

PEGATRON CORPORATION AND SUBSIDIARIES**Consolidated Financial Statements**

**With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2020 and 2019**

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

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Independent Auditors' Review Report

To the Board of Directors of Pegatron Corporation :

Introduction

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries as of September 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2020 and 2019, and changes in equity and cash flows for the nine months ended September 30, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$32,789,423 thousand and \$32,257,379 thousand, constituting 5.14% and 5.30% of consolidated total assets as of September 30, 2020 and 2019, respectively, total liabilities amounting to \$10,772,417 thousand and \$10,710,800 thousand, constituting 2.43% and 2.54% of consolidated total liabilities as of September 30, 2020 and 2019, respectively, and total comprehensive gain (loss) amounting to \$408,718 thousand, \$(333,855) thousand, \$(147,132) thousand and \$(1,144,885) thousand, constituting 6.19%, (6.61)%, (1.10)% and (11.38)% of consolidated total comprehensive income (loss) for the three months and nine months ended September 30, 2020 and 2019, respectively.

Furthermore, as stated in Note 6(h), the other equity accounted investments of Pegatron Corporation and its subsidiaries in its investee companies of \$368,656 thousand and \$258,313 thousand as of September 30, 2020 and 2019, respectively, and its equity in net earnings (loss) on these investee companies of \$(21,234) thousand, \$29,557 thousand, \$124,872 thousand and \$82,679 thousand for the three months and nine months ended September 30, 2020 and 2019, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews and the review reports of other auditors (please refer to Other Matter paragraph), nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Pegatron Corporation and its subsidiaries as of September 30, 2020 and 2019, and of its consolidated financial performance for the three months and nine months ended September 30, 2020 and 2019, and its consolidated cash flows for the nine months ended September 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Other Matter

We did not review the financial statements of certain consolidated subsidiaries, with total assets of \$59,774,037 thousand and \$55,525,142 thousand, representing 9.36% and 9.12% of the related consolidated total assets as of September 30, 2020 and 2019, and net sales of \$14,758,502 thousand, \$11,827,361 thousand, \$39,482,722 thousand and \$29,118,181 thousand, representing 4.40%, 3.33%, 4.19% and 3.07% of the related consolidated total net sales for the three months and nine months ended September 30, 2020 and 2019, respectively. Those financial statements were reviewed by other auditors whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for certain consolidated subsidiaries, are based solely on the reports of the other auditors.

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

KPMG

Taipei, Taiwan (Republic of China)
November 12, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS
AS OF SEPTEMBER 30, 2020 AND 2019

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2020, December 31, 2019, and September 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

	<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Assets						
Current assets:						
1100	Cash and cash equivalents (Note 6(a))	\$ 150,229,930	24	145,795,913	26	138,936,438 23
1110	Current financial assets at fair value through profit or loss (Note 6(b))	13,775,146	2	6,801,529	1	7,876,094 1
1170	Notes and accounts receivable, net (Notes 6(d) and 6(y))	200,991,045	31	206,338,405	36	220,977,716 36
1200	Other receivables, net (Note 6(e))	1,960,515	-	1,472,702	-	1,663,716 -
130X	Inventories (Note 6(f))	145,715,046	23	106,063,490	19	131,596,722 22
1460	Non-current assets classified as held for sale, net (Note 6(g))	-	-	122,652	-	124,538 -
1476	Other current financial assets (Notes 6(n) and 8)	19,646,141	3	3,564,920	1	3,169,012 1
1479	Other current assets (Note 6(n))	9,568,771	2	5,674,300	1	6,281,389 1
		<u>541,886,594</u>	<u>85</u>	<u>475,833,911</u>	<u>84</u>	<u>510,625,625 84</u>
Non-current assets:						
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	528,780	-	556,266	-	582,027 -
1517	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	912,529	-	858,158	-	894,322 -
1550	Investments accounted for using the equity method (Note 6(h))	376,473	-	256,093	-	271,300 -
1600	Property, plant and equipment (Notes 6(j) and 8)	80,774,137	13	80,248,760	14	82,554,712 14
1755	Right-of-use assets (Note 6(k))	6,238,801	1	5,888,602	1	6,496,117 1
1760	Investment property, net (Note 6(l))	41,032	-	44,496	-	46,859 -
1780	Intangible assets (Note 6(m))	1,196,316	-	1,297,891	-	1,365,753 -
1840	Deferred tax assets	3,167,005	1	3,305,613	1	3,469,439 1
1915	Prepayments on purchase of equipment	2,021,493	-	1,698,780	-	1,972,280 -
1980	Other non-current financial assets (Notes 6(n) and 8)	1,052,282	-	481,158	-	359,282 -
1990	Other non-current assets (Note 6(n))	134,307	-	50,065	-	116,587 -
		<u>96,443,155</u>	<u>15</u>	<u>94,685,882</u>	<u>16</u>	<u>98,128,678 16</u>
Total assets		<u>\$ 638,329,749</u>	<u>100</u>	<u>570,519,793</u>	<u>100</u>	<u>608,754,303 100</u>

