

PEGATRON CORPORATION AND SUBSIDIARIES**Consolidated Financial Statements**

**With Independent Auditors' Review Report
For the Three Months Ended March 31, 2019 and 2018**

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The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Review Report

To the Board of Directors of Pegatron Corporation :

Introduction

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries as of March 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent accountants. These financial statements reflect total assets amounting to \$28,913,796 thousand and \$31,908,950 thousand, constituting 5.17% and 6.58% of consolidated total assets as of March 31, 2019 and 2018, respectively, total liabilities amounting to \$9,207,750 thousand and \$9,439,811 thousand, constituting 2.48% and 3.15% of consolidated total liabilities as of March 31, 2019 and 2018, respectively, and total comprehensive loss amounting to \$273,544 thousand and \$406,136 thousand, constituting (15.86)% and (44.77)% of consolidated total comprehensive income (loss) for the three months ended March 31, 2019 and 2018, respectively.

Furthermore, as stated in Note 6(h), the other equity accounted investments of Pegatron Corporation and its subsidiaries in its investee companies of \$245,601 thousand and \$285,983 thousand as of March 31, 2019 and 2018, respectively, and its equity in net earnings (loss) on these investee companies of \$21,186 thousand and \$48,448 thousand for the three months ended March 31, 2019 and 2018, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews and the review reports of other auditors (please refer to Other Matter paragraph), nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Pegatron Corporation and its subsidiaries as of March 31, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Other Matter

We did not review the financial statements of certain consolidated subsidiaries, with total assets of \$55,044,701 thousand and \$53,602,268 thousand, representing 9.84% and 11.06% of the related consolidated total assets as of March 31, 2019 and 2018, and net sales of \$8,440,171 thousand and \$8,653,435 thousand, representing 2.87% and 3.08% of the related consolidated total net sales for the three months ended March 31, 2019 and 2018, respectively. Those financial statements were reviewed by other accountants whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for certain consolidated subsidiaries, are based solely on the reports of the other accountants.

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

KPMG

Taipei, Taiwan (Republic of China)

May 7, 2019

Notes to Readers

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

The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS
AS OF MARCH 31, 2019 AND 2018

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019, December 31, 2018, and March 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Assets		March 31, 2019		December 31, 2018		March 31, 2018	
		Amount	%	Amount	%	Amount	%
Current assets:							
1100	Cash and cash equivalents (Note 6(a))	\$ 150,657,456	27	106,068,046	18	131,851,916	27
1110	Current financial assets at fair value through profit or loss (Note 6(b))	6,593,624	1	3,113,002	1	3,593,919	1
1170	Notes and accounts receivable, net (Notes 6(d) and 6(z))	149,169,014	27	198,883,584	34	123,123,210	25
1200	Other receivables, net (Note 6(e))	1,536,264	-	1,476,581	-	1,576,916	-
130X	Inventories (Note 6(f))	139,448,116	25	164,988,341	29	116,294,930	24
1460	Non-current assets classified as held for sale, net (Notes 6(g))	149,211	-	145,893	-	-	-
1476	Other current financial assets (Notes 6(n) and 8)	1,426,569	-	794,775	-	4,057,804	1
1479	Other current assets (Note 6(n))	<u>5,887,308</u>	<u>1</u>	<u>7,334,875</u>	<u>1</u>	<u>9,082,013</u>	<u>2</u>
		<u>454,867,562</u>	<u>81</u>	<u>482,805,097</u>	<u>83</u>	<u>389,580,708</u>	<u>80</u>
Non-current assets:							
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	417,121	-	419,971	-	300,265	-
1520	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	841,302	-	812,593	-	1,000,963	-
1550	Investments accounted for using equity method (Note 6(h))	262,346	-	246,423	-	432,443	-
1600	Property, plant and equipment (Notes 6(j) and 8)	88,435,450	17	87,605,762	15	80,415,889	17
1755	Right-of-use assets (Note 6(k))	6,464,233	1	-	-	-	-
1760	Investment property, net (Note 6(l))	48,095	-	48,712	-	52,920	-
1780	Intangible assets (Note 6(m))	1,456,333	-	1,475,872	-	1,452,078	-
1840	Deferred tax assets	3,844,139	1	3,627,681	1	3,363,223	1
1915	Prepayments on purchase of equipment	1,720,274	-	2,578,494	-	3,086,507	1
1980	Other non-current financial assets (Notes 6(n) and 8)	576,847	-	650,896	-	570,223	-
1985	Long-term prepaid rentals (Note 6(s))	-	-	3,749,695	1	3,761,213	1
1990	Other non-current assets (Note 6(n))	<u>258,673</u>	<u>-</u>	<u>329,419</u>	<u>-</u>	<u>620,218</u>	<u>-</u>
		<u>104,324,813</u>	<u>19</u>	<u>101,545,518</u>	<u>17</u>	<u>95,055,942</u>	<u>20</u>
Total assets		<u>\$ 559,192,375</u>	<u>100</u>	<u>584,350,615</u>	<u>100</u>	<u>484,636,650</u>	<u>100</u>

See accompanying notes to financial statements.

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AS OF MARCH 31, 2019 AND 2018

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

March 31, 2019, December 31, 2018, and March 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2019		December 31, 2018		March 31, 2018		
	Amount	%	Amount	%	Amount	%	
Liabilities and Equity							
Current liabilities:							
2100	Short-term loans (Note 6(o))	\$ 119,417,440	21	86,927,246	15	74,193,498	15
2130	Current contract liabilities (Note 6(z))	1,264,104	-	990,704	-	1,089,844	-
2150	Notes and accounts payable (Note 7)	164,981,037	30	228,074,756	39	146,890,295	30
2209	Accrued expenses (Note 6(t))	23,594,821	4	27,173,941	5	22,498,115	5
2219	Other payables	5,553,928	1	5,588,935	1	8,285,443	2
2230	Current tax liabilities	2,939,440	1	3,005,187	-	2,503,952	1
2281	Current lease liabilities (Note 6(r))	1,405,746	-	-	-	-	-
2322	Long-term loans payable, current portion (Note 6(p))	2,388,950	-	2,388,522	-	2,201,250	-
2399	Other current liabilities	<u>19,134,070</u>	<u>4</u>	<u>16,252,023</u>	<u>3</u>	<u>16,633,992</u>	<u>4</u>
		<u>340,679,536</u>	<u>61</u>	<u>370,401,314</u>	<u>63</u>	<u>274,296,389</u>	<u>57</u>
Non-Current liabilities:							
2527	Non-current contract liabilities (Note 6(z))	405,495	-	372,493	-	719,823	-
2530	Bonds payable (Note 6(q))	14,987,333	3	14,986,762	3	14,985,048	3
2540	Long-term loans (Note 6(p))	10,584,937	2	9,511,681	2	7,463,484	2
2570	Deferred tax liabilities	1,770,621	-	1,538,252	-	1,633,696	-
2581	Non-current lease liabilities (Note 6(r))	1,290,146	-	-	-	-	-
2670	Other non-current liabilities	<u>1,053,642</u>	<u>-</u>	<u>1,093,330</u>	<u>-</u>	<u>868,236</u>	<u>-</u>
		<u>30,092,174</u>	<u>5</u>	<u>27,502,518</u>	<u>5</u>	<u>25,670,287</u>	<u>5</u>
	Total liabilities	<u>370,771,710</u>	<u>66</u>	<u>397,903,832</u>	<u>68</u>	<u>299,966,676</u>	<u>62</u>
Equity Attributable to Owners of the Parent Company (Note 6(v)):							
3100	Share capital	<u>26,118,799</u>	<u>5</u>	<u>26,123,773</u>	<u>4</u>	<u>26,138,964</u>	<u>5</u>
Capital surplus:							
3210	Capital surplus, premium on capital stock	75,697,900	13	75,696,958	13	74,283,735	15
3280	Capital surplus, others (Note 6(w))	<u>4,974,500</u>	<u>1</u>	<u>4,979,372</u>	<u>1</u>	<u>5,786,681</u>	<u>1</u>
		<u>80,672,400</u>	<u>14</u>	<u>80,676,330</u>	<u>14</u>	<u>80,070,416</u>	<u>16</u>
Retained earnings:							
3310	Legal reserve	10,662,823	2	10,662,823	2	9,194,524	2
3320	Special reserve	8,815,213	1	8,815,213	2	3,368,986	1
3350	Unappropriated retained earnings	<u>33,480,558</u>	<u>6</u>	<u>32,149,237</u>	<u>5</u>	<u>40,523,793</u>	<u>8</u>
		<u>52,958,594</u>	<u>9</u>	<u>51,627,273</u>	<u>9</u>	<u>53,087,303</u>	<u>11</u>
Other equity interest:							
3410	Exchange differences on translation of foreign financial statements	(6,692,286)	(1)	(7,482,556)	(1)	(10,911,507)	(2)
3420	Unrealized losses on financial assets measured at fair value through other comprehensive income	(358,163)	-	(386,322)	-	(175,714)	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(w))	<u>(340,290)</u>	<u>-</u>	<u>(524,686)</u>	<u>-</u>	<u>(908,776)</u>	<u>-</u>
		<u>(7,390,739)</u>	<u>(1)</u>	<u>(8,393,564)</u>	<u>(1)</u>	<u>(11,995,997)</u>	<u>(2)</u>
3500	Treasury stock	<u>(2,884)</u>	<u>-</u>	<u>(4,974)</u>	<u>-</u>	<u>(6,786)</u>	<u>-</u>
	Equity attributable to the parent company	<u>152,356,170</u>	<u>27</u>	<u>150,028,838</u>	<u>26</u>	<u>147,293,900</u>	<u>30</u>
36xx	Non-controlling interests (Notes 6(i) and (v))	<u>36,064,495</u>	<u>7</u>	<u>36,417,945</u>	<u>6</u>	<u>37,376,074</u>	<u>8</u>
	Total equity	<u>188,420,665</u>	<u>34</u>	<u>186,446,783</u>	<u>32</u>	<u>184,669,974</u>	<u>38</u>
	Total liabilities and equity	<u>\$ 559,192,375</u>	<u>100</u>	<u>584,350,615</u>	<u>100</u>	<u>484,636,650</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

