., LTD.	(6)	5,113,404	458,694	458,694	57,337	-	1.79%	12,783,511	Y	N	Y
2	AZURE WAVE TECHNOLOGIES, INC.	AZURE LIGHTING TECHNOLOGIES, INC.	(2)	802,960	509,660	359,760	-	-	22.40%	802,960	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 subsidiary.

(4) The endorser / guarantor company and the endorsed / guaranteed party both be held more than 90% 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 PEGATRON CORPORATION'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 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.

Ceiling on endorsements/ guarantees provided for a single party

According to PEGATRON CORPORATION'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 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 amounts were based on foreign currencies, please refer to the spot exchange rate on the financial statement date (exchange rate on December 31, 2019 is USD/NTD: 29.98; CNY/NTD: 4.2975)

Note 5 : The amount is approved by the Board of Directors.

Notes to the Parent Company Only Financial Statements

Table 3 Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2019

Securities held by	Marketable securities		Relationship (Note 2)	General ledger account	As of December 31, 2019				Expressed in thousands of NTD	
	Category	Item			Number of shares	Book value	Ownership	Fair value	Maximum Ownership	Footnote
PEGATRON CORPORATION	Stock	ABILITY ENTERPRISE CO.,LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	33,135,500	551,703	11.73%	551,703	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	225,050	0.28%	225,050	0.28%	
"	Fund	China Renewable Energy Fund, LP(CREF)	-	financial asset measured at fair value through profit or loss-Non current	-	259,706	13.46%	259,706	13.46%	
PROTEK (SHANGHAI) LTD.	Stock	LUXSHARE ICT CO., LTD.	-	financial asset measured at fair value through profit or loss-Current	22,135,035	3,471,939	0.41%	3,471,939	0.79%	
ASUSPOWER INVESTMENT CO., LTD.	Stock	SPORTON INTERNATIONAL INC.	-	financial asset measured at fair value through profit or loss-Current	265,300	56,509	0.29%	56,509	0.31%	
"	Stock	Topoint Technology Co., Ltd.	-	financial asset measured at fair value through other comprehensive income-Non current	1,171,891	26,426	0.82%	26,426	1.22%	
"	Stock	ABILITY ENTERPRISE CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,495	108	- %	108	- %	
"	Stock	ZOWIE Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	90,973	-	0.54%	-	0.54%	
"	Stock	Syntromix CO., LTD.	-	financial asset measured at fair value through other comprehensive income-Non current	6,778	-	0.02%	-	0.02%	
"	Stock	FRESCO LOGIC INC.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	39,135	8.18%	39,135	8.18%	
"	Stock	Valens Semiconductor Ltd.	-	financial asset measured at fair value through profit or loss-Non current	4,667,570	71,510	4.18%	71,510	4.18%	
"	Stock	MedicusTek International Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	1,136,363	-	1.65%	-	1.65%	
ASUS INVESTMENT CO., LTD.	Stock	SPEED TECH CORPORATION	-	financial asset measured at fair value through profit or loss-Current	8,000,000	637,200	4.72%	637,200	4.77%	
"	Stock	Lightel Technologies Inc.	-	financial asset measured at fair value through other comprehensive income-Non current	2,000,000	59,410	7.66%	59,410	7.66%	

Notes to the Parent Company Only Financial Statements

Marketable securities				As of December 31, 2019				Expressed in thousands of NTD	
Securities held by	Category	Item	Relationship (Note 2)	General ledger account	Number of shares	Book value	Ownership	Fair value	Maximum Ownership
							- %		- %
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	268,292	-	268,292	-
"	Fund	FSITC Money Market	-	financial asset measured at fair value through profit or loss-Current	1,168,258	209,235	-	209,235	-
"	Fund	Mega Diamond Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	21,355,432	268,888	-	268,888	-
KINSUS INTERCONNECT TECHNOLOGY CORP.	Fund	Jih Sun Money Market	-	financial asset measured at fair value through profit or loss-Current	17,776,549	264,473	-	264,473	-
KINSUS INVESTMENT CO., LTD.	Fund	Taishin Ta-Chong Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	829,070	11,824	-	11,824	-
"	Stock	Ethos 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%
PEGAVISION CORPORATION	Fund	Yuanta Wan Tai Money Market	-	financial asset measured at fair value through profit or loss-Current	11,778,166	179,058	0.00%	179,058	0.00%
"	Fund	Yuanta De-Li Money Market Fund	-	financial asset measured at fair value through profit or loss-Current	8,372,796	137,062	0.00%	137,062	0.00%
Lumens Digital Optics Inc. (Lumens Optics)	Fund	Fuh Hwa Money Market	-	financial asset measured at fair value through profit or loss-Current	69,719,779	1,010,309	-	1,010,309	-
"	Fund	The RSIT Enhanced Money Market	-	financial asset measured at fair value through profit or loss-Current	7,344,735	88,229	-	88,229	-
HUA-YUAN INVESTMENT LIMITED	Stock	Nuvoton Technology Corporation	-	financial asset measured at fair value through other comprehensive income-Non current	174,758	8,170	0.06%	8,170	0.22%
"	Stock	Chicony Power Technology Co. Ltd.	-	financial asset measured at fair value through profit or loss-Current	611,644	38,411	0.16%	38,411	0.19%
"	Stock	Ethos 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	143,600	0.61%	143,600	0.61%
"	Stock	NewSmart Technology Co., Ltd.	-	financial asset measured at fair value through profit or loss-Current	500,000	16,500	4.05%	16,500	4.05%
RIH KUAN METAL CORPORATION	Stock	Ethos 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	-	23,206	10.00%	23,206	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 Statements

Table 4: Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD\$80 million or 20% of the capital stock December 31, 2019

Investor	Marketable securities		Relationship with the investor	Balance as at January 1, 2019		Addition		Disposal		Gain (loss) on 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, 2019	Amount
PEGATRON CORPORATION	Stock	PT. PEGATRON TECHNOLOGY INDONESIA	Equity investments under equity method	-	-	39,999	1,249,569 (Note 4)	-	-	-	-	39,999	1,127,261
CASETEK HOLDINGS LIMITED(CAYMAN)	Stock	RIH LI International Limited	Equity investments under equity method	-	35,893,223	20,000,000	599,601 (Note 4)	-	-	-	-	735,499,000	35,549,325
RIH LI International Limited	Capital	RIKAI COMPUTER ACCESSORY CO., LTD.	Equity investments under equity method	-	1,896,606	-	1,187,722 (Note 4)	-	-	-	-	-	4,443,336
PROTEK (SHANGHAI) LTD.	Stock	LUXSHARE ICT CO., LTD.	Financial asset measured at fair value through profit or loss	-	287,766	37,442,972	2,465,488 (Note 4)	19,993,511	2,905,815	1,668,547	1,668,547	22,135,035	3,471,939
PEGAVISION CORPORATION	Fund	Yunia Wan Tai Money Market	Financial asset measured at fair value through profit or loss- Current	-	-	28,565,798	434,000 (Note 4)	16,787,632	255,046	63	11,778,166	179,058	
							41 (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, 2019: USD/NTD: 29.98, CNY/NTD: 4.2975)

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 additional paid-in capital of the investee.

Note 7 : Which is unrealized loss arising from upstream transactions.