See accompanying notes to financial statements.

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REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS
AS OF SEPTEMBER 30, 2020 AND 2019

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

September 30, 2020, December 31, 2019, and September 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

		<u>September 30, 2020</u>		<u>December 31, 2019</u>		<u>September 30, 2019</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Liabilities and Equity							
Current liabilities:							
2100	Short-term loans (Note 6(o))	\$ 126,405,920	20	64,808,786	11	88,829,677	15
2130	Current contract liabilities (Note 6(y))	2,014,446	-	1,522,221	-	1,522,732	-
2150	Notes and accounts payable	209,499,518	33	218,101,566	38	238,319,382	39
2209	Accrued expenses (Note 6(s))	30,284,963	5	26,992,758	5	25,569,469	5
2219	Other payables	7,917,123	1	3,760,422	1	4,922,888	1
2230	Current tax liabilities	2,099,056	-	4,037,776	1	2,142,619	-
2281	Current lease liabilities (Note 6(r))	1,483,313	-	1,195,039	-	1,367,327	-
2321	Bonds payable, current portion (Note 6(q))	1,000,000	-	3,000,000	1	3,000,000	-
2322	Long-term loans payable, current portion (Note 6(p))	1,085,357	-	2,657,496	-	4,019,821	1
2399	Other current liabilities	<u>25,724,665</u>	<u>4</u>	<u>19,510,595</u>	<u>4</u>	<u>20,006,641</u>	<u>3</u>
		<u>407,514,361</u>	<u>63</u>	<u>345,586,659</u>	<u>61</u>	<u>389,700,556</u>	<u>64</u>
Non-Current liabilities:							
2527	Non-current contract liabilities (Note 6(y))	497,210	-	420,197	-	434,945	-
2530	Bonds payable (Note 6(q))	19,483,071	3	20,480,339	4	20,479,429	4
2540	Long-term loans (Note 6(p))	10,743,800	2	6,534,954	1	6,222,679	1
2570	Deferred tax liabilities	3,068,089	1	1,928,241	-	2,225,009	-
2581	Non-current lease liabilities (Note 6(r))	1,450,697	-	1,294,702	-	1,430,723	-
2670	Other non-current liabilities	<u>872,814</u>	<u>-</u>	<u>1,029,188</u>	<u>-</u>	<u>1,011,938</u>	<u>-</u>
		<u>36,115,681</u>	<u>6</u>	<u>31,687,621</u>	<u>5</u>	<u>31,804,723</u>	<u>5</u>
	Total liabilities	<u>443,630,042</u>	<u>69</u>	<u>377,274,280</u>	<u>66</u>	<u>421,505,279</u>	<u>69</u>
Equity Attributable to Owners of the Parent Company (Note 6(u)):							
3100	Share capital	<u>26,105,110</u>	<u>4</u>	<u>26,110,919</u>	<u>5</u>	<u>26,113,999</u>	<u>4</u>
Capital surplus:							
3210	Capital surplus, premium on capital stock	77,503,156	12	76,645,504	13	76,641,338	12
3280	Capital surplus, others (Note 6(v))	<u>5,851,504</u>	<u>1</u>	<u>4,406,597</u>	<u>1</u>	<u>3,871,598</u>	<u>1</u>
		<u>83,354,660</u>	<u>13</u>	<u>81,052,101</u>	<u>14</u>	<u>80,512,936</u>	<u>13</u>
Retained earnings:							
3310	Legal reserve	13,706,083	2	11,774,310	2	11,774,310	2
3320	Special reserve	11,286,050	2	7,868,877	2	7,868,877	1
3350	Unappropriated retained earnings	<u>40,289,234</u>	<u>6</u>	<u>42,156,192</u>	<u>7</u>	<u>33,941,921</u>	<u>6</u>
		<u>65,281,367</u>	<u>10</u>	<u>61,799,379</u>	<u>11</u>	<u>53,585,108</u>	<u>9</u>
Other equity interest:							
3410	Exchange differences on translation of foreign financial statements	(14,217,737)	(2)	(10,982,396)	(2)	(7,155,743)	(1)
3420	Unrealized losses on financial assets measured at fair value through other comprehensive income	(149,726)	-	(303,654)	-	(298,005)	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(v))	<u>(1,350,996)</u>	<u>-</u>	<u>(8,287)</u>	<u>-</u>	<u>(8,286)</u>	<u>-</u>
		<u>(15,718,459)</u>	<u>(2)</u>	<u>(11,294,337)</u>	<u>(2)</u>	<u>(7,462,034)</u>	<u>(1)</u>
3500	Treasury stock	<u>(484)</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>	<u>(3,080)</u>	<u>-</u>
	Equity attributable to the parent company	159,022,194	25	157,665,062	28	152,746,929	25
36xx	Non-controlling interests (Notes 6(i) and (u))	<u>35,677,513</u>	<u>6</u>	<u>35,580,451</u>	<u>6</u>	<u>34,502,095</u>	<u>6</u>
	Total equity	<u>194,699,707</u>	<u>31</u>	<u>193,245,513</u>	<u>34</u>	<u>187,249,024</u>	<u>31</u>
	Total liabilities and equity	<u>\$ 638,329,749</u>	<u>100</u>	<u>570,519,793</u>	<u>100</u>	<u>608,754,303</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and nine months ended September 30, 2020 and 2019