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

		<u>For the three months ended March 31</u>			
		<u>2019</u>		<u>2018</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4110	Operating revenue (Note 6(z))	\$ 294,765,843	100	281,573,892	100
4170	Less: Sales returns and allowances	651,300	-	680,555	-
	Operating revenue, net	<u>294,114,543</u>	<u>100</u>	<u>280,893,337</u>	<u>100</u>
5000	Cost of sales (Notes 6(f), 6(r), 6(t), 6(aa) and 7)	287,442,557	98	271,692,255	97
	Gross profit from operations	<u>6,671,986</u>	<u>2</u>	<u>9,201,082</u>	<u>3</u>
6000	Operating expenses (Notes 6(r), 6(t) and 6(aa)):				
6100	Selling expenses	963,787	-	1,179,517	-
6200	General and administrative expenses	1,986,236	1	2,440,024	1
6300	Research and development expenses	3,302,557	1	3,431,350	1
	Total operating expenses	<u>6,252,580</u>	<u>2</u>	<u>7,050,891</u>	<u>2</u>
	Net operating income	<u>419,406</u>	<u>-</u>	<u>2,150,191</u>	<u>1</u>
	Non-operating income and expenses:				
7010	Other income (Notes 6(l), 6(r) and 6(ab))	1,351,679	-	1,001,720	-
7020	Other gains and losses (Notes 6(j), 6(ab) and 12)	1,046,993	-	(437,034)	-
7050	Finance costs (Notes 6(d), 6(p), 6(r) and 6(ab))	(1,086,790)	-	(448,655)	-
7060	Share of profit of associates and joint ventures accounted for using equity method (Note 6(h))	16,796	-	42,757	-
7590	Miscellaneous disbursements	(15,929)	-	(21,793)	-
	Total non-operating income and expenses	<u>1,312,749</u>	<u>-</u>	<u>136,995</u>	<u>-</u>
	Profit before tax	1,732,155	-	2,287,186	1
7950	Less: Tax expenses (note 6(u))	1,131,075	-	326,361	-
	Profit for the period	<u>601,080</u>	<u>-</u>	<u>1,960,825</u>	<u>1</u>
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	28,159	-	(14,666)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	Total components of other comprehensive income that will not be reclassified to profit or loss	<u>28,159</u>	<u>-</u>	<u>(14,666)</u>	<u>-</u>
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	1,095,895	-	(1,047,581)	-
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	402	-	7,689	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	433	-	(959)	-
	Total components of other comprehensive income that will be reclassified to profit or loss	<u>1,095,864</u>	<u>-</u>	<u>(1,038,933)</u>	<u>-</u>
8300	Other comprehensive income for the period, net of tax	<u>1,124,023</u>	<u>-</u>	<u>(1,053,599)</u>	<u>-</u>
8500	Total comprehensive income for the period	<u>\$ 1,725,103</u>	<u>-</u>	<u>907,226</u>	<u>-</u>
	Profit attributable to:				
8610	Owners of the parent company	\$ 1,331,321	-	2,079,197	1
8620	Non-controlling interests	(730,241)	-	(118,372)	-
		<u>\$ 601,080</u>	<u>-</u>	<u>1,960,825</u>	<u>1</u>
	Comprehensive income attributable to:				
8710	Owners of the parent company	\$ 2,149,750	-	840,175	-
8720	Non-controlling interests	(424,647)	-	67,051	-
		<u>\$ 1,725,103</u>	<u>-</u>	<u>907,226</u>	<u>-</u>
	Earnings per share, net of tax (Note 6(y))				
9750	Basic earnings per share	<u>\$ 0.51</u>		<u>0.80</u>	
9850	Diluted earnings per share	<u>\$ 0.51</u>		<u>0.79</u>	

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent															
	Retained earnings					Total other equity interest										
	Share capital	Common stock	Capital surplus	Legal reserve	Special reserves	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Deferred compensation cost	Total other equity interest	Treasury stock	Total equity attributable to owners of parent	Non-controlling interests	Total equity
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)	145,973,738	33,748,072	179,723,810
Effects of retrospective application	-	-	-	-	-	1,031,638	1,031,638	11,223	(161,048)	(883,161)	-	(1,032,986)	-	145,974,390	33,748,072	179,722,462
Balance at January 1, 2018 after adjustments	26,140,906	79,897,751	-	9,194,524	3,368,986	38,444,596	51,008,106	(9,687,151)	(161,048)	-	(1,222,232)	(11,070,431)	(1,942)	145,974,390	(118,372)	1,960,825
Profit for the period	-	-	-	-	-	2,079,197	2,079,197	(1,224,356)	(14,666)	-	-	(1,239,022)	-	(1,239,022)	185,423	(1,053,592)
Other comprehensive income for the period	-	-	-	-	-	-	-	(1,224,356)	(14,666)	-	-	(1,239,022)	-	840,175	67,051	907,226
Total comprehensive income for the period	-	-	-	-	-	2,079,197	2,079,197	(1,224,356)	(14,666)	-	-	(1,239,022)	-	165,309	(165,309)	-
Changes in ownership interests in subsidiaries	(1,942)	-	-	-	-	-	-	-	-	-	-	-	(4,844)	-	-	314,026
Expiration of restricted shares of stock issued to employees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation cost arising from restricted shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2018	\$ 26,138,964	80,070,416	-	9,194,524	3,368,986	40,523,793	53,087,303	(10,911,507)	(175,714)	-	(908,776)	(11,995,997)	(6,786)	147,293,900	37,376,074	184,669,974
Balance at January 1, 2019	\$ 26,123,773	80,676,330	-	10,662,823	8,815,213	32,149,237	51,627,273	(7,482,556)	(386,322)	-	(524,686)	(8,393,564)	(4,974)	150,028,838	36,417,945	186,446,783
Effects of retrospective application	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at January 1, 2019 after adjustments	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
Profit for the period	-	-	-	-	-	1,331,321	1,331,321	790,270	28,159	-	-	818,429	-	818,429	305,594	1,124,023
Other comprehensive income for the period	-	-	-	-	-	-	-	790,270	28,159	-	-	818,429	-	2,149,750	(424,647)	1,725,103
Total comprehensive income for the period	-	-	-	-	-	1,331,321	1,331,321	790,270	28,159	-	-	818,429	-	2,149,750	(424,647)	1,725,103
Changes in ownership interests in subsidiaries	(7,756)	-	-	-	-	-	-	-	-	-	-	-	-	(7,756)	7,756	-
Expiration of restricted shares of stock issued to employees	(4,974)	-	-	-	-	-	-	-	-	-	-	-	2,090	-	-	185,338
Compensation cost arising from restricted shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2019	\$ 26,118,799	80,672,400	-	10,662,823	8,815,213	33,480,558	52,958,594	(6,692,286)	(388,163)	-	(340,290)	(7,390,739)	(2,884)	152,356,170	36,064,495	188,420,665

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash flows from operating activities:		
Profit before tax	\$ 1,732,155	2,287,186
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	4,638,969	3,782,934
Amortization expense	66,273	67,174
Expected credit loss (gain)	5,582	(32,376)
Net loss on financial assets and liabilities at fair value through profit or loss	896,480	14,628
Interest expense	1,082,092	445,301
Interest income	(914,970)	(512,132)
Compensation cost arising from employee stock options	243,519	404,256
Amortization of issuance costs on bonds payable	571	571
Share of gain of associates and joint ventures accounted for using equity method	(16,796)	(42,757)
Gain on lease remeasurement	(90)	-
Gain on disposal of property, plant and equipment	(5,171)	(21,918)
Property, plant and equipment charged to expenses	6,436	4
Loss on disposal of investments	-	2,013
Impairment loss on non-financial assets	11,587	6,687
Loss (gain) on foreign currency exchange on long-term loans	29,859	(125,678)
Long-term prepaid rentals charged to expenses	-	22,763
(Reversal of) other current liabilities	308,441	(44,780)
Decrease in other current assets	43,052	-
Total adjustments to reconcile profit	6,395,834	3,966,690
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in financial assets at fair value through profit or loss	(4,374,252)	(213,874)
Decrease in notes and accounts receivable	49,713,720	26,351,413
Decrease in other receivables	91,173	2,831
Decrease in inventories	25,540,225	7,580,063
Increase in other financial assets	(631,794)	(2,835,064)
Decrease in other current assets	1,411,491	109,571
Decrease (increase) in other non-current assets	70,746	(568,834)
Total changes in operating assets	71,821,309	30,426,106
Changes in operating liabilities:		
Increase (decrease) in contract liabilities	306,402	(45,040)
Decrease in notes and accounts payable	(63,093,719)	(40,006,013)
Decrease in accrued expenses	(3,547,183)	(4,391,114)
Decrease in other payables	(502,687)	(4,526,062)
Increase in other current liabilities	2,571,362	2,118,113
Decrease in other non-current liabilities	(39,688)	(42,157)
Total changes in operating liabilities	(64,305,513)	(46,892,273)
Total changes in operating assets and liabilities	7,515,796	(16,466,167)
Total adjustments	13,911,630	(12,499,477)
Cash inflow (outflow) generated from operations	15,643,785	(10,212,291)
Interest received	755,566	416,279
Interest paid	(1,053,763)	(377,500)
Income taxes paid	(1,203,733)	(1,337,151)
Net cash flows from (used in) operating activities	14,141,855	(11,510,663)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (CONT'D)

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash flows used in investing activities:		
Proceeds from capital reduction of investments accounted for using equity method	1,336	113,889
Acquisition of property, plant and equipment	(1,732,253)	(2,349,992)
Proceeds from disposal of property, plant and equipment	218,125	110,265
Acquisition of intangible assets	(36,672)	(43,931)
Decrease (increase) in other financial assets	74,049	(269,523)
Increase in prepayments on purchase of equipment	(1,576,031)	(2,378,252)
Increase in long-term prepaid rentals	-	(29,830)
Net cash flows used in investing activities	<u>(3,051,446)</u>	<u>(4,847,374)</u>
Cash flows from financing activities:		
Increase in short-term loans	32,490,194	28,128,351
Proceeds from issuing bonds	-	7,992,000
Proceeds from long-term loans	2,695,100	1,860,050
Repayments of long-term loans	(1,651,275)	(131,750)
Repayments of lease liabilities	(357,717)	-
Redemption of restricted stock	(2,884)	-
Changes in non-controlling interests	22,529	3,703,530
Net cash flows from financing activities	<u>33,195,947</u>	<u>41,552,181</u>
Effect of exchange rate fluctuations on cash held	<u>303,054</u>	<u>(786,352)</u>
Net increase in cash and cash equivalents	44,589,410	24,407,792
Cash and cash equivalents, beginning of the period	<u>106,068,046</u>	<u>107,444,124</u>
Cash and cash equivalents, end of the period	<u>S 150,657,456</u>	<u>131,851,916</u>

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

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

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 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 the the three months ended March 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 May 7, 2019.

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

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

The 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.

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

(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.