Notes to the Parent Company Only Financial Statements

Table 5 Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock
December 31, 2019

		Transaction		Differences in transaction terms compared to third party transactions			Expressed in thousands of NTD	
Purchaser/seller	Counterparty	Relationship with the company	Purchases (sales)	Amount	Percentage of total	Credit term	Unit price	Notes/accounts receivable (payable)
								Balance
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note 2	Purchase	1,190,218	0.16%	Open Account 90 days	-	(21,632)
PEGATRON CORPORATION	ASIAROCK TECHNOLOGY LIMITED	Note 2	Purchase	(1,750,427)	(0.14%)	Open Account 90 days	-	162,288
PEGATRON CORPORATION	ASRock-B&B Incorporation	Note 2	Sale	105,069	0.01%	Open Account 90 days	-	903%
PEGATRON CORPORATION	PEGATRON (Czech s.r.o.)	Note 2	Purchase	(2,581,497)	(0.20%)	120 days on delivery	-	(31,725)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note 2	Purchase	89,864,641	7.38%	Open Account 60 days	-	835,432
PEGATRON CORPORATION	PEGATRON CORPORATION	Note 2	Purchase	32,753,452	2.69%	Open Account 60 days	-	(19,268)
PEGATRON CORPORATION	MAINTEK COMPUTER (KUNSHAN) CO., LTD.	Note 2	Purchase	(269,479)	(0.02%)	Open Account 60 days	-	(49,959,452)
PEGATRON CORPORATION	DIGITEK (CHONGQING) LTD.	Note 2	Sale	3,815,352	0.31%	Open Account 60 days	-	(679,812)
PEGATRON CORPORATION	PROTEK (SHANGHAI) LTD.	Note 2	Purchase	190,174	0.02%	Open Account 60 days	-	(32,541,457)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note 2	Purchase	1,819,022	0.15%	Open Account 60 days	-	(6,350)
PEGATRON CORPORATION	CASETEK COMPUTER (SUZHOU) CO., LTD.	Note 2	Purchase	(282,979)	(0.02%)	Open Account 60 days	-	(185,317,389)
PEGATRON CORPORATION	RI-TENG COMPUTER ACCESSORY	Note 2	Sale	306,891	0.03%	90 days on delivery	-	84,914
PEGATRON CORPORATION	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note 2	Purchase	270,273	0.02%	Open Account 60 days	-	(53,118)
PEGATRON CORPORATION	POWTEK (SHANGHAI) LTD.	Note 2	Purchase	1,470,716	0.12%	Open Account 60 days	-	(32,111)
PEGATRON CORPORATION	PT. PEGATRON TECHNOLOGY INDONESIA	Note 2	Sale	(168,877)	(0.01%)	120 days on delivery	-	(2,146,286)
PEGATRON CORPORATION	PEGATRON CORPORATION	Note 2	Purchase	(146,402)	(0.01%)	120 days on delivery	-	155,001
PEGATRON (Czech s.r.o.)	PEGATRON CORPORATION	Note 1	Purchase	282,979	79.08%	90 days on delivery	-	8,556,161
PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Note 1	Purchase	2,581,497	83.61%	120 days on delivery	-	(849,014)
PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Note 1	Sale	(1,819,022)	(0.33%)	Open Account 60 days	-	(835,432)
PROTEK (SHANGHAI) LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	Note 3	Sale	(68,394,303)	(12.37%)	Open Account 90 days	-	185,317,389
PROTEK (SHANGHAI) LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Note 3	Purchase	1,023,513	0.20%	Open Account 60 days	-	20,595,772
PROTEK (SHANGHAI) LTD.	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note 3	Purchase	657,846	0.13%	Open Account 60 days	-	(119,520)
PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Note 3	Purchase	144,001	0.03%	Open Account 60 days	-	(144,683)
PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	Note 3	Sale	(89,864,641)	(29.28%)	Open Account 60 days	-	(36,408)
PEGAGLOBE (KUNSHAN) CO., LTD.	GRAND UPRIGHT TECHNOLOGY LTD.	Note 3	Sale	(14,031,145)	(4.57%)	Open Account 60 days	-	49,959,452
PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	Note 3	Sale	(1,023,513)	(0.33%)	Open Account 60 days	-	433,680
PEGAGLOBE (KUNSHAN) CO., LTD.	PROTEK (SHANGHAI) LTD.	Note 3	Purchase	68,394,303	24.50%	Open Account 60 days	-	119,520
MAINTEK COMPUTER (SUZHOU) CO., LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note 3	Purchase	3,280,314	1.30%	Open Account 90 days	-	(20,595,772)
MAINTEK COMPUTER (SUZHOU) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	4,109,445	1.62%	Open Account 60 days	-	(58,422)
MAINTEK COMPUTER (SUZHOU) CO., LTD.	MAINTEK CORPORATION	Note 3	Purchase	(32,753,452)	(11.73%)	Open Account 60 days	-	(465,155)
MAINTEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Sale	(1,241,752)	(0.44%)	Open Account 60 days	-	679,812
MAINTEK COMPUTER (SUZHOU) CO., LTD.	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note 3	Purchase	311,315	0.12%	Open Account 60 days	-	1,220,589
MAINTEK COMPUTER (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	143,015	0.06%	Open Account 60 days	-	(53,564)
COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Note 3	Sale	(3,280,314)	(16.14%)	Open Account 60 days	-	(21,659)
COTEK ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Note 3	Sale	(1,470,716)	(7.24%)	Open Account 60 days	-	58,422
COTEK ELECTRONICS (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Sale	(113,124)	(0.56%)	Open Account 60 days	-	2,352
CHONGQING ZIANSHUO TRADING CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Purchase	337,419	85.81%	Open Account 60 days	-	2,146,286
CHONGQING ZIANSHUO TRADING CO., LTD.	DIGITEK (CHONGQING) LTD.	Note 3	Sale	(522,292)	(80.27%)	Open Account 60 days	-	72,285
CHONGQING ZIANSHUO TRADING CO., LTD.	KAICHUAN ELECTRONICS (CHONGQING) CO., LTD.	Note 3	Sale	(337,419)	(0.26%)	Open Account 60 days	-	94,045
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Note 3	Purchase	522,292	0.40%	Open Account 60 days	-	-
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Note 1	Purchase	269,479	0.21%	Open Account 60 days	-	(94,045)
DIGITEK (CHONGQING) LTD.	PROTEK (SHANGHAI) LTD.	Note 1	Sale	(3,815,352)	(2.89%)	Open Account 60 days	-	(36,210,328)
DIGITEK (CHONGQING) LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	227,509	0.17%	Open Account 60 days	-	32,541,457
DIGITEK (CHONGQING) LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Purchase	1,241,752	0.95%	Open Account 60 days	-	(38,344)
DIGITEK (CHONGQING) LTD.	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Note 3	Purchase	113,124	0.08%	Open Account 60 days	-	(1,220,589)
CASETEK COMPUTER (SUZHOU) CO., LTD.	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Sale	(4,109,445)	(86.31%)	Open Account 60 days	-	(72,285)
CASETEK COMPUTER (SUZHOU) CO., LTD.	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Note 1	Sale	(306,891)	(6.45%)	Open Account 60 days	-	465,155
CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Note 3	Purchase	398,006	12.98%	Open Account 60 days	-	53,118
PIOTTEK (HK) TRADING LIMITED	PEGATRON CORPORATION	Note 1	Sale	(190,174)	(7.15%)	Open Account 60 days	Incomparable due to different product specification	(42,972)
PIOTTEK (HK) TRADING LIMITED	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Note 3	Sale	(342,299)	(12.88%)	Open Account 60 days	Incomparable due to different product specification	6,456
PIOTTEK (HK) TRADING LIMITED	DIGITEK (CHONGQING) LTD.	Note 3	Sale	(311,315)	(11.71%)	Open Account 60 days	-	23,834
PIOTTEK (HK) TRADING LIMITED	PIOTTEK (HK) TRADING LIMITED	Note 3	Sale	(227,509)	(8.56%)	Open Account 60 days	-	53,564
PIOTTEK (HK) TRADING LIMITED	PIOTTEK (HK) TRADING LIMITED	Note 3	Purchase	342,299	100.00%	Open Account 60 days	-	38,344
PIOTTEK (HK) TRADING LIMITED	PIOTTEK (HK) TRADING LIMITED	Note 1	Sale	(507,116)	(10.06%)	Open Account 60 days	-	(23,834)
KINSIS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	PIOTTEK (HK) TRADING LIMITED	Note 2	Purchase	2,181,488	28.69%	Open Account 30 days	Incomparable due to different product specification	19,268
KINSIS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	PIOTTEK (HK) TRADING LIMITED	Note 1	Sale	(2,181,488)	(89.89%)	Open Account 30 days	Incomparable due to different product specification	(240,392)
MEGA MERIT LIMITED	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note 3	Purchase	714,283	2.84%	Open Account 30-60 days	-	240,392
MEGA MERIT LIMITED	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Note 3	Purchase	4,597,077	18.30%	Open Account 30-60 days	-	(50,756)
MEGA MERIT LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	Note 3	Purchase	10,707,053	42.62%	Open Account 30-60 days	-	(1,471,718)
MEGA MERIT LIMITED	RI KAI COMPUTER ACCESSORY CO., LTD.	Note 3	Purchase	8,301,076	33.04%	Open Account 30-60 days	-	(1,061,952)
MEGA MERIT LIMITED	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Note 3	Purchase	803,619	3.20%	Open Account 30-60 days	-	(941,402)
MEGA MERIT LIMITED	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Note 3	Purchase	803,619	3.20%	Open Account 30-60 days	-	(224,970)