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

	For the three months ended September 30				For the nine months ended September 30				
	2020		2019		2020		2019		
	Amount	%	Amount	%	Amount	%	Amount	%	
4110	Operating revenue (Note 6(y))	\$ 336,593,440	100	355,614,486	100	\$ 944,098,475	100	950,590,781	100
4170	Less: Sales returns and allowances	957,353	-	819,522	-	2,141,279	-	2,315,903	-
	Operating revenue, net	335,636,087	100	354,794,964	100	941,957,196	100	948,274,878	100
5000	Cost of sales (Notes 6(f), 6(r), 6(s), 6(z) and 7)	321,701,594	96	341,485,693	96	907,532,467	96	918,161,916	97
	Gross profit from operations	13,934,493	4	13,309,271	4	34,424,729	4	30,112,962	3
6000	Operating expenses (Notes 6(r), 6(s) and 6(z)):								
6100	Selling expenses	1,233,014	-	1,185,202	-	3,525,480	-	3,799,753	-
6200	General and administrative expenses	2,242,654	1	2,098,776	1	6,391,287	1	6,029,897	1
6300	Research and development expenses	4,218,396	1	3,795,775	1	12,099,201	1	10,674,528	1
	Total operating expenses	7,694,064	2	7,079,753	2	22,015,968	2	20,504,178	2
	Net operating income	6,240,429	2	6,229,518	2	12,408,761	2	9,608,784	1
	Non-operating income and expenses:								
7100	Interest income (Note 6(aa))	589,082	-	905,621	-	2,501,985	-	2,792,823	-
7010	Other income (Note 6(aa))	1,305,286	-	615,794	-	3,276,181	-	2,262,826	-
7020	Other gains and losses (Notes 6(j), 6(aa) and 12)	1,741,782	1	1,612,958	1	5,225,265	-	2,624,291	-
7050	Finance costs (Notes 6(d), 6(q), 6(r) and 6(aa))	(312,490)	-	(740,169)	-	(1,472,277)	-	(2,696,590)	-
7060	Share of profit of associates and joint ventures accounted for using the equity method (Note 6(h))	(20,757)	-	28,136	-	120,451	-	75,150	-
7590	Miscellaneous disbursements	(34,519)	-	(14,520)	-	(74,588)	-	(39,151)	-
	Total non-operating income and expenses	3,268,384	1	2,407,820	1	9,577,017	-	5,019,349	-
	Profit before tax	9,508,813	3	8,637,338	3	21,985,778	2	14,628,133	1
7950	Less: Tax expenses (note 6(t))	1,863,074	1	2,333,475	1	5,230,045	-	4,794,897	-
	Profit for the year	7,645,739	2	6,303,863	2	16,755,733	2	9,833,236	1
8300	Other comprehensive income:								
8310	Components of other comprehensive income that will not be reclassified to profit or loss								
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	136,523	-	75,644	-	110	-	88,317	-
	Total components of other comprehensive income that will not be reclassified to profit or loss	136,523	-	75,644	-	110	-	88,317	-
8360	Components of other comprehensive income that will be reclassified to profit or loss (Note 6(ab))								
8361	Exchange differences on translation of foreign financial statements	(1,183,011)	-	(1,330,732)	-	(3,439,482)	-	135,098	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using the equity method, components of other comprehensive income that will be reclassified to profit or loss (Note 6(h))	318	-	(430)	-	172	-	(372)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(t))	498	-	(1,186)	-	(439)	-	(1,171)	-
	Total components of other comprehensive income that will be reclassified to profit or loss	(1,183,191)	-	(1,329,976)	-	(3,438,871)	-	135,897	-
8300	Other comprehensive income for the period, net of tax	(1,046,668)	-	(1,254,332)	-	(3,438,761)	-	224,214	-
8500	Total comprehensive income for the period	\$ 6,599,071	2	5,049,531	2	13,316,972	2	10,057,450	1
	Profit attributable to:								
8610	Owners of the parent company	\$ 6,817,483	2	6,296,661	2	15,436,099	2	11,092,868	1
8620	Non-controlling interests	828,256	-	7,202	-	1,319,634	-	(1,259,632)	-
		\$ 7,645,739	2	6,303,863	2	16,755,733	2	9,833,236	1
	Comprehensive income attributable to:								
8710	Owners of the parent company	\$ 5,627,369	2	5,414,075	2	12,200,868	2	11,507,998	1
8720	Non-controlling interests	971,702	-	(364,544)	-	1,116,104	-	(1,450,548)	-
		\$ 6,599,071	2	5,049,531	2	13,316,972	2	10,057,450	1
	Earnings per share, net of tax (Note 6(x))								
9750	Basic earnings per share	\$ 2.61		2.41		5.91		4.25	
9850	Diluted earnings per share	\$ 2.59		2.40		5.85		4.21	