(Continued)

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:

(Continued)

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	224,783
	\$ 3,345,745
Discounted using the incremental borrowing rate at January 1, 2019	\$ 2,945,584

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC :

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	<p>The amendments address the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized and the investors are regarded to lose controls of the business when a transaction involves a business. A partial gain or loss, which is the unrealized gain or loss calculated by shareholding ratio, is recognized when a transaction involves assets that do not constitute a business.</p>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(4) Summary of significant accounting policies:

The accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China (hereinafter referred to the Regulations), and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

(b) Basis of preparation

(i) Basis of measurement

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

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

(ii) Functional and presentation currency

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

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

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

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
THE COMPANY	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 12
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00 %	100.00 %	100.00 %	Note 12
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 12
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing and manufacturing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products	100.00 %	100.00 %	100.00 %	Note 12
THE COMPANY, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	32.83 %	32.81 %	32.76 %	Notes 1 and 2
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	100.00 %	Notes 1 and 12
AZURE WAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
AZURE WAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	100.00 %	Notes 1 and 12
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	100.00 %	Notes 1 and 12
Azwave Samoa	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and trading computer products	100.00 %	100.00 %	100.00 %	Notes 1 and 12

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00 %	100.00 %	100.00 %	Notes 1 and 12
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00 %	100.00 %	100.00 %	Notes 1 and 12
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00 %	100.00 %	100.00 %	Note 12
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
AMA, MAINTEK COMPUTER (SUZHOU) CO., LTD.	TOYTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00 %	100.00 %	100.00 %	Note 12
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00 %	100.00 %	100.00 %	Note 12
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
POWTEK	POWTEK (SHANGHAI) LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 12
PEGATRON HOLDING · KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 7 and 12
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 7 and 12
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	Notes 7 and 12
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	Notes 7 and 12
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
ASLINK	PEGAGLOBE (KUNSHAN) CO.,LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, electronic calculators, and after sale service	100.00 %	100.00 %	100.00 %	
DIGITEK (CHONGQING) LTD.	CHONGQING ZUANSHUO TRADING CO., LTD.	Computer software and hardware, computer parts, electronic products (excluding electronic publications), electric appliance, industrial communication device (excluding wireless transmitter and transmitter), communication equipment (excluding wireless transmitter and satellite ground receiving facilities), and providing related technical consulting services. Import and export of goods and technology. Packaging service, product design, marketing planning, business consulting	100.00 %	100.00 %	100.00 %	Note 12
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
PROTEK	PROTEK (SHANGHAI) LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED(COTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 12
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 12
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00 %	100.00 %	100.00 %	Note 12
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	55.90 %	55.87 %	55.87 %	Note 5
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Investing and holding activities	100.00 %	100.00 %	100.00 %	
ASIAROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASIAROCK	Calrock Holdings, LLC.	Office building leasing	100.00 %	100.00 %	100.00 %	Note 12
ASROCK	Leader Insight Holdings Limited (Leader)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 12
Leader	First place International Limited (First place)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 12
First place	ASRock America, Inc.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	59.98 %	65.97 %	65.97 %	Note 8
ASROCK	ASRock Industrial Computer Corporation	Manufacturing and selling computer and related peripherals	82.47 %	82.47 %	-	% Note 9
ASROCK	Soaring Asia Limited	Trading activities	100.00 %	100.00 %	-	% Notes 10 and 12
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00 %	100.00 %	100.00 %	Note 12
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	38.53 %	38.58 %	39.00 %	Notes 6 and 7
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 7 and 12
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87 %	54.87 %	54.87 %	Notes 7 and 12
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	89.13 %	89.13 %	Notes 7 and 12

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 7 and 12
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
FUYANG HOLDING	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Researching, producing, inspecting, repairing and selling flexible multilayer model, computer digital signal process system and card; selling own produced products and providing related technical consulting service	100.00 %	100.00 %	100.00 %	Note 12
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 7 and 12
PEGAVISION (SHANGHAI) LIMITED	Gemvision Technology (Zhejiang) Limited.	Selling medical appliances	100.00 %	- %	- %	Notes 7, 11 and 12
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	100.00 %	Notes 7 and 12
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 7
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 7
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	100.00 %	Note 7
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	100.00 %	Note 7
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00 %	100.00 %	100.00 %	Note 12
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00 %	100.00 %	100.00 %	
THE COMPANY, ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	59.41 %	59.41 %	59.31 %	Note 3

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00 %	100.00 %	100.00 %	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product.	100.00 %	100.00 %	100.00 %	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	KAI JIA COMPUTER ACCESSORY CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	100.00 %	
RIH LI	RI KAI COMPUTER ACCESSORY CO., LTD.(RI KAI)	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	RI-KUAN METAL CORPORATION	Selling iron and aluminum products	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	APLUS PRECISION LIMITED(APLUS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
APLUS	UNITED NEW LIMITED(UNITED)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
UNITED	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00 %	100.00 %	100.00 %	Note 12

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2019	December 31, 2018	March 31, 2018	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 12
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	Maintenance service	100.00 %	100.00 %	100.00 %	Note 12
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00 %	100.00 %	100.00 %	Note 12
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00 %	100.00 %	100.00 %	Note 12
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00 %	100.00 %	100.00 %	Note 12
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 %	56.52 %	Notes 4 and 12
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00 %	100.00 %	100.00 %	Note 12
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
Lumens	Lumens (Suzhou) Digital Image Inc.	Manufacturing and selling projectors, projection screens and related products	100.00 %	100.00 %	100.00 %	Note 12
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00 %	100.00 %	100.00 %	Note 12
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00 %	100.00 %	100.00 %	Note 12
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	Note 12
THE COMPANY	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Investing activities	100.00 %	100.00 %	- %	Notes 10 and 12
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 12
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 %	- %	- %	Notes 11 and 12

Note 1 : Since the Group only held 32.83% of voting rights of AZURE WAVE TECHNOLOGY INC., with the remaining 67.17% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over AZURE WAVE TECHNOLOGY INC., therefore, AZURE WAVE TECHNOLOGY INC., has been included in the consolidated financial statement of the Group.

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PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Note 2 : On August 8, 2018, AZURE WAVE TECHNOLOGY INC. (AZURE WAVE) reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in AZURE WAVE increased from 32.76% to 32.81%. In addition, on March 13, 2019, AZURE WAVE reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in AZURE WAVE increased to 32.83%.
- Note 3 : On November 22, 2018, CASETEK HOLDINGS LIMITED reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in CASETEK HOLDINGS LIMITED increased from 59.31% to 59.41%.
- Note 4 : Lumens Optics reduced, as well as increased, its capital on April 30 and June 25, 2018, respectively. However, the Group did not proportionally increase its investment in Lumens Optics, resulting in its shareholding ratio decreased from 56.52% to 55.21%.
- Note 5 : On March 7, 2019, ASROCK INCORPORATION reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in ASROCK INCORPORATION increased from 55.87% to 55.90%.
- Note 6 : On August 28, 2018, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) issued employee restricted shares, resulting in the Group's shareholding ratio in KINSUS decreased from 39.00% to 38.58%. In addition, on February 18, 2019, KINSUS reduced its capital by canceling those retired employee restricted shares, and issued secondary employee restricted shares, resulting in the Group's shareholding ratio in KINSUS decreased to 38.53%.
- Note 7 : Since the Group only held 38.53% of voting rights of KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS), with the remaining 61.47% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over KINSUS, therefore, KINSUS has been included in the consolidated financial statements of the Group.
- Note 8 : On March 4, 2019, ASRock Rack Incorporation issued employee restricted shares. However, the Group did not proportionally increase its investment in ASRock Rack Incorporation, resulting in its shareholding ratio decreased from 65.97% to 59.98%.
- Note 9 : Subsidiary established by the Group in the third quarter of 2018.
- Note 10 : Subsidiary established by the Group in the fourth quarter of 2018.
- Note 11 : Subsidiary established by the Group in the first quarter of 2019.
- Note 12 : It is an insignificant subsidiary, and its financial statements have not been reviewed.

(vii) Subsidiaries excluded from consolidation : None.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Foreign currency

(i) Foreign currency transaction

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

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

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

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

(ii) Foreign operations

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

An asset is classified as current when :

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

All other assets are classified as non-current.

A liability is classified as current when :

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

All other liabilities are classified as non-current.

(f) Cash and cash equivalents

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Financial assets

(i) Financial assets

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

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

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Group, therefore, those receivables are measured at FVOCI and presented as accounts receivable.

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

4) Business model assessment

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- d) the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

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

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

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

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

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

- 6) Impairment of financial assets

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

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Loss allowance for accounts receivables is always measured at an amount equal to lifetime ECL.

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

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

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

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

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

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

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

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

- a) significant financial difficulty of the borrower or issuer ;
- b) a breach of contract such as a default or being more than 180 days past due ;
- c) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise ;
- d) it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- e) the disappearance of an active market for a security because of financial difficulties.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

7) Derecognition of financial assets

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

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) Financial guarantee contract

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

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

(iii) Derivative financial instruments, including hedge accounting

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

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

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

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Fair value hedges

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

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

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

2) Cash flow hedges

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(h) Inventories

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

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

(i) Non-current assets held for sale

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

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

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

When the assets classified as held for sale or held for distribution to owners are to be depreciated or amortized, they are no longer depreciated or amortized.

(Continued)

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 that significant influence commences until the date that significant influence ceases.

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

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

(k) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(I) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

(Continued)

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

Buildings	1-50 years
Machinery	1-10 years
Instrument equipment	2-10 years
Office and other equipment	1-10 years
Miscellaneous equipment	1-25 years

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

(m) Leased (applicable from January 1, 2019)

(i) Identifying a lease

At 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 use of the asset throughout the period of 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.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) As a leasee

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

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

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

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

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

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

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

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(iii) As a lessor

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

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

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

(n) Leased assets (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 expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
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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.

(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.

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.

(o) Intangible assets

(i) Goodwill

1) Recognition

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Measurement

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

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

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

Computer software cost	0-10 years
Trademark rights	5 years
Intangible assets in development	1-10 years

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

(p) Impairment – non-financial assets

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

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

(Continued)

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

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

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

(q) Treasury stock

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

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

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

(r) Revenue 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 good

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

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

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

(ii) Services

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

(iii) Financing components

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

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(iii) Short-term employee benefits

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

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

(t) Share-based payment

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

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

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

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

(u) Income taxes

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

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(v) Business combination

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

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

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

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

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

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

(w) Government grant

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Earnings per share

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

(y) Operating segments

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2018. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2018.

(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2018. Please refer to Note 6 of the consolidated financial statements for the year ended December 31, 2018.

(a) Cash and cash equivalents

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand	\$ 12,816	15,084	14,221
Cash in banks	29,245,550	27,781,441	20,979,792
Time deposits	119,857,477	74,035,178	110,857,903
Cash equivalents	<u>1,541,613</u>	<u>4,236,343</u>	<u>-</u>
	<u>\$ 150,657,456</u>	<u>106,068,046</u>	<u>131,851,916</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	\$ 718,575	668,448	710,947
Beneficiary certificates	2,196,509	2,149,733	2,479,584
Shares of stock of overseas listed companies	3,678,520	294,821	403,388
Derivative financial assets			
Forward exchange contracts	20	-	-
Non-current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	220,500	217,000	229,250
Beneficiary certificates	116,970	123,320	-
Shares of stock of overseas unlisted companies	<u>79,651</u>	<u>79,651</u>	<u>71,015</u>
Total	<u>\$ 7,010,745</u>	<u>3,532,973</u>	<u>3,894,184</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.