Notes to the Parent Company Only Financial Statements

			Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)	
Relationship with the counterparty	Counterparty	Purchaser/seller	Purchases (sales)	Amount	Percentage of total	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)
Note 3	PEGATRON CORPORATION	RI-TECH COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Sale	(273,273)	(9.35%)	Open Account 60 days	-	-	32,111	3.88%
	MEGA MERIT LIMITED	MEGA MERIT LIMITED	Sale	(713,110)	(24.41%)	Open Account 30-60 days	-	-	507.56	6.14%
Note 3	MEGA MERIT LIMITED	RAMING (SHANGHAI) CO., LTD.	Sale	(4,576,659)	(47.99%)	Open Account 90 days	-	-	1,471,718	48.28%
Note 3	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RAMING (SHANGHAI) CO., LTD.	Sale	(1,611,748)	(16.90%)	Open Account 30-60 days	-	-	18,678	0.61%
Note 3	RI KAI COMPUTER ACCESSORY CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Sale	(731,891)	(7.67%)	Open Account 30-60 days	-	-	37,715	1.24%
Note 3	RH KUAN METAL CORPORATION	RAMING (SHANGHAI) CO., LTD.	Sale	(2,379,287)	(24.95%)	Open Account 90 days	-	-	1,512,791	49.63%
Note 3	MEGA MERIT LIMITED	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Sale	(10,692,009)	(90.11%)	Open Account 30-60 days	-	-	1,061,952	91.07%
Note 3	RAMING (SHANGHAI) CO., LTD.	RI PEI COMPUTER ACCESSORY CO., LTD.	Purchase	663,159	13.75%	Open Account 30-60 days	-	-	(18,138)	(1.74%)
Note 3	RI KAI COMPUTER ACCESSORY CO., LTD.	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Sale	(840,533)	(7.08%)	Open Account 30-60 days	-	-	-	-
Note 3	RAMING (SHANGHAI) CO., LTD.	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Sale	(312,211)	(2.63%)	Open Account 30-60 days	-	-	-	-
Note 3	RAMING (SHANGHAI) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Purchase	292,503	11.01%	Open Account 30-60 days	-	-	103,941	8.91%
Note 3	MEGA MERIT LIMITED	MEGA MERIT LIMITED	Sale	(8,256,625)	(89.10%)	Open Account 30-60 days	-	-	(2,728)	(0.69%)
Note 3	RH KUAN METAL CORPORATION	RI KAI COMPUTER ACCESSORY CO., LTD.	Sale	(1,002,060)	(10.81%)	Open Account 90 days	-	-	941,402	78.39%
Note 3	RAMING (SHANGHAI) CO., LTD.	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Sale	(798,615)	(59.90%)	Open Account 30-60 days	-	-	256,269	21.34%
Note 3	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Sale	(431,295)	(32.35%)	Open Account 30-60 days	-	-	110,236	61.74%
Note 3	RI KAI COMPUTER ACCESSORY CO., LTD.	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Sale	(103,391)	(7.75%)	Open Account 30-60 days	-	-	48,388	27.09%
Note 3	PROTEK (SHANGHAI) LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Sale	(657,846)	(28.61%)	Open Account 30-60 days	-	-	19,937	1.66%
Note 3	PEGAGLOBE (KUNSHAN) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Sale	(428,020)	(18.62%)	Open Account 60 days	-	-	144,683	20.17%
Note 3	RI-TECH COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Sale	(270,571)	(11.77%)	Open Account 30-60 days	-	-	148,531	20.69%
Note 3	MEGA MERIT LIMITED	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Sale	(815,265)	(35.46%)	Open Account 30-60 days	-	-	118,781	16.56%
Note 3	RAMING (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Purchase	2,342,033	67.45%	Open Account 90 days	-	-	224,970	31.36%
Note 3	RI KAI COMPUTER ACCESSORY CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Purchase	996,623	28.70%	Open Account 90 days	-	-	(1,512,791)	(85.37%)
Note 2	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Purchase	1,292,252	35.43%	Open Account 60 days	-	-	(256,269)	(14.66%)
Note 1	FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Sale	(1,292,252)	(96.86%)	Open Account 60 days	-	-	(1,161,625)	(68.47%)
Note 2	ASROCK INCORPORATION	ASROCK INCORPORATION	Purchase	7,659,478	99.29%	Open Account 60 days	No comparable vendor	-	1,161,625	97.96%
Note 2	ASROCK AMERICA, INC.	ASROCK INCORPORATION	Sale	(2,432,887)	(26.53%)	Open Account 60 days	-	-	(1,341,641)	(98.77%)
Note 2	ASROCK EUROPE B.V.	ASROCK INCORPORATION	Sale	(2,586,680)	(28.20%)	Open Account 90 days	-	-	1,063,308	59.51%
Note 3	ASIAIROCK TECHNOLOGY LIMITED	ASROCK EUROPE B.V.	Purchase	1,183,213	97.57%	Open Account 45 days	-	-	193,519	10.83%
Note 3	PEGATRON CORPORATION	ASIAIROCK TECHNOLOGY LIMITED	Sale	1,750,427	10.98%	Open Account 60 days	-	-	(439,144)	(77.55%)
Note 1	PEGATRON CORPORATION	ASIAIROCK TECHNOLOGY LIMITED	Purchase	(1,190,218)	14.33%	Open Account 90 days	-	-	16,542	18.93%
Note 1	ASROCK INCORPORATION	ASIAIROCK TECHNOLOGY LIMITED	Sale	(7,659,478)	(9.71%)	Open Account 90 days	-	-	(162,288)	(13.7%)
Note 3	ASROCK Industrial Computer Corporation	ASIAIROCK TECHNOLOGY LIMITED	Sale	(1,183,213)	(9.66%)	Open Account 60 days	No comparable client	-	21,632	0.86%
Note 3	ASROCK Rack Incorporation	ASIAIROCK TECHNOLOGY LIMITED	Sale	(2,061,046)	(16.82%)	Open Account 60 days	-	-	1,341,641	53.20%
Note 1	ASROCK INCORPORATION	ASIAIROCK TECHNOLOGY LIMITED	Purchase	2,432,887	100.00%	Open Account 90 days	-	-	439,144	17.45%
Note 1	ASROCK EUROPE B.V.	ASROCK INCORPORATION	Purchase	2,586,680	100.00%	Open Account 45 days	-	-	(1,063,308)	(100.00%)
Note 1	AZURE WAVE TECHNOLOGIES, INC.	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Sale	(1,663,344)	(21.00%)	Open Account 30-60 days	-	No comparable non-related party	(193,519)	(100.00%)
Note 2	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	AZURE WAVE TECHNOLOGIES, INC.	Purchase	1,663,344	99.00%	Open Account 30-60 days	-	No comparable non-related party	71,945	5.00%
Note 2	Pegavision Japan Inc.	Pegavision Japan Inc.	Sale	(1,353,073)	(43.70%)	Open Account 90 days	Same as other clients	Telex transfer-Open Account 90 days	146,953	35.37%
Note 1	PEGAVISION CORPORATION	PEGAVISION CORPORATION	Purchase	1,353,073	100.00%	Open Account 90 days	No other comparable vendors	No other comparable vendors	(146,953)	(100.00%)
Note 2	PEGAVISION (SHANGHAI) LIMITED	PEGAVISION (SHANGHAI) LIMITED	Sale	(127,282)	(4.11%)	Open Account 180 days	Same as other clients	Telex transfer-Open Account 90 days	124,211	29.90%
Note 1	PEGAVISION CORPORATION	PEGAVISION CORPORATION	Purchase	127,282	100.00%	Open Account 180 days	Same as other vendors	Telex transfer-Open Account 90 days	(124,211)	(100.00%)
Note 3	Gemvision Technology (Zhejiang) Limited.	Gemvision Technology (Zhejiang) Limited.	Sale	(118,586)	(29.15%)	Open Account 180 days	Same as other clients	Same as other clients	66,761	59.43%
Note 3	PEGAVISION (SHANGHAI) LIMITED	Gemvision Technology (Zhejiang) Limited.	Purchase	118,586	67.55%	Open Account 180 days	Same as other clients	Same as other vendors	(66,761)	(56.55%)
Note 3	ASIAIROCK TECHNOLOGY LIMITED	ASIAIROCK TECHNOLOGY LIMITED	Purchase	2,061,046	96.16%	Open Account 90 days	No comparable client	No comparable client	(709,548)	(94.99%)
Note 1	PEGATRON CORPORATION	PEGATRON CORPORATION	Sale	(105,009)	(4.00%)	90 days on delivery	No comparable client	No comparable client	31,375	11.99%
Note 3	CASETEK COMPUTER (SUZHOU) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO., LTD.	Sale	(398,006)	(40.34%)	Open Account 60 days	-	-	42,972	23.21%
Note 3	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Sale	(143,015)	(14.50%)	Open Account 60 days	-	-	21,659	11.70%
Note 3	PROTEK (SHANGHAI) LTD.	PROTEK (SHANGHAI) LTD.	Sale	(144,001)	(14.60%)	Open Account 60 days	-	-	36,408	19.67%
Note 2	Lumens Digital Optics Inc. (Lumens Optics)	Lumens Integration Inc.	Sale	(197,314)	(23.52%)	Open Account 75-90 days	-	-	27,800	27.80%
Note 1	Lumens Digital Optics Inc. (Lumens Optics)	Lumens Digital Optics Inc. (Lumens Optics)	Purchase	197,314	97.00%	Open Account 75-90 days	-	0-90 days	(38,700)	27.80%
Note 1	POWTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Purchase	168,877	83.61%	120 days on delivery	-	0-90 days	(38,700)	(97.52%)
Note 1	PEGATRON CORPORATION	PEGATRON CORPORATION	Purchase	146,402	1.73%	120 days on delivery	-	-	(155,001)	(99.99%)
Note 3	PEGAGLOBE (KUNSHAN) CO., LTD.	PEGAGLOBE (KUNSHAN) CO., LTD.	Purchase	14,031,145	100.00%	Open Account 60 days	-	-	(8,556,161)	(95.42%)
									(433,680)	(100.00%)