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 nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent company													
	Share capital	Retained earnings					Total other equity interest						Non-controlling interests	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Deferred compensation cost arising from issuance of restricted stock	Total other equity interest	Treasury stock	Total equity attributable to owners of the parent company		
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
Profit for the period	-	-	-	-	11,092,868	11,092,868	-	-	-	-	-	11,092,868	(1,259,632)	9,833,236
Other comprehensive income for the period	-	-	-	-	-	-	326,813	88,317	-	415,130	-	415,130	(190,916)	224,214
Total comprehensive income for the period	-	-	-	-	11,092,868	11,092,868	326,813	88,317	-	415,130	-	11,507,998	(1,450,548)	10,057,450
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	1,111,487	-	(1,111,487)	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(946,336)	946,336	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(9,141,580)	(9,141,580)	-	-	-	-	-	(9,141,580)	-	(9,141,580)
Changes in ownership interests in subsidiaries	-	105,420	-	-	-	-	-	-	-	-	-	105,420	(105,420)	-
Expiration of restricted shares of stock issued to employees	(9,774)	7,880	-	-	6,547	6,547	-	-	-	-	1,894	6,547	-	6,547
Compensation cost arising from restricted shares of stock	-	(276,694)	-	-	-	-	-	-	516,400	516,400	-	239,706	-	239,706
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(359,882)	(359,882)
Balance at September 30, 2019	\$ 26,113,999	80,512,936	11,774,310	7,868,877	33,941,921	53,585,108	(7,155,743)	(298,005)	(8,286)	(7,462,034)	(3,080)	152,746,929	34,502,095	187,249,024
Balance at January 1, 2020	\$ 26,110,919	81,052,101	11,774,310	7,868,877	42,156,192	61,799,379	(10,982,396)	(303,654)	(8,287)	(11,294,337)	(3,000)	157,665,062	35,580,451	193,245,513
Profit for the period	-	-	-	-	15,436,099	15,436,099	-	-	-	-	-	15,436,099	1,319,634	16,755,733
Other comprehensive income for the period	-	-	-	-	-	-	(3,235,341)	110	-	(3,235,231)	-	(3,235,231)	(203,530)	(3,438,761)
Total comprehensive income	-	-	-	-	15,436,099	15,436,099	(3,235,341)	110	-	(3,235,231)	-	12,200,868	1,116,104	13,316,972
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	1,931,773	-	(1,931,773)	-	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,417,173	(3,417,173)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(11,748,563)	(11,748,563)	-	-	-	-	-	(11,748,563)	-	(11,748,563)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	71	-	-	-	-	-	-	-	-	-	71	(71)	-
Changes in ownership interests in subsidiaries	-	77,419	-	-	-	-	-	-	-	-	-	77,419	(77,419)	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(153,818)	(153,818)	-	153,818	-	153,818	-	-	-	-
Expiration of restricted shares of stock issued to employees	(5,809)	3,076	-	-	(51,730)	(51,730)	-	-	-	-	2,516	(51,947)	-	(51,947)
Compensation cost arising from restricted shares of stock	-	2,221,993	-	-	-	-	-	-	(1,342,709)	(1,342,709)	-	879,284	-	879,284