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Fair value through other comprehensive income

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Equity instruments at fair value through other comprehensive income :			
Shares of stock of listed companies	\$ 558,677	530,518	721,469
Shares of stock of unlisted companies	150,000	150,000	150,000
Shares of stock of overseas unlisted companies	<u>132,625</u>	<u>132,075</u>	<u>129,494</u>
Total	<u>\$ 841,302</u>	<u>812,593</u>	<u>1,000,963</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 three months ended March 31, 2019 and 2018, the Group has not recognized any dividend income from equity instruments designated at fair value through other comprehensive income.

No strategic investments were disposed for the three months ended March 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(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 receivables were as follows :

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Notes receivables from operating activities	\$ 26,101	45,327	35,878
Accounts receivables-measured at amortized cost	150,925,223	185,261,685	122,111,949
Accounts receivables-fair value through other comprehensive income	-	15,357,500	2,666,891
Less : Allowance for impairment	<u>1,782,310</u>	<u>1,780,928</u>	<u>1,691,508</u>
	<u>\$ 149,169,014</u>	<u>198,883,584</u>	<u>123,123,210</u>

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

(Continued)

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 receivables have been grouped based on shared credit risk characteristics and the days past due, as well as forward looking information, including overall economic environment and related industrial information.

The loss allowance provision was determined as follows :

	March 31, 2019		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 147,792,446	0%~2%	(26,101)
Overdue 0 to 30 days	1,190,336	1%~30%	(39,639)
Overdue 31 to 120 days	273,968	1%~100%	(31,396)
Overdue 121 to 365 days	13,121	19%~100%	(3,721)
Over 365 days past due	<u>1,681,453</u>	100%	<u>(1,681,453)</u>
	<u>\$ 150,951,324</u>		<u>(1,782,310)</u>
	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>
	March 31, 2018		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 121,871,810	0%~5%	(24,940)
Overdue 0 to 30 days	1,168,155	1%~30%	(46,005)
Overdue 31 to 120 days	177,403	5%~50%	(27,154)
Overdue 121 to 365 days	33,376	50%~100%	(29,435)
Over 365 days past due	<u>1,563,974</u>	100%	<u>(1,563,974)</u>
	<u>\$ 124,814,718</u>		<u>(1,691,508)</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the three months ended March 31	
	2019	2018
Balance on January 1	\$ 1,780,928	1,724,664
Impairment losses recognized	12,384	10,729
Impairment losses reversed	(11,534)	(43,572)
Foreign exchange losses (gains)	532	(313)
Balance on March 31	\$ 1,782,310	1,691,508

The aforesaid financial assets were not pledged as collateral.

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

Accounts receivable which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivable. As of March 31, 2019, December 31, 2018 and March 31, 2018, the Company sold its accounts receivable without recourse as follows :

March 31, 2019						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount (thousands)	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ -	USD 1,200,000	USD -	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ -
December 31, 2018						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount (thousands)	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ 4,668,680	USD 1,200,000	USD 152,000	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ 4,668,680
March 31, 2018						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount (thousands)	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ 1,455,250	USD 1,200,000	USD 50,000	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ 1,455,250

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018, the Company recognized a fee and interest on bank advance payment of \$65,952 and \$7,109, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

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

March 31, 2019						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>208,314</u>	USD <u>30,000</u>	\$ <u>-</u>	None	The accounts receivable factoring is without recourse	\$ <u>208,314</u>
December 31, 2018						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>214,285</u>	USD <u>30,000</u>	\$ <u>-</u>	None	The accounts receivable factoring is without recourse	\$ <u>214,285</u>
March 31, 2018						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>325,652</u>	USD <u>30,000</u>	\$ <u>183,567</u>	None	The accounts receivable factoring is without recourse	\$ <u>325,652</u>

(e) Other receivables

	March 31, 2019	December 31, 2018	March 31, 2018
Other receivables	\$ 1,555,696	1,490,955	1,591,094
Less : Allowance for impairment	<u>19,432</u>	<u>14,374</u>	<u>14,178</u>
	<u>\$ 1,536,264</u>	<u>1,476,581</u>	<u>1,576,916</u>

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Inventories

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2019</u>
Merchandise	\$ 313,664	1,989,825	414,764
Finished goods	85,344,019	110,281,796	67,059,069
Work in process	24,692,808	21,178,778	20,966,874
Raw materials	<u>37,847,182</u>	<u>39,614,370</u>	<u>34,530,666</u>
Subtotal	148,197,673	173,064,769	122,971,373
Less: Allowance for inventory market decline and obsolescence	<u>(8,749,557)</u>	<u>(8,076,428)</u>	<u>(6,676,443)</u>
Total	<u>\$ 139,448,116</u>	<u>164,988,341</u>	<u>116,294,930</u>

For the three months ended March 31, 2019 and 2018, the components of cost of goods sold were as follows :

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Cost of goods sold	\$ 285,060,001	270,163,656
Provision on (reversal of) inventory market price decline	673,129	(222,057)
Loss on disposal of inventory	844,450	1,144,624
Unallocated manufacturing overhead	863,444	603,953
Loss on physical inventory	<u>1,533</u>	<u>2,079</u>
	<u>\$ 287,442,557</u>	<u>271,692,255</u>

For the three months ended March 31, 2019, the Group recognized a provision on inventory market price decline of \$673,129, which was charged to profit or loss under cost of goods sold. The gain was recognized from the reversal of provision arising from destocking for the three months ended March 31, 2018 of \$222,057. Such gain was deducted from cost of goods sold.

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

(g) Non-current assets held for sale

Except for the following, there were no significant changes in non-current assets held for sale for the three months ended March 31, 2019 and 2018. Please refer to Note 6(i) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

In January 2019, CASETEK CAYMAN signed a sale contract with non-related parties. Proceeds from the sale was RMB\$107,000 thousand dollars, and the gain on the disposal was approximately RMB\$74,401 thousand dollars.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Investments accounted for using equity method

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

	March 31, 2019	December 31, 2018	March 31, 2018
Individually insignificant associates	\$ <u>262,346</u>	<u>246,423</u>	<u>432,443</u>
	For the three months ended March 31		
		2019	2018
The Group's share of profit of the associates			
Profit for the period	\$	16,796	42,757
Other comprehensive income		<u>402</u>	<u>7,689</u>
Total comprehensive income	\$	<u>17,198</u>	<u>50,446</u>

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

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

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

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

(i) Subsidiaries that have material non-controlling interest

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

Subsidiaries	Main operation place/Country of registration	Equity ownership of non-controlling interest		
		March 31, 2019	December 31, 2018	March 31, 2018
KINSUS and its subsidiaries	Taiwan	61.47 %	61.42 %	61.00 %
ASROCK and its subsidiaries	Taiwan	44.10 %	44.13 %	44.13 %
CASETEK CAYMAN	Taiwan/ Cayman	40.59 %	40.59 %	40.69 %

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Information regarding KINSUS and its subsidiaries

	March 31, 2019	December 31, 2018	March 31, 2018
Current assets	\$ 18,082,272	19,294,569	18,109,236
Non-current assets	24,248,973	23,329,385	23,734,804
Current liabilities	(10,009,977)	(10,199,199)	(9,466,255)
Non-current liabilities	<u>(3,216,893)</u>	<u>(2,676,233)</u>	<u>(2,438,129)</u>
Net assets	<u>\$ 29,104,375</u>	<u>29,748,522</u>	<u>29,939,656</u>
Non-controlling interest	<u>\$ 17,661,704</u>	<u>17,989,981</u>	<u>17,806,654</u>
	For the three months ended March 31		
	2019	2018	
Operating revenue	\$ <u>4,919,071</u>	<u>5,251,757</u>	
Net loss for the period	\$ (749,176)	(18,077)	
Other comprehensive income	64,988	42,312	
Comprehensive (loss) income	<u>\$ (684,188)</u>	<u>24,235</u>	
Net (loss) income attribute to non-controlling interest	<u>\$ (410,827)</u>	<u>44,689</u>	
Comprehensive (loss) income attribute to non-controlling interest	<u>\$ (380,047)</u>	<u>61,789</u>	
Cash flows from operating activities	\$ 1,222,545	781,994	
Cash flows from investing activities	(1,561,799)	(1,179,008)	
Cash flows from financing activities	380,126	208,924	
Net increase (decrease) in cash and cash equivalents	<u>\$ 40,872</u>	<u>(188,090)</u>	

(ii) Information regarding ASROCK and its subsidiaries

	March 31, 2019	December 31, 2018	March 31, 2018
Current assets	\$ 9,108,900	8,664,042	8,668,801
Non-current assets	700,891	700,151	633,904
Current liabilities	(3,483,705)	(3,225,809)	(3,446,189)
Non-current liabilities	<u>(78,313)</u>	<u>(26,896)</u>	<u>(24,628)</u>
Net assets	<u>\$ 6,247,773</u>	<u>6,111,488</u>	<u>5,831,888</u>
Non-controlling interest	<u>\$ 2,822,062</u>	<u>2,751,861</u>	<u>2,614,641</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Operating revenue	\$ <u>2,823,035</u>	<u>2,636,382</u>
Net income for the period	\$ 101,671	178,448
Other comprehensive income (loss)	13,117	(81,251)
Comprehensive income	\$ <u>114,788</u>	<u>97,197</u>
Net income attribute to non-controlling interest	\$ <u>47,138</u>	<u>73,031</u>
Comprehensive income attribute to non-controlling interest	\$ <u>52,925</u>	<u>37,176</u>
Cash flows from operating activities	\$ 50,489	(196,263)
Cash flows from investing activities	(543,832)	(71,328)
Cash flows from financing activities	(6,862)	(291)
Net decrease in cash and cash equivalents	\$ <u>(500,205)</u>	<u>(267,882)</u>

(iii) Information regarding CASETEK CAYMAN

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Current assets	\$ 26,735,865	27,647,773	27,329,765
Non-current assets	28,528,308	28,269,709	26,883,726
Current liabilities	(12,952,760)	(14,404,687)	(11,132,107)
Non-current liabilities	<u>(9,495,359)</u>	<u>(8,680,913)</u>	<u>(7,245,219)</u>
Net assets	\$ <u>32,816,054</u>	<u>32,831,882</u>	<u>35,836,165</u>
Non-controlling interest	\$ <u>13,284,470</u>	<u>13,290,892</u>	<u>14,568,221</u>

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Operating revenue	\$ <u>6,642,000</u>	<u>6,539,530</u>
Net loss for the period	\$ (663,927)	(496,299)
Other comprehensive income	652,135	374,109
Comprehensive loss	\$ <u>(11,792)</u>	<u>(122,190)</u>
Net loss attribute to non-controlling interest	\$ <u>(271,072)</u>	<u>(199,749)</u>
Comprehensive loss attribute to non-controlling interest	\$ <u>(6,422)</u>	<u>(2,889)</u>
Cash flows from operating activities	\$ 735,804	1,248,022
Cash flows from investing activities	(683,782)	(2,327,461)
Cash flows from financing activities	604,146	6,663,727
Net increase in cash and cash equivalents	\$ <u>656,168</u>	<u>5,584,288</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group for the three months ended March 31, 2019 and 2018 were as follows :