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 Statements

Table 6 Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock
December 31, 2019

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Expressed in thousands of NTD Allowance for doubtful accounts
					Amount	Action taken		
PEGATRON CORPORATION	COTEC ELECTRONICS (SUZHOU) CO., LTD.	Subsidiary measured by equity method	2,474,286	2.95 Times	-	-	-	-
"	PROTEK (SHANGHAI) LTD.	Subsidiary measured by equity method	232,022,397	2.39 Times	-	-	20,794,689	-
"	POWTEK (SHANGHAI) LTD.	Subsidiary measured by equity method	155,001	2.16 Times	-	-	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Subsidiary measured by equity method	41,110,704	2.83 Times	-	-	-	-
"	DIGITEK (CHONGQING) LTD.	Subsidiary measured by equity method	36,210,328	3.92 Times	-	-	-	-
"	PEGATRON Czech s.r.o.	Subsidiary measured by equity method	835,423	3.11 Times	-	-	1,070	-
"	ASIAROCK TECHNOLOGY LIMITED	Subsidiary measured by equity method	162,288	3.94 Times	-	-	35,783	-
"	PT. PEGATRON TECHNOLOGY INDONESIA	Subsidiary measured by equity method	8,556,161	1.76 Times	-	-	-	-
ASUSPOWER CORPORATION	PEGATRON CORPORATION	Parent Company	4,497,000	N/A (Note 1)	-	-	-	-
"	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Affiliate	210,050	N/A (Note 1)	-	-	-	-
DIGITEK (CHONGQING) LTD.	PEGATRON CORPORATION	Parent Company	32,541,457	4.98 Times	-	-	5,042,835	-
COTEC ELECTRONICS (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	2,146,286	4.31 Times	-	-	-	-
PEGAGLOBE (KUNSHAN) CO., LTD.	PEGATRON CORPORATION	Parent Company	49,959,452	4.45 Times	-	-	14,539,230	-
"	PROTEK (SHANGHAI) LTD.	Affiliate	119,520	7.35 Times	-	-	-	-
"	GRAND UPRIGHT TECHNOLOGY LTD.	Affiliate	433,680	7.29 Times	-	-	-	-
PROTEK (SHANGHAI) LTD.	PEGATRON CORPORATION	Parent Company	185,317,389	3.00 Times	-	-	39,581,161	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Affiliate	20,595,772	4.12 Times	-	-	-	-
MAINTTEK COMPUTER (SUZHOU) CO., LTD.	DIGITEK (CHONGQING) LTD.	Affiliate	1,220,589	2.03 Times	-	-	-	-
"	PEGATRON CORPORATION	Parent Company	679,812	15.35 Times	-	-	3,057,155	-
PT. Pegatron Technology Indonesia	COTEC ELECTRONICS (SUZHOU) CO., LTD.	Affiliate	1,499,000	N/A (Note 1)	-	-	-	-
CASETEK COMPUTER (SUZHOU) CO., LTD.	PEGATRON CORPORATION	Parent Company	4,822,021	3.06 Times	-	-	1,202,454	-
KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	MAINTTEK COMPUTER (SUZHOU) CO., LTD.	Affiliate	465,155	7.14 Times	-	-	10,314	-
CASETEK HOLDINGS LIMITED(CAYMAN)	KINSUS INTERCONNECT TECHNOLOGY CORP.	Parent Company	240,392	10.20 Times	-	-	-	-
"	MEGA MERIT LIMITED	Subsidiary measured by equity method	611,502	N/A (Note 1)	-	-	160,753	-
RIH LI International Limited	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Subsidiary measured by equity method	8,094,600	N/A (Note 1)	-	-	-	-
"	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Subsidiary measured by equity method	167,708	N/A (Note 1)	-	-	-	-
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Subsidiary measured by equity method	1,718,993	N/A (Note 1)	-	-	-	-
"	RI-MING (SHANGHAI) CO., LTD.	Affiliate	1,074,363	N/A (Note 1)	-	-	-	-
RI-MING (SHANGHAI) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Affiliate	300,819	N/A (Note 1)	-	-	-	-
"	RIH KUAN METAL CORPORATION	Affiliate	1,512,791	3.01 Times	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	1,471,718	2.19 Times	-	-	527,948	-
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Affiliate	214,867	N/A (Note 1)	-	-	351,066	-
"	MEGA MERIT LIMITED	Affiliate	1,061,952	7.67 Times	-	-	-	-
"	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Affiliate	2,578,490	N/A (Note 1)	-	-	-	-
"	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Affiliate	257,858	N/A (Note 1)	-	-	-	-
RI KAI COMPUTER ACCESSORY CO., LTD.	RI-MING (SHANGHAI) CO., LTD.	Affiliate	103,941	5.72 Times	-	-	-	-
"	MEGA MERIT LIMITED	Affiliate	941,402	5.75 Times	-	-	207,012	-
RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	RIH KUAN METAL CORPORATION	Affiliate	256,269	7.50 Times	-	-	-	-
"	PROTEK (SHANGHAI) LTD.	Affiliate	144,683	3.65 Times	-	-	-	-
"	PEGAGLOBE (KUNSHAN) CO., LTD.	Affiliate	148,431	4.18 Times	-	-	71,502	-
"	MEGA MERIT LIMITED	Affiliate	224,970	6.95 Times	-	-	109,577	-
"	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Affiliate	118,781	4.37 Times	-	-	-	-