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(941,552)	(941,552)
Balance at September 30, 2020	\$ 26,105,110	83,354,660	13,706,083	11,286,050	40,289,234	65,281,367	(14,217,737)	(149,726)	(1,350,996)	(15,718,459)	(484)	159,022,194	35,677,513	194,699,707

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 nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2020	2019
Cash flows from operating activities:		
Profit before tax	\$ 21,985,778	14,628,133
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	13,421,409	13,777,524
Amortization expense	151,527	208,369
Expected credit reversal gain	(11,746)	(8,360)
Net gain on financial assets and liabilities at fair value through profit or loss	(4,456,222)	(2,264,241)
Interest expense	1,462,042	2,683,624
Interest income	(2,501,985)	(2,792,823)
Dividend income	(51,759)	(46,943)
Compensation cost arising from employee stock options	457,925	431,275
Amortization of issuance costs on bonds payable	2,732	2,167
Share of gain of associates and joint ventures accounted for using the equity method	(120,451)	(75,150)
Gain on lease remeasurement	(8,016)	(2,145)
(Gain) loss on disposal of property, plant and equipment	(48,652)	28,088
Property, plant and equipment charged to expenses	136,838	46,131
(Reversal gain) impairment loss on non-financial assets	(3,411)	10,235
(Gain) loss on foreign currency exchange on long-term loans	(180,569)	93,422
Government grants income	(22,974)	-
Total adjustments to reconcile profit	8,226,688	12,091,173
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in financial assets at fair value through profit or loss	(2,489,909)	(2,660,907)
Decrease (increase) in notes and accounts receivable	5,359,818	(22,082,128)
Decrease (increase) in other receivables	152,085	(205,407)
(Increase) decrease in inventories	(39,651,556)	33,391,619
Increase in other financial assets	(16,081,221)	(2,374,237)
(Increase) decrease in other current assets	(3,098,914)	1,222,777
(Increase) decrease in other non-current assets	(84,242)	212,832
Total changes in operating assets	(55,893,939)	7,504,549
Changes in operating liabilities:		
Increase in contract liabilities	569,238	594,480
(Decrease) increase in notes and accounts payable	(8,602,048)	10,244,626
Increase (decrease) in accrued expenses	3,041,498	(1,791,589)
Increase (decrease) in other payables	2,346,101	(471,250)
Increase in other current liabilities	6,213,380	3,751,129
Decrease in other non-current liabilities	(161,595)	(81,392)
Total changes in operating liabilities	3,406,574	12,246,004
Total changes in operating assets and liabilities	(52,487,365)	19,750,553
Total adjustments	(44,260,677)	31,841,726
Cash (outflow) inflow generated from operations	(22,274,899)	46,469,859
Interest received	2,540,417	2,865,443
Dividends received	51,759	46,943
Interest paid	(1,495,459)	(2,759,242)
Income taxes paid	(6,295,991)	(4,651,294)
Net cash flows (used in) from operating activities	(27,474,173)	41,971,709