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
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	-	130,084	146,919	59,696	694,728	1,087,164	2,118,591
Disposals and obsolescence	-	(74,506)	(482,481)	(63,440)	(451,561)	-	(1,071,988)
Reclassifications	1,317,564	4,884,700	1,880,551	2,780	879,427	(6,532,583)	2,432,439
Effect of movement in exchange rate	1,373	339,084	844,973	5,594	228,723	141,067	1,560,814
Balance on March 31, 2019	<u>\$ 7,703,823</u>	<u>53,759,060</u>	<u>74,002,491</u>	<u>1,449,208</u>	<u>33,547,108</u>	<u>5,087,283</u>	<u>175,548,973</u>
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	-	122,501	884,364	9,612	375,085	2,247,358	3,638,920
Disposals and obsolescence	-	(32,290)	(436,947)	(5,960)	(442,780)	-	(917,977)
Reclassifications	-	449,592	2,083,101	90	820,480	(637,538)	2,715,725
Effect of movement in exchange rate	2,550	(322,152)	226,830	(21,281)	(245,903)	53,735	(306,221)
Balance on March 31, 2018	<u>\$ 4,364,479</u>	<u>43,986,976</u>	<u>67,340,359</u>	<u>1,435,643</u>	<u>27,901,442</u>	<u>8,191,781</u>	<u>153,220,680</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	-	645,542	2,129,338	31,111	1,442,518	-	4,248,509
(Reversal of) impairment loss	-	(1)	10,932	-	656	-	11,587
Reclassifications	-	-	(17)	-	4,194	-	4,177
Disposals and obsolescence	-	(74,504)	(299,050)	(63,052)	(422,428)	-	(859,034)
Effect of movement in exchange rate	-	111,781	544,278	5,287	143,583	-	804,929
Balance on March 31, 2019	<u>\$ -</u>	<u>17,998,390</u>	<u>47,622,815</u>	<u>1,230,430</u>	<u>20,261,888</u>	<u>-</u>	<u>87,113,523</u>
Balance on January 1, 2018	\$ -	14,863,199	37,893,522	1,230,272	16,027,969	-	70,014,962
Depreciation for the period	-	552,503	2,088,108	32,792	1,108,726	-	3,782,129
(Reversal of) impairment loss	-	-	6,352	(3)	338	-	6,687
Reclassifications	-	(346)	2,869	-	(35,585)	-	(33,062)
Disposals and obsolescence	-	(32,290)	(399,905)	(5,820)	(391,615)	-	(829,630)
Effect of movement in exchange rate	-	(105,988)	133,441	(21,025)	(142,723)	-	(136,295)
Balance on March 31, 2018	<u>\$ -</u>	<u>15,277,078</u>	<u>39,724,387</u>	<u>1,236,216</u>	<u>16,567,110</u>	<u>-</u>	<u>72,804,791</u>
Carrying amounts :							
Balance on January 1, 2019	<u>\$ 6,384,886</u>	<u>31,164,126</u>	<u>26,375,195</u>	<u>187,494</u>	<u>13,102,426</u>	<u>10,391,635</u>	<u>87,605,762</u>
Balance on March 31, 2019	<u>\$ 7,703,823</u>	<u>35,760,670</u>	<u>26,379,676</u>	<u>218,778</u>	<u>13,285,220</u>	<u>5,087,283</u>	<u>88,435,450</u>
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 March 31, 2018	<u>\$ 4,364,479</u>	<u>28,709,898</u>	<u>27,615,972</u>	<u>199,427</u>	<u>11,334,332</u>	<u>8,191,781</u>	<u>80,415,889</u>

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

	For the three months ended March 31	
	2019	2018
Impairment loss	\$ 11,587	6,687

- (ii) KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries completed a series of farm land purchases covering a total land area of 36,115.24 square meters in the name of KINSUS' s chairman instead of KINSUS, due to the restriction imposed by the local government.
- (iii) For the three months ended March 31, 2019 and 2018, KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries had written the carrying amount of certain property, plant and equipment to their recoverable amount \$0, and recognized an impairment loss of \$11,943 and \$11,551, respectively. Impairment loss or reversal gain 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. There were no significant changes for the three months ended March 31, 2019. Please refer to Note 6(l) of the consolidated financial statements for the year ended December 31, 2018 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.
- (k) Right-of-use assets

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

	Land	Buildings	Machinery equipment	Transportation equipment	Total
Cost:					
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	4,540,409	2,925,838	17,793	1,331	7,485,371
Additions	-	109,915	-	-	109,915
Reductions	-	(19,960)	-	-	(19,960)
Effect of movement in exchange rate	46,065	13,601	-	-	59,666
Balance on March 31, 2019	\$ 4,586,474	3,029,394	17,793	1,331	7,634,992

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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>Transportation equipment</u>	<u>Total</u>
Accumulated depreciation:					
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	778,162	-	-	-	778,162
Depreciation for the period	23,925	363,871	1,722	160	389,678
Reductions	-	(4,991)	-	-	(4,991)
Effect of movement in exchange rate	7,265	645	-	-	7,910
Balance on March 31, 2019	<u>\$ 809,352</u>	<u>359,525</u>	<u>1,722</u>	<u>160</u>	<u>1,170,759</u>
Carrying amounts:					
Balance on March 31, 2019	<u>\$ 3,777,122</u>	<u>2,669,869</u>	<u>16,071</u>	<u>1,171</u>	<u>6,464,233</u>

For the three months ended March 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. The movement for the three months ended March 31, 2019 and 2018 were as follows :

	<u>Buildings</u>
Carrying amounts:	
Balance on January 1, 2019	\$ <u>48,712</u>
Balance on March 31, 2019	\$ <u>48,095</u>
Balance on January 1, 2018	\$ <u>52,870</u>
Balance on March 31, 2018	\$ <u>52,920</u>

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

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Rental income	\$ <u>-</u>	<u>636</u>
Direct operating expenses arising from investment property that generate rental income	\$ <u>782</u>	<u>805</u>

(ii) As of March 31, 2019, December 31, 2018 and March 31, 2018, the fair value of investment property of the Group was \$78,885, \$78,855 and \$86,145, respectively. The fair value of investment property was based on the market price evaluation of the buildings located in the area.

(iii) There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the three months ended March 31, 2019 and 2018. Information on depreciation for the period is discussed in Note 12. Please refer to Note 6(m) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) As of March 31, 2019, December 31, 2018 and March 31, 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 for the three months ended March 31, 2019 and 2018 were as follows :

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Costs:			
Balance on January 1, 2019	\$ 1,746,024	1,488,815	3,234,839
Additions	-	36,672	36,672
Disposals	-	(21,730)	(21,730)
Reclassifications	-	4,878	4,878
Effect of movement in exchange rate	3,667	6,141	9,808
Balance on March 31, 2019	<u>\$ 1,749,691</u>	<u>1,514,776</u>	<u>3,264,467</u>
Balance on January 1, 2018	\$ 1,712,671	1,374,753	3,087,424
Additions	-	43,931	43,931
Disposals	-	(22,395)	(22,395)
Reclassifications	-	176	176
Effect of movement in exchange rate	(22,876)	(9,535)	(32,411)
Balance on March 31, 2018	<u>\$ 1,689,795</u>	<u>1,386,930</u>	<u>3,076,725</u>
Amortization and impairment loss:			
Balance on January 1, 2019	\$ 671,792	1,087,175	1,758,967
Amortization for the period	-	66,273	66,273
Disposals	-	(21,730)	(21,730)
Effect of movement in exchange rate	-	4,624	4,624
Balance on March 31, 2019	<u>\$ 671,792</u>	<u>1,136,342</u>	<u>1,808,134</u>
Balance on January 1, 2018	\$ 671,792	918,398	1,590,190
Amortization for the period	-	67,174	67,174
Disposals	-	(22,395)	(22,395)
Effect of movement in exchange rate	-	(10,322)	(10,322)
Balance on March 31, 2018	<u>\$ 671,792</u>	<u>952,855</u>	<u>1,624,647</u>
Carrying amounts:			
Balance on January 1, 2019	<u>\$ 1,074,232</u>	<u>401,640</u>	<u>1,475,872</u>
Balance on March 31, 2019	<u>\$ 1,077,899</u>	<u>378,434</u>	<u>1,456,333</u>
Balance on January 1, 2018	<u>\$ 1,040,879</u>	<u>456,355</u>	<u>1,497,234</u>
Balance on March 31, 2018	<u>\$ 1,018,003</u>	<u>434,075</u>	<u>1,452,078</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

For the three months ended March 31, 2019 and 2018, there were no significant addition, disposal, impairment loss, or reversal gain on goodwill. Please refer to Note 6(n) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(n) Other financial assets and other assets

Other financial assets and other assets were as follows :

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Other financial assets-current	\$ 1,426,569	794,775	4,057,804
Other financial assets-noncurrent	576,847	650,896	570,223
Other current assets	5,887,308	7,334,875	9,082,013
Other noncurrent assets	<u>258,673</u>	<u>329,419</u>	<u>620,218</u>
	<u><u>\$ 8,149,397</u></u>	<u><u>9,109,965</u></u>	<u><u>14,330,258</u></u>

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

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

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

(o) Short-term loans

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Unsecured bank loans	\$ 119,336,950	86,846,756	74,193,498
Secured bank loans	<u>80,490</u>	<u>80,490</u>	<u>-</u>
Total	<u><u>\$ 119,417,440</u></u>	<u><u>86,927,246</u></u>	<u><u>74,193,498</u></u>
Interest rate	<u><u>0.71%~4.45%</u></u>	<u><u>0.51%~5.11%</u></u>	<u><u>0.51%~3.108%</u></u>

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Long-term loans

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Unsecured bank loans	\$ 12,073,887	11,900,203	9,378,484
Secured bank loans	<u>900,000</u>	<u>-</u>	<u>286,250</u>
	12,973,887	11,900,203	9,664,734
Less: current portion	<u>(2,388,950)</u>	<u>(2,388,522)</u>	<u>(2,201,250)</u>
Total	<u>\$ 10,584,937</u>	<u>9,511,681</u>	<u>7,463,484</u>
Interest rate	<u>1.074%~3.97%</u>	<u>1.074%~3.97%</u>	<u>1.073%~3.19%</u>

(i) Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group repaid the long-term loans of \$1,651,275 and \$131,750 for the three months ended March 31, 2019 and 2018. In addition, the Group proceeded from long-term loans of \$2,695,100 and \$1,860,050 for the three months ended March 31, 2019 and 2018, respectively. Please refer to Note 6(ab) for interest expenses.