Notes to the Parent Company Only Financial Statements

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2019	Turnover rate	Overdue Receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	RI KAI COMPUTER ACCESSORY CO., LTD.	Affiliate	173,344	N/A (Note 1)	-	-	-	-
KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD.	Affiliate	214,867	N/A (Note 1)	-	-	-	-
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	RI-MING (SHANGHAI) CO., LTD.	Affiliate	110,236	4.18 Times	-	-	1,259	-
ASROCK INCORPORATION	ASROCK AMERICA, INC.	Subsidiary measured by equity method	1,063,308	2.38 Times	-	-	170,005	-
ASIA ROCK TECHNOLOGY LIMITED	ASROCK EUROPE B.V.	Subsidiary measured by equity method	193,519	14.13 Times	-	-	159,875	-
"	ASROCK INCORPORATION	Parent Company	1,341,641	6.66 Times	-	-	-	-
"	ASRock Rack Incorporation	Affiliate	709,548	2.83 Times	-	-	7,776	-
"	ASRock Industrial Computer Corporation	Affiliate	439,144	3.95 Times	-	-	8,753	-
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	FUYANG TECHNOLOGY CORPORATION	Parent Company	1,161,625	1.25 Times	-	-	-	-
FUYANG TECHNOLOGY CORPORATION	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Subsidiary measured by equity method	1,195,626	0.76 Times	-	-	-	-
KINSUS INTERCONNECT TECHNOLOGY CORP.	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Subsidiary measured by equity method	235,816	N/A (Note 1)	-	-	-	-
PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	Subsidiary measured by equity method	124,211	0.78 Times	-	-	81,616	-
PEGAVISION CORPORATION	Pegavision Japan Inc.	Subsidiary measured by equity method	146,953	10.70 Times	-	-	59,313	-

Note 1 : Since the receivables are not caused by selling and purchasing transactions, the turnover rate is not applicable.

Notes to the Parent Company Only Financial Statements

Table 7 Information on investees
December 31, 2019

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019				Expressed in thousands of NTD	
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership	Book value	Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Footnote
PEGATRON CORPORATION	ASUSPOWER INVESTMENT CO., LTD.	Taipei	Investment holding	13,033,429	13,033,429	932,844,700	100.00%	15,348,149	440,505	440,505	
	ASUS INVESTMENT CO., LTD.	Taipei	Investment holding	16,184,982	16,184,982	979,254,600	100.00%	15,986,091	179,036	179,036	
	ASUSTEK INVESTMENT CO., LTD.	Taipei	Investment holding	14,593,543	14,593,543	951,278,300	100.00%	14,510,988	(507,717)	(507,717)	
	Pegatron Holding Ltd.	Cayman Islands	Investment holding	33,462,716	33,462,716	961,906,463	100.00%	80,513,033	10,406,602	10,406,602	
	PEGATRON USA, INC.	CA, USA	Repairing and marketing center in Northern America	16,085	16,085	50,000	100.00%	18,336	39	39	
	PEGATRON HOLLAND HOLDING B.V.	Nijmegen, NETHERLANDS	Investment holding	1,278,287	1,278,287	-	100.00%	2,826,764	260,660	260,660	
	AMA PRECISION INC.	Taipei	Research and design of computer components	408,394	408,394	33,500,000	100.00%	435,048	20,493	20,493	
	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	23.75%	378,959	(114,386)	(114,386)	
	Unihan Holding Ltd.	Cayman Islands	Investment holding	6,659,684	6,659,684	199,110,010	100.00%	6,982,282	632,196	632,196	Note 1
	CASETEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	442,409	442,409	4,808,794	1.14%	385,016	(630,830)	(7,384)	
ASUSPOWER INVESTMENT CO., LTD.	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Australia	Investment holding	30,955	30,955	6,000,000	100.00%	134,640	9,583	9,583	
	PT. PEGATRON TECHNOLOGY INDONESIA	Indonesia	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	1,249,369	-	39,999	100.00%	1,127,261	(63,923)	(73,782)	
	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%	237,648	(1,337)	Not required to disclose	
	KINSUI 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%	3,142,391	(2,025,035)	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%	141,605	597,842	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%	74,181	(114,386)	Not required to disclose	
	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	508,932	508,932	10,043,490	50.22%	1,067,710	124,623	Not required to disclose	
	PEGAVISION CORPORATION	Taiwan	Manufacture of medical equipment	70,721	70,721	5,480,121	7.83%	317,812	475,492	Not required to disclose	
	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	3,752,682	3,752,682	109,000,000	31.23%	7,560,631	(282,915)	Not required to disclose	
	PEGATRON TECHNOLOGY SERVICE INC.	Kanucky, USA	Repairing and marketing center in Northern America	94,475	94,475	2,800	100.00%	1,150,477	288,520	Not required to disclose	
ASUS INVESTMENT CO., LTD.	PEGATRON LOGISTIC SERVICE INC.	CA, USA	Transferring and marketing center in Northern America	30	30	1,000	100.00%	11,928	-	Not required to disclose	
	Huawei Investment Co., Ltd.	Taipei	Investment holding	48,780	48,780	-	48.78%	243,784	139,702	Not required to disclose	
	PEGA INTERNATIONAL LIMITED	Taipei	Design service and commercial affairs	31,885	31,885	-	100.00%	31,690	(52)	Not required to disclose	
	PEGATRON JAPAN Inc.	Japan	Repairing and marketing center in Japan	27,287	27,287	-	100.00%	603,637	266,088	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%	135,634	1,116	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%	477,277	80,773	Not required to disclose	
	PT. PEGATRON TECHNOLOGY INDONESIA	Indonesia	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	31	-	1	0.00%	28	(63,923)	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%	142,589	(1,337)	Not required to disclose	
	KINSUI INTERCONNECT TECHNOLOGY CORP.	Taiwan	Manufacture of computer components. Sale and manufacture of electronic materials. Enterprise management consulting.	938,098	938,098	60,128,417	13.33%	3,400,006	(2,025,035)	Not required to disclose	
	ASROCK INCORPORATION	Taipei	Manufacture of data storage, date processing equipment and communication equipment. Sale of computer equipment and electronic material	155,718	155,718	57,217,754	47.43%	2,902,956	597,842	Not required to disclose	
ASUSPOWER CORPORATION	Lumens Digital Optics Inc. (Lumens Optics)	Hsinchu	Development, manufacture and sale of projector and related product.	7,338	7,338	587,079	2.94%	62,412	124,623	Not required to disclose	
	ASUSPOWER CORPORATION	Virgin Islands	Investment holding and commercial affairs	3,488,741	3,488,741	103,000,000	29.51%	7,144,227	(282,915)	Not required to disclose	
	ASFLY TRAVEL SERVICE LIMITED	Taipei	Travel industry	6,000	6,000	-	100.00%	12,414	(2,729)	Not required to disclose	

Notes to the Parent Company Only Financial Statements

Shares held as at December 31, 2019										Expressed in thousands of NTD	
Initial investment amount					Investment income					Investment income	
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Notes to the Parent Company Only Financial Statements