(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 nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2020	2019
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(228,044)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	172,221	6,120
Proceeds from capital reduction of investments accounted for using the equity method	-	1,336
Acquisition of property, plant and equipment	(10,227,645)	(5,615,512)
Proceeds from disposal of property, plant and equipment	542,328	1,210,423
Acquisition of intangible assets	(79,211)	(77,161)
(Increase) decrease in other financial assets	(571,124)	291,614
Increase in prepayments on purchase of equipment	(2,273,456)	(2,902,993)
Net cash flows used in investing activities	(12,664,931)	(7,086,173)
Cash flows from financing activities:		
Increase in short-term loans	61,597,134	1,902,431
Proceeds from issuing bonds	-	8,490,500
Repayments of bonds	(3,000,000)	-
Proceeds from long-term loans	6,181,900	4,459,200
Repayments of long-term loans	(3,334,839)	(6,210,325)
Repayments of lease liabilities	(1,361,729)	(1,099,342)
Cash dividends paid	(12,553,366)	(10,061,913)
Redemption of restricted stock	(3,832)	(7,880)
Changes in non-controlling interests	(188,153)	434,152
Net cash flows from (used in) financing activities	47,337,115	(2,093,177)
Effect of exchange rate fluctuations on cash held	(2,763,994)	76,033
Net increase in cash and cash equivalents	4,434,017	32,868,392
Cash and cash equivalents, beginning of the period	145,795,913	106,068,046
Cash and cash equivalents, end of the period	\$ 150,229,930	138,936,438

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

PEGATRON CORPORATION (the “Company”) was established on June 27, 2007. The Company’s registered office address is located at 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan. In order to enhance competitiveness and boost productivity, the Company resolved to absorb the OEM business from ASUSTek Computer Inc. on January 1, 2008 as part of the Company’s business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the respective Board of Directors, the Company merged with Pegatron International Investment Co., Ltd., effective June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company’s shares were listed on TSEC on June 24, 2010.

In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged with its subsidiary, UNIHAN CORPORATION, pursuant to the resolutions of the Board of Directors in November, 2013.

The consolidated financial statements of the Company as of and for the nine months ended September 30, 2020 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates entities.

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

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on November 12, 2020.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

The Group has elected to apply the practical expedient for all rent concessions that meet the criteria beginning January 1, 2020, with early adoption. No adjustment was made upon the initial application of the amendments. The amounts recognized in profit or loss for the three month and the nine months ended September 30, 2020 were NT\$12,925 thousand and NT\$21,341 thousand, respectively.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2021:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	January 1, 2021

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”	January 1, 2021

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 23, 2020	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

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

(4) Summary of significant accounting policies:

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

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

(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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

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

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized income arising from investment accounted for using the 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 the equity method or financial instruments at FVOCI depending on the extent of its impact.