(ii) Securities for bank loans

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

(iii) Loan covenants

On January 3, 2018 and January 30, 2015, CASETEK CAYMAN signed a USD360,000 and USD300,000 thousand worth of credit facility in the form of credit loan with multiple banks, respectively. According to the credit loan facility agreements, during the loan repayment periods, CASETEK CAYMAN must comply with certain financial covenants, such as current ratio, debt ratio, interest coverage ratio and tangible net assets, based on its audited annual consolidated financial statements (December 31).

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

As of March 31, 2019, December 31, 2018, and March 31, 2018, the Group was in compliance with the above financial covenants. Please refer to Note 6(q) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Bonds payable

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

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Ordinary corporate bonds issued	\$ 15,000,000	15,000,000	15,000,000
Unamortized discount on bonds payable	<u>(12,667)</u>	<u>(13,238)</u>	<u>(14,952)</u>
Bonds payable, end of the period	<u>\$ 14,987,333</u>	<u>14,986,762</u>	<u>14,985,048</u>
	For the three months ended March 31		
	<u>2019</u>	<u>2018</u>	
Interest expense	<u>\$ 36,666</u>	<u>34,787</u>	

On March 14, 2019, the Company's Board of Directors approved to issue unsecured ordinary corporate bonds amounting to no more than \$15,000,000, which were not approved by the Taipei Exchange (TPEX) yet. 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. Please refer to Note 6(r) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(r) Lease liabilities

The Group's lease liabilities were as follows :

	<u>March 31, 2019</u>		
	<u>Future</u> <u>minimum lease</u> <u>payments</u>	<u>Interest</u>	<u>Present value</u> <u>of minimum</u> <u>lease payments</u>
Less than one year	\$ 1,498,161	92,415	1,405,746
Between one and five years	1,331,489	62,393	1,269,096
More than five years	<u>22,887</u>	<u>1,837</u>	<u>21,050</u>
	<u>\$ 2,852,537</u>	<u>156,645</u>	<u>2,695,892</u>
Current	<u>\$ 1,498,161</u>	<u>92,415</u>	<u>1,405,746</u>
Non-current	<u>\$ 1,354,376</u>	<u>64,230</u>	<u>1,290,146</u>

For the three months ended March 31, 2019, the Group recognized its lease liability amounting to \$109,915.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The amounts recognized in profit or loss were as follows :

	For the three months ended March 31 2019
Interest on lease liabilities	\$ <u>29,395</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>2,974</u>
Income from sub-leasing right-of-use assets	\$ <u>39</u>
Expenses relating to short-term leases	\$ <u>159,497</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>7,468</u>

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

	For the three months ended March 31 2019
Total cash outflow for leases	\$ <u>557,051</u>

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

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 three months ended March 31, 2018, there were no significant new lease contracts. Please refer to Note 6(t) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(ii) Long-term prepaid rentals

	December 31, 2018	March 31, 2018
Long-term prepaid rentals	\$ <u>3,749,695</u>	<u>3,761,213</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, the Group reclassified the long-term prepaid rentals of KAI HE to non-current assets held for sale. Please refer to Note 6(t) of the consolidated financial statements for the year ended December 31, 2018 for other related information.
- 3) As of December 31, 2018 and March 31, 2018, the aforesaid long-term prepaid rentals were not pledged as collateral.

(t) Employee benefits

(i) Defined benefit plans

Management believes that there was no material market volatility, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying interim consolidated financial statements was measured and disclosed according to the actuarial report as of December 31, 2018 and 2017.

The Group's pension expenses recognized in profit or loss for the three months ended March 31, 2019 and 2018 were as follows :

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Operating cost	\$ 71	95
Operating expense	<u>868</u>	<u>1,886</u>
	<u>\$ 939</u>	<u>1,981</u>

(ii) Defined contribution plans

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

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Operating cost	\$ 1,212,540	1,227,672
Operating expense	<u>219,408</u>	<u>216,562</u>
	<u>\$ 1,431,948</u>	<u>1,444,234</u>

(iii) Short-term employee benefits

As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group's short-term employee benefits liabilities were \$265,433, \$245,407 and \$342,255, respectively.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Income tax

- (i) Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting."
- (ii) The income tax expense for the three months ended March 31, 2019 and 2018 was calculated as follows :

	For the three months ended March 31	
	2019	2018
Current income tax expense		
Current period incurred	\$ 1,141,828	307,470
Prior years income tax adjustment	(10,753)	18,891
Income tax expense	\$ 1,131,075	326,361

- (iii) The amount of income tax recognized in other comprehensive income (loss) for the three months ended March 31, 2019 and 2018 was as follows :

	For the three months ended March 31	
	2019	2018
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign financial statements	\$ 433	(959)

(iv) Status of approval of income tax

- 1) The Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- 2) The Group have income tax returns approved by the Tax Authority were as follows :

Years of Approval	Company Name
2015	RIH KUAN METAL.
2016	KINSUS INTERCONNECT TECHNOLOGY CORP. (whose 2014 income tax return has not been approved yet), PEGAVISION, ASFLY TRAVEL SERVICE LTD., FUYANG TECHNOLOGY CORPORATION, and ASROCK INCORPORATION
2017	ASROCK RACK, INC., ASUS INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, AZURE WAVE, AZURE LIGHTING, EZWAVE TECHNOLOGIES, AMA, PEGA INTERNATIONAL LIMITED, KINSUS INVESTMENT, STARLINK, HUA-YUAN INVESTMENT LTD, AND LUMENS OPTICS

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Share capital and other interests

Except for the following, there were no significant changes in capital and reserves for the three months ended March 31, 2019 and 2018. Please refer to Note 6(w) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(i) Nominal ordinary shares

For the three months ended March 31, 2019 and 2018, the Company had retired 497 and 194 thousand shares, respectively, of restricted stock to employees. Therefore, the authorized capital of the Company consisted of both 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,611,880, 2,612,377 and 2,613,896 thousand common shares of stock, as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

As of March 31, 2019, December 31, 2018 and March 31, 2018, the restricted company shares of stock issued to employees have expired, of which 288, 497 and 679 thousand shares, respectively, have not been retired.

(ii) Global depository receipts

As of March 31, 2019, December 31, 2018 and March 31, 2018, the Company has listed, in total, 1,433, 1,594 and 10,210 thousand units of GDR, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed company shares totaling 7,166, 7,971 and 51,050 thousand shares of stock, respectively.

(iii) Capital surplus

The components of the capital surplus were as follows :

	March 31, 2019	December 31, 2018	March 31, 2018
From issuance of share capital	\$ 64,624,237	64,623,295	63,210,072
From conversion of convertible bonds	11,073,663	11,073,663	11,073,663
From treasury stock transactions	23,614	23,614	23,614
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	752,269	760,025	741,342
Employee stock options	1,304	1,304	1,304
Restricted stock to employees	1,404,340	1,401,456	2,227,448
Other	409,917	409,917	409,917
	<u>\$ 80,672,400</u>	<u>80,676,330</u>	<u>80,070,416</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Retained earnings

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

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

1) Legal reserve

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

2) Special reserve

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

3) Earnings distribution

On March 14, 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 :

	<u>2018</u>	<u>2017</u>
Common stock dividends per share (dollars)		
— Cash	\$ <u>3.50</u>	<u>4.00</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Available -for-sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2019	\$ (7,482,556)	(386,322)	-	(524,686)	(8,393,564)
Exchange differences on foreign operation	789,868	-	-	-	789,868
Exchange differences on associates accounted for using equity method	402	-	-	-	402
Unrealized gain from financial assets measured at fair value through other comprehensive income	-	28,159	-	-	28,159
Deferred compensation cost arising from issuance of restricted stock	-	-	-	184,396	184,396
Balance on March 31, 2019	<u>\$ (6,692,286)</u>	<u>(358,163)</u>	<u>-</u>	<u>(340,290)</u>	<u>(7,390,739)</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	(1,232,045)	-	-	-	(1,232,045)
Losses reclassified to profit or loss on disposal of associates accounted for using equity method	2,342	-	-	-	2,342
Exchange differences on associates accounted for using equity method	5,347	-	-	-	5,347
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	(14,666)	-	-	(14,666)
Deferred compensation cost arising from issuance of restricted stock	-	-	-	313,456	313,456
Balance on March 31, 2018	<u>\$ (10,911,507)</u>	<u>(175,714)</u>	<u>-</u>	<u>(908,776)</u>	<u>(11,995,997)</u>

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

	For the three months ended March 31	
	2019	2018
Balance on January 1	\$ 36,417,945	33,748,072
Loss attributable to non-controlling interests	(730,241)	(118,372)
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	305,594	185,423
Changes in ownership interest in subsidiaries	7,756	(165,309)
Changes in non-controlling interests	63,441	3,726,260
Balance on March 31	<u>\$ 36,064,495</u>	<u>37,376,074</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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(w) Share-based payment

For the three months ended March 31, 2019 and 2018, there were no significant changes in share-based payment except for the following : Please refer to Note 6(x) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(i) Restricted stock to employee

For the three months ended March 31, 2019 and 2018, 288 and 679 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$2,884 and \$6,786, respectively. As of March 31, 2019, December 31, 2018 and March 31, 2018, the Company has deferred compensation cost arising from issuance of restricted stock of \$340,290, \$524,686, and \$908,776, respectively.

(ii) Expenses resulting from share-based payments

The Company incurred expenses from share-based payment transactions for the three months ended March 31, 2019 and 2018 were as follows :

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Expenses resulting from issuance of restricted stock to employees	<u>\$ 185,338</u>	<u>314,026</u>

(x) Subsidiary's share-based payments

For the three months ended March 31, 2019 and 2018, there were no significant changes in share-based payment except for the following : Please refer to Note 6(y) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(i) Restricted stock to employee of AZURE WAVE

For the three months ended March 31, 2019 and 2018, AZURE WAVE recognized share-based compensation cost of \$955 and \$1,750, respectively. As of March 31, 2019 and 2018, AZURE WAVE has deferred compensation cost arising from issuance of restricted stock of \$1,681 and \$5,839, respectively.

(ii) Restricted stock to employee of ASROCK

1) ASROCK

As of March 31, 2019, ASROCK has capital surplus-restricted shares of stock and deferred compensation cost arising from issuance of restricted stock amounting to \$185,138 and \$61,207, respectively.

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PEGATRON CORPORATION AND SUBSIDIARIES
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2) ASROCK RACK INCORPORATION

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

Employees with restricted stock awards who keep working for ASROCK RACK INCORPORATION for three years, 50% of the restricted shares of stock are vested in year 3, which started at the granted date. Meanwhile, 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	-	-	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.