			Initial investment amount		Shares held as at December 31, 2019				Expressed in thousands of NTD	
Investor	Investee	Location	Main business activities	Balance as at	Balance as at	Number of shares	Ownership	Book value	Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the company for the year ended December 31, 2019
				December 31, 2019	December 31, 2018					
				2,827,384	2,827,384	95,755,000	51.00%	464,840	(477,291)	Not required to disclose
KINSUS HOLDING (SAMOA) LIMITED	PIOTEK HOLDINGS LTD.(CAYMAN)	Cayman Islands	Investment holding							
PIOTEK HOLDINGS LTD. (CAYMAN)	PIOTEK HOLDING LIMITED	Virgin Islands	Investment holding	4,192,427	4,192,427	139,840,790	100.00%	911,482	(477,291)	Not required to disclose
PIOTEK HOLDING LIMITED	PIOTEK (HK) TRADING LIMITED	HongKong	Commercial affairs	779	779	200,000	100.00%	79,567	4,634	Not required to disclose
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD.	Cayman Islands	Investment holding and commercial affairs	1,357,292	1,357,292	44,000,000	100.00%	578,127	(466,847)	Not required to disclose
ASROCK INCORPORATION	ASRock Back Incorporation	Taipei	Manufacture and sale of computer related products	291,006	98,302	19,465,411	62.02%	190,503	92,004	Not required to disclose
"	ASAROCK TECHNOLOGY LIMITED	Virgin Islands	Investment holding	1,320,886	1,320,886	40,000,000	100.00%	3,700,936	45,337	Not required to disclose
"	Leader Insight Holdings Ltd.	Virgin Islands	Investment holding	71,559	71,559	2,100,000	100.00%	(20,602)	(8,971)	Not required to disclose
"	ASRock Industrial Computer Corporation	Taipei	Manufacture and sale of computer related products	235,822	123,700	23,582,200	67.38%	290,120	79,925	Not required to disclose
"	Yabo Trading Co., Ltd.	HongKong	International trade	577	577	150,000	100.00%	578	-	Not required to disclose
ASAROCK TECHNOLOGY LIMITED	ASROCK EUROPE BV.	Nijmegen, NETHERLANDS	Sale of data storage devices and electronic materials	5,816	5,816	200,000	100.00%	506,903	40,223	Not required to disclose
"	CalRock Holdings, LLC.	CA, USA	Renting offices	59,960	59,960	2,000,000	100.00%	66,817	(925)	Not required to disclose
"	Orweb Inc. (BVI)	Virgin Islands	Installation of computer equipment and sale of computer related product.	29,980	29,980	4,000,000	27.59%	-	(16,864)	Not required to disclose
Leader Insight Holdings Ltd.	First place International Ltd.	Virgin Islands	Investment holding	61,459	61,459	2,050,000	100.00%	(20,648)	(8,971)	Not required to disclose
First place International Ltd.	ASROCK AMERICA, INC.	CA, USA	Sale of data storage devices and electronic materials	59,960	59,960	2,000,000	100.00%	(21,652)	(8,975)	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.	36,306	36,306	1,222,000	100.00%	58,653	(1,186)	Not required to disclose
"	Lumens Digit Image Inc.	Samoa	Investment holding	7,495	7,495	250,000	100.00%	32,364	(13,439)	Not required to disclose
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN)	Cayman Islands	Investment holding	10,578,356	10,578,356	245,016,988	58.27%	17,832,075	(630,830)	Not required to disclose
PEGATRON TECHNOLOGY SERVICE INC.	PEGATRON SERVIÇOS DE INFORMATICA LTDA.	Brazil	Repairing service	19,487	19,487	-	100.00%	11,157	1,641	Not required to disclose
Unihain Holding Ltd.	CASETEK HOLDINGS LIMITED	Virgin Islands	Investment holding and commercial affairs	4,913,746	4,913,746	115,375,668	100.00%	5,567,092	592,280	Not required to disclose
CASETEK HOLDINGS LIMITED	SLITEK HOLDINGS LIMITED	Samoa	Investment holding and commercial affairs	36,276	36,276	1,210,000	100.00%	13,620	(7,886)	Not required to disclose
"	KAEDAR HOLDINGS LIMITED	HongKong	Investment holding and commercial affairs	749,500	749,500	25,000,000	100.00%	1,164,440	103,418	Not required to disclose
"	KAEDAR TRADING LTD.	Samoa	Investment holding and commercial affairs	149,900	149,900	5,000,000	100.00%	567,291	16,409	Not required to disclose
AMA PRECISION INC.	AMA Holdings Limited	Samoa	Investment holding	169,744	169,744	5,131,948	100.00%	124,239	11,218	Not required to disclose
AZURE WAVE TECHNOLOGIES, INC.	Azwave Holding (Samoa) Inc.	Samoa	Investment holding	1,585,683	1,585,683	50,177,160	100.00%	1,176,074	231,065	Not required to disclose
"	EZWAVE TECHNOLOGIES, INC.	Taipei	Information product service industry	5,015	5,015	500,000	100.00%	(21,682)	(714)	Not required to disclose
"	AZURE LIGHTING TECHNOLOGIES, INC.	New Taipei City	Sale of electronic materials	25,000	25,000	2,000,000	100.00%	29,856	1,949	Not required to disclose
"	Azurewave Technologies (USA) INC.	CA, USA	Market development	19,820	15,165	650,000	100.00%	786	(4,860)	Not required to disclose
"	VENCE PRECISION & TOOLS CO.,LTD.	New Taipei City	Sale of electronic materials	-	10,000	-	-	-	-	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 2019, the others are translated at the spot exchange rate on the financial statement date.

Note 3 : VENCE PRECISION & TOOLS CO.,LTD. was liquidated in March, 2019.

Notes to the Parent Company Only Financial Statements

Table 8 Information on investments in Mainland China
December 31, 2019

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 as of January 1, 2019	Mainland China / Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note2, (2))	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019
					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.	6,853,128 USD 228,590,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	5,300,464 USD 176,800,000	-	-	5,300,464 USD 176,800,000	1,738,385 USD 56,275,548	100%	1,738,385 USD 56,275,548	27,073,861 USD 903,064,064	-
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.	9,233,840 USD 308,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	9,233,840 USD 308,000,000	-	-	9,233,840 USD 308,000,000	5,697,061 USD 184,427,009	100%	5,697,061 USD 184,427,009	32,824,746 USD 1,094,888,129	-
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.	4,997,666 USD 166,700,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,362,479 USD 45,446,280	-	-	1,362,479 USD 45,446,280	(481,691) USD 15,593,449	68.67%	(330,756) USD 10,707,336	571,166 USD 19,051,554	-
COTEK ELECTRONICS	Develop, manufacture and sale of new electrical component, plugs and corresponding precision mold. The company also provides after sale service.	2,428,380 USD 81,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	2,068,620 USD 69,000,001	-	-	2,068,620 USD 69,000,001	354,772 USD 11,484,802	100%	354,772 USD 11,484,802	1,611,670 USD 53,758,167	-
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.	209,860 USD 7,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	316,124 USD 10,544,482	-	-	316,124 USD 10,544,482	(9,090) USD 294,271	100%	(9,090) USD 294,271	162,309 USD 5,413,909	-
POWTEK (SHANGHAI) LTD.	Sale of computer motherboard, computer, laptop, service machine and computer related items. The company also provides after sale service.	239,840 USD 8,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	394,102 USD 13,145,510	-	-	394,102 USD 13,145,510	17,941 USD 580,806	100%	17,941 USD 580,806	938,432 USD 31,301,945	-
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.	1,469,020 USD 49,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,469,020 USD 49,000,000	-	-	1,469,020 USD 49,000,000	400,098 USD 12,952,090	100%	400,098 USD 12,952,090	5,500,546 USD 183,473,834	-
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.	5,816,120 USD 194,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	5,816,120 USD 194,000,000	-	-	5,816,120 USD 194,000,000	2,833,915 USD 91,740,376	100%	2,833,915 USD 91,740,376	11,883,748 USD 396,389,196	-