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

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
THE COMPANY	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 18
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00 %	100.00 %	100.00 %	Note 18
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 18
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing and manufacturing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZUREWAVE TECHNOLOGIES, INC. (AZUREWAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	32.86 %	32.85 %	32.84 %	Notes 1 and 2
AZUREWAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	100.00 %	Notes 1 and 18
AZUREWAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	100.00 %	Notes 1 and 18
AZUREWAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	100.00 %	Notes 1 and 18
AZUREWAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
Azwave Samoa	AZUREWAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and trading computer products	100.00 %	100.00 %	100.00 %	Notes 1 and 18
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00 %	100.00 %	100.00 %	Notes 1 and 18
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00 %	100.00 %	100.00 %	Notes 1 and 18
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00 %	100.00 %	100.00 %	Note 18
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	- %	100.00 %	100.00 %	Note 17 and 18
AMA, MAINTEK COMPUTER (SUZHOU) CO., LTD.	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	- %	- %	100.00 %	Notes 15 and 18
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
POWTEK	POWTEK (SHANGHAI) LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 18
PEGATRON HOLDING · KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 5
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	Note 5
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
ASLINK	PEGAGLOBE (KUNSHAN) CO.,LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, electronic calculators, and after sale service	100.00 %	100.00 %	100.00 %	
DIGITEK (CHONGQING) LTD.	CHONGQING ZUANSHUO TRADING CO., LTD.	Computer software and hardware, computer parts, electronic products (excluding electronic publications), electric appliance, industrial communication device (excluding wireless transmitter and transmitter), communication equipment (excluding wireless transmitter and satellite ground receiving facilities), and providing related technical consulting services. Import and export of goods and technology. Packaging service, product design, marketing planning, business consulting	100.00 %	100.00 %	100.00 %	Note 18
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00 %	100.00 %	100.00 %	

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
PROTEK	PROTEK (SHANGHAI) LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED(COTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 18
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	55.92 %	55.92 %	55.90 %	Note 3
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Investing and holding activities	100.00 %	100.00 %	100.00 %	
ASIAROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASIAROCK	Calrock Holdings, LLC.	Office building leasing	100.00 %	100.00 %	100.00 %	Note 18
ASROCK	Leader Insight Holdings Limited (Leader)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 18
Leader	First place International Limited (First place)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 18
First place	ASRock America, Inc.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	62.05 %	62.02 %	62.01 %	Note 6
ASROCK	ASRock Industrial Computer Corporation	Manufacturing and selling computer and related peripherals	66.58 %	67.38 %	82.47 %	Note 7

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PEGATRON CORPORATION AND SUBSIDIARIES
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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
ASROCK	Soaring Asia Limited	Trading activities	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	38.57 %	38.56 %	38.55 %	Notes 4 and 5
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	45.21 %	45.21 %	54.43 %	Notes 5, 8 and 9
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	89.13 %	89.13 %	Note 18
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	- %	100.00 %	100.00 %	Notes 5, 8 and 13
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 5 and 8
PEGAVISION CORPORATION	AQUAMAX CORPORATION	Selling medical appliances	100.00 %	- %	- %	Notes 5, 8 and 10
AQUAMAX CORPORATION	AQUAMAX VISION CORPORATION	Selling medical appliances	100.00 %	- %	- %	Notes 5, 8 and 11
PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	- %	- %	Notes 5, 8 and 12
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
FUYANG HOLDING	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Researching, producing, inspecting, repairing and selling flexible multilayer model, computer digital signal process system and card; selling own produced products and providing related technical consulting service	100.00 %	100.00 %	100.00 %	Note 18
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	- %	100.00 %	100.00 %	Notes 5, 8 and 12
PEGAVISION (SHANGHAI) LIMITED	Gemvision Technology (Zhejiang) Limited.	Manufacturing and selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 5 and 8

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	100.00 %	Note 5
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	100.00 %	Note 5
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	100.00 %	Note 5
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00 %	100.00 %	100.00 %	
THE COMPANY, ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	59.41 %	59.41 %	59.41 %	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00 %	100.00 %	100.00 %	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product.	100.00 %	100.00 %	100.00 %	