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

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

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

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

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

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

	<u>For the three months ended March 31 2019</u>	
	<u>Outstanding number of options</u>	<u>Weighted average exercise price</u>
Outstanding as of January 1 (In thousand units)	-	NT\$ -
Granted during the period	1,500	10
Exercising during the period	-	-
Outstanding as of March 31 (In thousand units)	<u>1,500</u>	10
Exercisable as of March 31 (In thousand units)	-	
Weighted average fair value of the options granted	<u>\$ 1.38</u>	

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

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

- 4) ASROCK did not make any cancellation or amendment to share-based payment transactions for the three months ended March 31, 2019.

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PEGATRON CORPORATION AND SUBSIDIARIES
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- 5) The expenses resulting from share-based payment transactions were as follows :

	For the three months ended March 31	
	2019	2018
Expense resulting from equity-settled share-based payment	\$ 21,497	42,698

- (iii) Restricted stock to employee of CASETEK CAYMAN

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

	For the three months ended March 31	
	2018	
Outstanding as of January 1 (In thousands of shares)	1,500	
Vested during the period	(750)	
Outstanding as of March 31 (In thousands of shares)	750	

Capital surplus of \$135,000 was recognized from the issuance of restricted employee stock, amounted to \$15,000 at fair value of NT\$100 per share based on the closing price of CASETEK CAYMAN shares at grant date. On March 5, 2018, half of the aforementioned restricted shares of stock to employee has met certain vesting requirements, and 750 thousand shares was issued in total. Capital surplus-restricted shares of stock amounting to \$67,500 was charged to capital surplus-premium on capital stock. As of March 31, 2018, CASETEK CAYMAN has deferred compensation cost arising from issuance of restricted shares of stock of \$32,260. 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 three months ended March 31, 2019 and 2018 were \$0 and \$44,598, respectively.

- (iv) Employee stock option of FUYANG TECHNOLOGY CORPORATION

The expense resulting from share-based payment transactions for the three months ended March 31, 2019 and 2018, were as follows :

	For the three months ended March 31	
	2019	2018
Expenses resulting from employee stock option	\$ 948	1,185

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(v) Compensated restricted stock to employee of KINSUS

- 1) On February 28, 2019, Board of Directors of KINSUS approved to issue 659 thousand shares of restricted stock. The record date for the capital increase through issuance of restricted shares of stock was March 18, 2019, and 599 thousand shares were actually issued for such award with fair value of \$43.45 each at 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.

For the three months ended March 31, 2019, 132 thousand shares of the restricted shares of stock issued to employee have expired, which was charged to capital surplus of \$1,314. As of March 31, 2019, KINSUS has deferred compensation cost arising from issuance of restricted stock of \$72,706.

On March 18, 2019, KINSUS issued restricted shares of stock to employee totaling 599 thousand shares, which was charged to capital surplus of \$19,396. As of March 31, 2019, KINSUS has deferred compensation cost arising from issuance of restricted stock of \$12,754.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the three months ended March 31	
	2019	2018
Expense resulting from equity-settled share-based payment	\$ 34,781	-

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

- (y) Earnings per share

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

	For the three months ended March 31	
	2019	2018
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ 1,331,321	2,079,197
Weighted-average number of ordinary shares	2,606,766	2,613,600
	\$ 0.51	0.80
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ 1,331,321	2,079,197
Weighted-average number of ordinary shares	2,606,766	2,613,600
Effect of potentially dilutive ordinary shares		
Employee stock bonus	15,095	14,673
Weighted-average number of ordinary shares (diluted)	2,621,861	2,628,273
	\$ 0.51	0.79

- (z) Revenue from contracts with customers

- (i) Disaggregation of revenue

	For the three months ended March 31, 2019		
	DMS	Strategic Investment Group	Total
Primary geographical markets			
Europe	\$ 132,514,792	1,993,630	134,508,422
U.S.A.	86,157,740	5,077,806	91,235,546
Taiwan	26,557,584	1,980,352	28,537,936
China	7,297,773	5,993,558	13,291,331
Japan	13,863,512	46,123	13,909,635
Other countries	12,455,188	176,485	12,631,673
	\$ 278,846,589	15,267,954	294,114,543

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PEGATRON CORPORATION AND SUBSIDIARIES
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	For the three months ended March 31, 2018		
	DMS	Strategic Investment Group	Total
	Primary geographical markets		
Europe	\$ 123,079,844	965,252	124,045,096
U.S.A.	88,161,398	4,753,680	92,915,078
Taiwan	25,986,932	1,491,198	27,478,130
China	7,580,296	9,096,008	16,676,304
Japan	8,864,404	43,653	8,908,057
Other countries	<u>10,616,432</u>	<u>254,240</u>	<u>10,870,672</u>
	<u>\$ 264,289,306</u>	<u>16,604,031</u>	<u>280,893,337</u>

(ii) Contract balances

	March 31, 2019	December 31, 2018	March 31, 2018
Notes receivable	\$ 26,101	45,327	35,878
Accounts receivable	150,925,223	200,619,185	124,778,840
Less: Allowance for impairment	<u>1,782,310</u>	<u>1,780,928</u>	<u>1,691,508</u>
Total	<u>\$ 149,169,014</u>	<u>198,883,584</u>	<u>123,123,210</u>
Contract liabilities	<u>\$ 1,669,599</u>	<u>1,363,197</u>	<u>1,809,667</u>

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

The amount of revenue recognized for the three months ended March 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were \$578,934 and \$375,866, 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 the three months ended March 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 three months ended March 31, 2019 and 2018, remuneration of employees of \$99,000 and \$139,000, respectively, and remuneration of directors of \$9,000 and \$13,000, 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 three months ended March 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.

For the years ended December 31, 2018 and 2017, the Company accrued remuneration of employees of \$896,000 and \$1,188,000, respectively, and remuneration of directors of \$89,000 and \$115,000, respectively. There was no difference between the amounts approved in Board of Directors meeting. For further information, please refer to Market Observation Post System.

(ab) Non-operating income and expenses

(i) Other income

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Interest income	\$ 914,970	512,132
Subsidy income	52,404	215,035
Rental income	216,392	60,195
Technical service income	133,433	89,291
Other income	<u>34,480</u>	<u>125,067</u>
	<u>\$ 1,351,679</u>	<u>1,001,720</u>

(ii) Other gains and losses

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Reversal of expected credit loss	\$ 9,437	37,701
Gains on disposal of property, plant and equipment	7,080	22,726
Losses from disposal of investments	-	(2,013)
Foreign exchange gains (losses)	145,493	(470,926)
Gains on lease modifications	90	-
Impairment loss on non-financial assets	(11,587)	(6,687)
Net gains (losses) on financial assets measured at fair value through profit or loss	896,480	(14,628)
Compensation losses	<u>-</u>	<u>(3,207)</u>
	<u>\$ 1,046,993</u>	<u>(437,034)</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Finance costs

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Interest expenses	\$ 1,082,092	445,301
Finance expense -- bank fees and factoring fees	4,698	3,354
	<u>\$ 1,086,790</u>	<u>448,655</u>

(ac) Reclassification of other comprehensive income

	<u>For the three months ended March 31</u>	
	<u>2019</u>	<u>2018</u>
Cumulative adjustment		
Cumulative foreign exchange difference from current period	\$ 1,095,462	(1,046,622)
Share of other associates accounted for using equity method	402	5,347
Gains reclassified to profit or loss on disposal of other associates accounted for using equity method	-	2,342
Net change in fair value recognized in other comprehensive income	<u>\$ 1,095,864</u>	<u>(1,038,933)</u>

(ad) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

2) Credit risk concentrations

As of March 31, 2019, December 31, 2018 and March 31, 2018, the accounts receivable from the Group's top three customers amounted to \$98,578,850 \$129,779,524 and \$79,114,572, representing 65% 65% and 63% of accounts receivable, respectively, which exposes the Group to credit risk.

3) Accounts receivable of credit risk

Please refer to Note 6(d) for notes and accounts receivable of credit risk exposure.

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 three months ended March 31, 2019 and 2018 were determined as follows :

	Other receivables
Balance on January 1, 2019	\$ 14,374
Impairment loss recognized	4,732
Foreign exchange loss	326
Balance on March 31, 2019	\$ 19,432
Balance on January 1, 2018	\$ 13,494
Impairment loss recognized	467
Foreign exchange loss	217
Balance on March 31, 2018	\$ 14,178

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payment and the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
March 31, 2019					
Non-derivative financial liabilities					
Secured bank loans	\$ 980,490	980,490	80,490	-	900,000
Unsecured bank loans	131,410,837	131,410,837	121,725,900	5,883,287	3,801,650
Unsecured ordinary corporate bonds	15,000,000	15,000,000	-	4,000,000	11,000,000
Non-interest bearing liabilities	195,014,544	195,014,544	195,014,544	-	-
Lease liabilities	2,695,892	2,695,892	1,405,746	961,005	329,141
	\$ 345,101,763	345,101,763	318,226,680	10,844,292	16,030,791
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
March 31, 2018					
Non-derivative financial liabilities					
Secured bank loans	\$ 286,250	286,250	50,250	56,000	180,000
Unsecured bank loans	83,571,982	83,571,982	76,344,498	725,000	6,502,484
Unsecured ordinary corporate bonds	15,000,000	15,000,000	-	-	15,000,000
Non-interest bearing liabilities	178,450,898	178,450,898	178,450,898	-	-
	\$ 277,309,130	277,309,130	254,845,646	781,000	21,682,484

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PEGATRON CORPORATION AND SUBSIDIARIES
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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.

(iii) Market risk

1) Currency risk

The Group's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows :

(Unit: Foreign currency / NTD in Thousands)

	March 31, 2019			March 31, 2018		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$10,819,284	30.820	333,450,333	9,931,425	29.105	289,054,125
USD:CNY	402,288	6.7335	12,398,477	281,745	6.2881	8,200,216
CNY:USD	2,724,676	0.1485	12,471,154	1,914,154	0.1590	8,859,823
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	10,643,146	30.820	328,021,760	9,559,738	29.105	278,236,174
USD:CNY	355,142	6.7335	10,945,442	249,085	6.2881	7,249,644
CNY:USD	2,213,848	0.1485	10,133,036	2,263,958	0.1590	10,478,920
<u>December 31, 2018</u>						
	Foreign Currency	Exchange Rate	NTD			
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$16,701,074	30.715	512,973,488			
USD:CNY	402,783	6.8632	12,371,431			
CNY:USD	2,346,521	0.1457	10,501,427			
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	16,926,775	30.715	519,905,894			
USD:CNY	361,240	6.8632	11,095,443			
CNY:USD	2,702,709	0.1457	12,095,481			

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PEGATRON CORPORATION AND SUBSIDIARIES
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2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation or depreciation of each major foreign currency against the Group's functional currency as of March 31, 2019 and 2018 would have increased (decreased) the before-tax net income for the three months ended March 31, 2019 and 2018 by \$107,528 and \$110,105, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the three months ended March 31, 2019 and 2018, the foreign exchange gains (losses), including both realized and unrealized, amounted to \$145,493 and \$(470,926), respectively.

4) Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

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

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$68,147 and \$28,198 for the three months ended March 31, 2019 and 2018, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing and cash advances for accounts receivable factoring.

5) Other market price risk

If the equity price changes, the impact of equity price change to other comprehensive income will be as follows, assuming the analysis is based on the same basis for both years and assuming that all other variables considered in the analysis remain the same :

	For the three months ended March 31			
	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%	\$ 25,239	140,917	30,029	42,438
Decrease 3%	\$ (25,239)	(140,917)	(30,029)	(42,438)

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(iv) Fair value of financial instruments

The Group measured its financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows ; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

1) Categories of financial instruments and fair value hierarchy

	March 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	\$ 7,010,745	6,379,944	434,180	196,621	7,010,745
Financial assets at fair value through other comprehensive income					
Stock of listed companies	\$ 558,677	558,677	-	-	558,677
Stock of unlisted companies	150,000	-	-	150,000	150,000
Stock of overseas unlisted companies	132,625	-	-	132,625	132,625
Subtotal	\$ 841,302	558,677	-	282,625	841,302
Financial assets at amortized cost					
Cash and cash equivalents	\$150,657,456	-	-	-	-
Notes and accounts receivable	149,169,014	-	-	-	-
Other receivables	1,536,264	-	-	-	-
Other financial assets	2,003,416	-	-	-	-
Subtotal	\$303,366,150	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$132,391,327	-	-	-	-
Non-interest bearing liabilities	195,014,544	-	-	-	-
Lease liabilities	2,695,892	-	-	-	-
Unsecured ordinary corporate bond	14,987,333	-	-	-	-
Subtotal	\$345,089,096	-	-	-	-

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	March 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at amortized cost					
Cash and cash equivalents	\$131,851,916	-	-	-	-
Notes and accounts receivable	120,456,319	-	-	-	-
Other receivables	1,576,916	-	-	-	-
Other financial assets	<u>4,628,027</u>	-	-	-	-
Subtotal	<u>\$258,513,178</u>	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$ 83,858,232	-	-	-	-
Non-interest bearing liabilities	177,673,853	-	-	-	-
Unsecured ordinary corporate bonds	<u>14,985,048</u>	-	-	-	-
Subtotal	<u>\$276,517,133</u>	-	-	-	-

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

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

a) Financial assets and liabilities measured at amortized cost

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

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

a) Non-derivative financial instruments

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

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Derivative financial instruments

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

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

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the three months ended March 31, 2019 and 2018.

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

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

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

Quantified information of significant unobservable inputs was as follows :

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through profit or loss-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> •The multiplier of price-to-book ratio (As of March 31, 2019, December 31, 2018 and March 31, 2018, were 0.9) •Market illiquidity discount (As of March 31, 2019, December 31, 2018 and March 31, 2018, were 20%) 	<ul style="list-style-type: none"> The estimated fair value would increase (decrease) if: •the multiplier were higher (lower) •the market illiquidity discount were lower (higher).

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Notes to the Consolidated Financial Statements

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> ·The multiplier of price-to-book ratio (As of March 31, 2019, December 31, 2018 and March 31, 2018, were 1.8~5.7, 1.8~5.7 and 1.8~6.1, respectively.) ·Market illiquidity discount (As of March 31, 2019, December 31, 2018 and March 31, 2018, were 20%) 	<ul style="list-style-type: none"> The estimated fair value would increase (decrease) if: ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).
Financial assets at fair value through profit or loss-private fund	Net Asset Value Method	·Net Asset Value	Not applicable

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

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

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

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Notes to the Consolidated Financial Statements

	Inputs	Fluctuation in inputs	Profit or loss		Other comprehensive income	
			Favor- able	Unfavor- able	Favor- able	Unfavor- able
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)
March 31, 2018						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to- book ratio	1%	710	(710)	-	-
Equity investments without an active market	Market illiquidity discount	1%	710	(710)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to- book ratio	1%	-	-	2,795	(2,795)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,795	(2,795)

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

(v) Offsetting of financial assets and financial liabilities

The Group has financial assets and liabilities which are subject to the guidance concerning financial instrument transactions under paragraph 42 of IAS 32 as endorsed by the Financial Supervisory Commission. These financial assets and liabilities are presented on a net basis in balance sheet.

The following table presents the recognized financial instruments that are subject to offsetting agreement or contract and have legally enforceable right to set off :

March 31, 2019						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Amounts not offset (d)					
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 21,801,973	16,633,200	5,168,773	-	-	5,168,773

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March 31, 2019

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

	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 16,633,200	16,633,200	-	-	-	-

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	-	-	-	-

March 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	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 15,870,960	12,462,560	3,408,400	-	-	3,408,400

March 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	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 12,462,560	12,462,560	-	-	-	-

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

(ae) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(ag) of the consolidated financial statements for the year ended December 31, 2018.

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Notes to the Consolidated Financial Statements

(af) Capital management

Management believes that there were no changes in the Group's approach to the targets, policies and procedures in capital management as disclosed in the consolidated financial statements for the year ended December 31, 2018. Also, they believe that for the three months ended March 31, 2019, there were also no changes in the Group's capital management information. Please refer to Note 6(ah) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(ag) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the three months ended March 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		March 31, 2019
			Foreign exchange movement	Other	
Long-term loans	\$ 11,900,203	1,043,825	29,859	-	12,973,887
Short-term loans	86,927,246	32,490,194	-	-	119,417,440
Bonds payable	14,986,762	-	-	571	14,987,333
Lease liabilities	2,945,584	(357,717)	13,171	94,854	2,695,892
Other payables-restricted employee stock	191,883	(2,884)	-	(560)	188,439
Non-controlling interests	<u>36,417,945</u>	<u>22,529</u>	<u>305,594</u>	<u>(681,573)</u>	<u>36,064,495</u>
Total liabilities from financing activities	<u>\$153,369,623</u>	<u>33,195,947</u>	<u>348,624</u>	<u>(586,708)</u>	<u>186,327,486</u>

	January 1, 2018	Cash flows	Non-cash changes		March 31, 2018
			Foreign exchange movement	Other	
Long-term loans	\$ 8,062,112	1,728,300	(125,678)	-	9,664,734
Short-term loans	46,058,620	28,128,351	-	6,527	74,193,498
Bonds payable	6,992,476	7,992,000	-	572	14,985,048
Non-controlling interests	<u>33,748,072</u>	<u>3,703,530</u>	<u>185,423</u>	<u>(260,951)</u>	<u>37,376,074</u>
Total liabilities from financing activities	<u>\$ 94,861,280</u>	<u>41,552,181</u>	<u>59,745</u>	<u>(253,852)</u>	<u>136,219,354</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(7) Related-party transactions:

(a) Names and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
HONGJIE (SUZHOU) PACKING LIMITED	Other related party (Note)

Note : On June 29, 2018, the Group disposed common stocks of HONGJIE (SUZHOU) PACKING LIMITED, so that the Group lost its significant influence. Consequently, HONGJIE (SUZHOU) PACKING LIMITED was not related party of the Group from that date on.

(b) Significant transactions with related parties

(i) Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Group and related parties were as follows :

	<u>Purchases</u>		<u>Payables to Related Parties</u>		
	<u>For the three months ended March 31</u>		<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
	<u>2019</u>	<u>2018</u>			
Other related parties	\$ -	-	-	-	<u>14</u>

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors. The average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to four months, which is similar to that of other normal vendors.

(c) Key management personnel compensation :

	<u>For the three months ended</u> <u>March 31</u>	
	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 100,482	102,617
Post-employment benefits	906	850
Share-based payments	<u>42,429</u>	<u>87,797</u>
	<u>\$ 143,817</u>	<u>191,264</u>

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

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Notes to the Consolidated Financial Statements

(8) Pledged assets:

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

<u>Asset</u>	<u>Purpose of pledge</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, rental deposits, short-term loans, travel agency guarantee, etc.	\$ 184,311	144,954	47,695
Property, plant and equipment	Bank loans	1,317,564	-	500,765
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	37,591	37,318	34,867
		<u>\$ 1,539,466</u>	<u>182,272</u>	<u>583,327</u>

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
EUR	\$ -	2,273	2,589
JPY	1,190,031	961,880	1,403,065
USD	5,220	6,718	9,347

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
NTD	<u>\$ 61,280</u>	<u>60,780</u>	<u>73,813</u>

(iii) As of March 31, 2019, December 31, 2018 and March 31, 2018 the significant contracts for purchase of properties by the Group amounted to \$17,475,093, \$18,655,532 and \$23,998,030, of which \$2,829,423, \$3,786,909 and \$6,981,644, respectively, were unpaid.

(iv) As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group provided endorsement guarantee for bank loans, including Group entities, amounting to \$1,294,440, \$1,290,031 and \$3,550,811, respectively.

(v) As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group issued a tariff guarantee of \$2,758,724, \$2,185,813 and \$1,419,657, respectively, to the bank for the purpose of importing goods.

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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 :

By function	For the three months ended March 31					
	2019			2018		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
By item						
Employee benefit						
Salary	\$ 11,778,318	3,313,622	15,091,940	11,319,831	3,641,142	14,960,973
Health and labor insurance	850,463	245,063	1,095,526	905,942	242,181	1,148,123
Pension	1,212,611	220,276	1,432,887	1,227,767	218,448	1,446,215
Others	320,070	230,721	550,791	350,595	213,279	563,874
Depreciation	4,183,583	454,604	4,638,187	3,323,310	458,819	3,782,129
Amortization	39,651	26,622	66,273	28,788	38,386	67,174

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

	For the three months ended March 31	
	2019	2018
Depreciation in investment property	<u>\$ 782</u>	<u>805</u>

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Notes to the Consolidated Financial Statements

(13) Segment information:

(a) General Information

The Group's operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Group assesses performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated interim financial report.

(b) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, excluding any extraordinary activity and foreign exchange 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 three months ended March 31, 2019. The Group's operating segment information and reconciliation were as follows :

	DMS	Strategic Investment Group	Adjustment and eliminations	Total
For the three months ended March 31, 2019				
Reportable segment profit or loss	\$ <u>2,248,722</u>	<u>2,184,741</u>	<u>(2,701,308)</u>	<u>1,732,155</u>
For the three months ended March 31, 2018				
Reportable segment profit or loss	\$ <u>2,401,973</u>	<u>2,390,092</u>	<u>(2,504,879)</u>	<u>2,287,186</u>
Reportable segment assets				
March 31, 2019	\$ <u>480,288,545</u>	<u>232,193,693</u>	<u>(153,289,863)</u>	<u>559,192,375</u>
December 31, 2018	\$ <u>503,839,168</u>	<u>229,784,573</u>	<u>(149,273,126)</u>	<u>584,350,615</u>
March 31, 2018	\$ <u>408,206,365</u>	<u>221,223,684</u>	<u>(144,793,399)</u>	<u>484,636,650</u>