Notes to the Parent Company Only Financial Statements

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 as of January 1, 2019	Mainland China /Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note2, (2))	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019
					Remitted to Mainland China	Remitted back to Taiwan						
CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacture, development and research and sale of computer, computer system and its component. The company also provides after sale service.	1,678,880 USD 56,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,678,880 USD 56,000,000	-	-	1,678,880 USD 56,000,000	467,174 USD 15,123,509	100%	467,174 USD 15,123,509	3,063,954 USD 102,199,945	-
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Manufacture of plastic injection products.	524,650 USD 17,500,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	734,723 USD 24,507,092	-	-	734,723 USD 24,507,092	103,333 USD 3,345,121	100%	103,333 USD 3,345,121	1,149,089 USD 38,328,527	-
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.	359,760 USD 12,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	359,760 USD 12,000,000	-	-	359,760 USD 12,000,000	2,854 USD 92,380	100%	2,854 USD 92,380	198,513 USD 6,621,510	-
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Research and develop, manufacture and inspect computer of Multilayer flexible board and computer number signal processor.	299,800 USD 10,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	299,800 USD 10,000,000	-	-	299,800 USD 10,000,000	2,675 USD 86,588	100%	2,675 USD 86,588	272,083 USD 9,075,472	-
Zhangjiagang East High-tech LTD.	Process, sale and transportation of steel.	179,880 USD 6,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	35,976 USD 1,200,000	-	-	35,976 USD 1,200,000	(39,341) (USD 1,273,558)	20%	(7,868) (USD 254,712)	12,309 USD 410,580	-
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Research and develop, manufacture, test, repair and sale of Multilayer flexible board and computer number signal processor.	1,319,120 USD 44,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	1,319,120 USD 44,000,000	-	-	1,319,120 USD 44,000,000	(466,261) (USD 15,093,942)	67.22%	(313,421) (USD 10,146,148)	386,888 USD 12,904,853	-
(Note 13) HONGJIE (SHANGHAI) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	149,900 USD 5,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	27,964 USD 932,769	-	-	27,964 USD 932,769	-	-	-	-	-
(Note 14) HONGJIE (SUZHOU) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	399,033 USD 13,309,984	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	180,652 USD 6,025,762	-	-	180,652 USD 6,025,762	-	-	-	-	-
(Note 14) Suzhou Eshtie Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	152,898 USD 5,100,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	34,685 USD 1,156,954	-	-	34,685 USD 1,156,954	-	-	-	-	-
(Note 14) HONGJIE (CHONGQING) PACKING LIMITED	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	14,990 USD 500,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	2,293 USD 76,500	-	-	2,293 USD 76,500	-	-	-	-	-
(Note 14) Hongruiheng (Chengdu) packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	78,248 USD 2,610,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	18,977 USD 633,000	-	-	18,977 USD 633,000	-	-	-	-	-
(Note 12) Heilongjiang Hongjie Packaging LTD.	Manufacture of all kinds of paper boxes, paper materials, paper plastics, cushioning material, tray, etc.	73,751 USD 2,460,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	13,275 USD 442,800	-	-	13,275 USD 442,800	-	-	-	-	-
(Note 11) Suzhou Lianshuo Electronics LTD.	Manufacture of plugs	209,394 USD 6,984,441	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	229,534 USD 7,656,224	-	-	229,534 USD 7,656,224	-	-	-	-	-
(Note 6) Shanghai Yding Electronics LTD.	Research and develop, manufacture and sale of portable micro computer, laptop and related products.	929,380 USD 31,000,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	587,608 USD 19,600,000	-	-	587,608 USD 19,600,000	-	-	-	-	-
(Note 8)												

Notes to the Parent Company Only Financial Statements

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 as of January 1, 2019	Mainland China / Amount remitted back to Taiwan for the year ended December 31,		Accumulated amount of remittance from Taiwan as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)
					Remitted to Mainland China	Remitted back to Taiwan			
Junhong Precision Mold (Suzhou) Co., Ltd. (Note 10)	Design, process, sale and manufacture of non-metal molds, manufacture and sale of precision molds, standard molds, plastic and hardware.	26,982 USD 900,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	51,416 USD 1,715,000	-	-	51,416 USD 1,715,000	-	-
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.	191,872 USD 6,400,000	Through setting up company in the third area, the Company then reinvest in the investee in Mainland China.	94,017 USD 3,136,000	-	-	94,017 USD 3,136,000	-	-
2. Limitation on investment in Mainland China									
Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019 (Note 16)					Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 15)				
31,774,860					33,516,725				
USD 1,059,868,572					USD 1,117,969,490				
					Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 4)				
					115,947,308				

US dollar exchange rate : year end exchange rate 29.98 ; average exchange rate 30.8906

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 reinvest 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.
3. Others: The financial statements of significant subsidiaries were audited by CPA, and the self-assessed financial statements of non-significant subsidiaries were not audited by 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 the higher of its net asset or 60% of the consolidated net assets.

Note 5: MAINTHEK COMPUTER (SUZHOU) CO., LTD. 's paid-in capital includes capital increase by retained earning of USD51,790,000.

Note 6: Suzhou Lianshuo Electronics LTD. has completed liquidation process. As of December 31, 2019, the funds have not been remitted.

Note 7: PIOTEK COMPUTER (SUZHOU) CO., LTD.'s paid-in capital includes capital increase by retained earning of USD27,000,000. The ownership percentage includes shares held by other subsidiaries.

Note 8: The Group has disposed of shares of Indeed Holdings Limited (indirectly invested in Shanghai Yiding Electronics LTD.). As of December 31, 2019, the funds have not been remitted.

Note 9: Honghua Technology (Suzhou) LTD. has completed liquidation process. As of December 31, 2019, the funds have not been remitted.

Note 10: The Group has disposed shares of Junhong Precision Mold Industrial (Suzhou) Co., Ltd.. As of December 31, 2019, the funds have not been remitted.

Note 11: The Group has disposed shares of Heilongjiang Hongjie Packaging LTD.. As of December 31, 2019, the funds have not been remitted.

Note 12: Hongruiheng (Chengdu) packaging LTD. has completed liquidation process. As of December 31, 2019, the funds have not been remitted.

Note 13: Accumulated investment amount includes RUYANG TECHNOLOGY CORPORATION transferred out USD26,000,000.

Note 14: The Group has disposed all shares of E-Packaging. As of December 31, 2019, the funds have not been remitted.

Note 15: Due to the reinvestment of the Group's investee, China Renewable Energy Fund, LP (CREF), in Mainland China, the Group increased its line of credit to USD(0,161,116), with the approval from the Investment Commission of MOEA.

Note 16: The difference of USD4,850,198 between the accumulated amounts of remittance from Taiwan to Mainland China as of December 31, 2019 was the actual amount of investment in Mainland China made by China Renewable Energy Fund, LP (CREF).

PEGATRON CORPORATION

Statement of Cash and Cash Equivalents

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Cash hand		\$ <u>150</u>
Cash in banks		
Foreign currency in banks	USD153,684 thousand (rate 29.98)	4,607,455
	EUR355 thousand (rate 33.59)	11,919
	CNY716 thousand (rate 4.2975)	3,078
	GBP51 thousand (rate 39.36)	2,016
	JPY950 thousand (rate 0.2760)	262
	HKD6 thousand (rate 3.849)	24
	SGD500 thousand (rate 22.28)	11,140
	AUD691 thousand (rate 21.01)	14,506
Check deposits		1,188
Current deposit		<u>272,856</u>
		<u>4,924,444</u>
Time deposit	Including NTD7,100,000 thousand, USD621,000 thousand (rate 29.98)	<u>25,717,580</u>
Corporate bonds-repurchase agreement	Including NTD1,700,000 thousand, USD90,000 thousand (rate 29.98)	<u>4,398,200</u>
		<u><u>\$ 35,040,374</u></u>

PEGATRON CORPORATION
Statement of Accounts Receivable
December 31, 2019
(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	\$ 232,022,396	
DIGITEK (CHONGQING) Ltd.	"	36,210,328	
PEGAGLOBE (KUNSHAN) CO., Ltd.	"	41,110,704	
Other (Note)	"	<u>12,300,875</u>	
Subtotal		<u>321,644,303</u>	
Non-related party			
A	"	119,969,740	
B	"	16,741,199	
C	"	10,317,001	
Other (Note)	"	<u>41,987,959</u>	
Subtotal		189,015,899	
Less: Allowance for impairment		<u>(1,524,216)</u>	
Subtotal		<u>187,491,683</u>	
Total		<u><u>\$ 509,135,986</u></u>	

Note: The year-end balance of each client doesn't exceed 5 % of the account balance.

PEGATRON CORPORATION

Statement of Changes in Investments Accounted for Using the Equity Method

For the year ended December 31, 2019

(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	Retained earnings	Re-measurement of defined benefit plans	Realized gross margin	Shares (in thousand)	Ending Balance Percentage of ownership	Market Value or Net Assets Value	
	Shares (in thousand)	Amount	Shares (in thousand)	Amount	Shares (in thousand)	Amount											Unit price	Total amount
ASUSPOWER INVESTMENT CO., LTD.	932,845	\$ 15,763,237	-	-	-	-	440,505	(334,942)	198,152	(71,698)	(2,255)	619	(469)	-	932,845	100.00%	15,348,149	15,348,149
ASUS INVESTMENT, LTD.	979,255	16,274,719	-	-	-	-	179,036	(305,152)	117,010	(274,035)	103,608	(4,055)	(1,800)	-	979,255	100.00%	15,996,091	15,996,091
ASUSTEK INVESTMENT CO., LTD.	951,278	15,185,517	-	-	-	-	(507,717)	(356,005)	189,948	-	-	-	(755)	-	951,278	100.00%	14,510,988	14,510,988
UNIHAN HOLDING LTD.	199,110	6,601,151	-	-	-	-	632,196	(251,065)	-	-	-	-	-	-	199,110	100.00%	6,982,282	6,982,282
AMA PRECISION INC.	33,500	423,699	-	-	-	-	20,493	(9,144)	-	-	-	-	-	-	33,500	100.00%	435,048	435,048
AZURE WAVE TECHNOLOGIES, INC.	35,750	413,877	-	-	-	-	(27,136)	(7,542)	(253)	-	-	-	13	-	35,750	23.72%	378,959	17,85
PEGATRON HOLDING LTD.	961,906	72,167,695	-	-	-	-	10,406,602	(2,061,265)	-	-	-	-	-	-	961,906	100.00%	80,513,032	80,513,032
PEGATRON USA, INC.	50	18,746	-	-	-	-	39	(449)	-	-	-	-	-	-	50	100.00%	18,336	18,336
Pegatron Holland Holding B.V.	-	2,654,932	-	-	-	-	260,660	(100,551)	-	-	-	-	-	11,723	-	100.00%	2,826,764	2,826,764
CASETEK HOLDINGS LIMITED (CATMAN)	4,809	408,538	-	-	-	-	(7,384)	(133,299)	-	(4,809)	-	-	-	-	4,809	1.14%	383,016	227,706
PEGATRON SERVICE AUSTRALIA PTY LTD.	1,374	29,005	4,626	108,133	-	-	9,583	(12,081)	-	-	-	-	-	-	6,000	100.00%	134,640	134,640
PT. PEGATRON TECHNOLOGY INDONESIA	-	-	40	1,249,369	-	-	(73,782)	(48,315)	(11)	-	-	-	-	-	40	100.00%	1,127,261	1,137,133
Total		<u>\$ 129,941,116</u>		<u>1,357,502</u>		<u>-</u>	<u>11,333,095</u>	<u>(3,499,840)</u>	<u>504,846</u>	<u>(995,542)</u>	<u>8,113</u>	<u>(3,436)</u>	<u>(3,011)</u>	<u>11,723</u>				<u>138,654,566</u>

PEGATRON CORPORATION

Statement of Short-term Loan

December 31, 2019

(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>38,674,200</u></u>	2019.11.26~2020.02.27	0.6%~4.70%	None	

Statement of Account Payable

<u>Vendor name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Related party			
PROTEK (SHANGHAI) Ltd	Loan	\$ 185,317,389	
DIGITEK (CHONGQING) Ltd	"	32,541,457	
PEGAGLOBE (KUNSHAN) CO., Ltd	"	49,959,452	
Other (Note)	"	<u>7,891,460</u>	
Subtotal		<u>275,709,758</u>	
Non-related party			
A	"	96,009,252	
Other(Note)	"	<u>97,600,522</u>	
Subtotal		<u>193,609,774</u>	
Total		<u><u>\$ 469,319,532</u></u>	

Note: The year-end balance of each vendor doesn't exceed 5% of the account balance.

PEGATRON CORPORATION

Statement of Operating Revenue

For the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>	<u>Note</u>
Sales revenue :			
3C electronic products	203,033 thousand units	\$ 1,220,541,162	Note 1
Others		<u>44,291,723</u>	Note 2
		<u>\$ 1,264,832,885</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, 2019

(Expressed in thousands of New Taiwan Dollars)

Item	Amount	
	Subtotal	Total
Cost of sales from manufacturing		
Raw material, January 1		\$ 769,575
Add: Purchase (Note1)		21,541,992
Less: Transferred (includes amount transferred to each expense and loss) (Note1)		(303,636)
Raw material, December 31		(1,687,643)
Direct labor		547,665
Manufacturing expenses		<u>3,032,230</u>
Cost of manufacturing		23,900,183
Add: Work in process, January 1		148,129
Less: Transferred (includes amount transferred to each expense and loss) (Note1)		(136,106)
Work in process, December 31		<u>(319,155)</u>
Cost of finished goods		23,593,051
Add: Finished goods, January 1		99,070
Less: Transferred (includes amount transferred to each expense and loss) (Note1)		(412,168)
Finished goods, December 31		<u>(259,013)</u>
Cost of self-manufactured products		23,020,940
Merchandise, January 1	49,921,122	
Add: Purchase (Note1)	2,278,997,111	
Less: Transferred (includes amount transferred to each expense and loss) (Note1)	(1,081,046,490)	
Merchandise, December 31	<u>(29,596,926)</u>	<u>1,218,274,817</u>
Cost of goods sold		1,241,295,757
Other business costs		(70,409)
Gain from price recovery of inventory		(553,645)
Allowance for inventory obsolescence		<u>42,370</u>
Operating costs		<u><u>\$ 1,240,714,073</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, 2019

(Expressed in thousands of New Taiwan Dollars)

Item	Sales	Administration	Research and Development	Total
Salary and wages expenses	\$ 1,045,777	1,394,049	5,737,513	8,177,339
Rent expense	37	4,795	2,823	7,655
Premium	62,035	77,485	50,590	190,110
Traveling expense	60,605	19,576	189,876	270,057
Transportation expense	204,903	3,406	9,621	217,930
Utilities expense	6,401	11,815	46,102	64,318
Insurance expense	120,184	81,175	373,834	575,193
Depreciation expense	17,023	117,928	222,222	357,173
Amortization	904	33,751	28,592	63,247
Employee benefit	64,758	57,495	360,109	482,362
Pension	35,609	36,192	199,443	271,244
Examination expense	11,453	1	263,316	274,770
Professional service fees	70,562	106,146	33,091	209,799
Miscellaneous purchase	11,478	7,610	80,166	99,254
Office supplies	65,898	956	23,049	89,903
Research and development expense	-	-	378,156	378,156
Rework expense	12,309	55	5,473	17,837
Storage expense	147,700	-	-	147,700
Donation	-	93,298	-	93,298
Export expense	29,889	396	3,295	33,580
Other	118,644	80,246	195,373	394,263
	\$ 2,086,169	2,126,375	8,202,644	12,415,188

PEGATRON CORPORATION

Statement of Manufacturing Expenses

For the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>	<u>Note</u>
Salary and wages expenses	\$ 999,225	
Rent expense	293	
Insurance expense	111,953	
Depreciation expense	402,629	
Amortization	113,505	
Employee benefit	138,457	
Pension	43,477	
Professional service fees	72,022	
Miscellaneous purchase	162,703	
Office supplies	45,518	
Import expense	96,498	
Outsource processing expense	93,358	
Processing expense	80,946	
Rework expense	352,968	
Transportation expense	17,999	
Storage expense	125,666	
Other	<u>175,013</u>	
	<u><u>\$ 3,032,230</u></u>	

MEMO

Pegatron Corporation



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