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Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	RI SHAN COMPUTER ACCESSORY (JIA SHAN) CO., LTD	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	100.00 %	
RIH LI	RI KAI COMPUTER ACCESSORY CO., LTD.(RI KAI)	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	- %	- %	100.00 %	Note 16
CASETEK CAYMAN	RI-KUAN METAL CORPORATION	Selling iron and aluminum products	100.00 %	100.00 %	100.00 %	
RI-KUAN METAL CORPORATION	RITENG USA, INC	Market survey	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 %	
CASETEK CAYMAN	CASETEK SINGAPORE PTE. LTD.	Trading activities	100.00 %	100.00 %	100.00 %	Note 14
ASUS INVESTMENT	AS FLY TRAVEL SERVICE LIMITED	Travel agency	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 18
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.	Maintenance service	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00 %	100.00 %	100.00 %	Note 18

(Continued)

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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2020	December 31, 2019	September 30, 2019	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	55.21 %	55.21 %	55.21 %	Note 18
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00 %	100.00 %	100.00 %	Note 18
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
Lumens	Lumens (Suzhou) Digital Image Inc.	Manufacturing and selling projectors, projection screens and related products	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00 %	100.00 %	100.00 %	Note 18
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00 %	100.00 %	100.00 %	Note 18
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY, ASUSPOWER INVESTMENT	PT. PEGATRON TECHNOLOGY INDONESIA	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY	PEGATRON VIETNAM COMPANY LIMITED	Manufacturing and selling consumer electronics, computers, related peripherals, communication equipment, and electronic parts	100.00 %	- %	- %	Notes 10 and 18
THE COMPANY	PEGATRON TECHNOLOGY HAI PHONG COMPANY LIMITED	Manufacturing and selling consumer electronics, computers, related peripherals, communication equipment, and electronic parts	100.00 %	- %	- %	Notes 10 and 18
THE COMPANY	PEGASUS ACE LIMITED	Investing activities	100.00 %	- %	- %	Notes 11 and 18
THE COMPANY, ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY INDIA PRIVATE LIMITED	Manufacturing and selling consumer electronics, computers, related peripherals, communication equipment, and electronic parts	100.00 %	- %	- %	Notes 11 and 18

Note 1 : Since the Group only held 32.86% of voting rights of AZUREWAVE TECHNOLOGY INC. (AZUREWAVE), with the remaining 67.14% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over AZUREWAVE, therefore, AZUREWAVE has been included in the consolidated financial statement of the Group.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Note 2 : On December 26, 2019 and March 18, 2020, respectively, AZUREWAVE TECHNOLOGY INC. (AZUREWAVE) reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in AZUREWAVE to increase from 32.84% to 32.86%.
- Note 3 : On November 6, 2019 and April 29, 2020, respectively, ASROCK INCORPORATION (ASROCK) reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in ASROCK to increase from 55.90% to 55.92%.
- Note 4 : On October 28, 2019, April 27, 2020 and July 27, 2020, respectively, KINSUS reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in KINSUS to increase from 38.55% to 38.57%.
- Note 5 : Since the Group only held 38.57% of the voting rights of KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS), with the remaining 61.43% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over KINSUS. Therefore, KINSUS has been included in the consolidated financial statements of the Group.
- Note 6 : On December 17, 2019, March 25, 2020, and April 15, 2020, respectively, the Group purchased 3, 2 and 9 thousand shares from non-related parties amounting to \$60, \$40, and \$172, respectively, resulting in the Group's shareholding ratio to increase to 62.05%.
- Note 7 : On July 24, 2019, ASRock Industrial Computer Corporation approved to increase its capital by \$200,000, with the Group investing the amount of \$112,122. The record date for the capital increase through cash was October 1, 2019. However, the Group did not increase its shares proportionally in ASRock Industrial Computer Corporation, resulting in its shareholding ratio to decrease from 82.47% to 67.38%. On January 13, 2020, March 23, 2020, and May 7, 2020, respectively, the Group purchased 30, 20 and 21 thousand shares from non-related parties amounting to \$300, \$246 and \$266, respectively, resulting in the Group's shareholding ratio to increase from 67.38% to 67.58%. On July 31, 2020, ASRock Industrial Computer Corporation approved to award employee stock option through issuing new shares, increasing its capital by \$6,848. However, the Group did not increase its shares proportionally in ASRock Industrial Computer Corporation, resulting in its shareholding ratio to decrease from 67.58% to 66.28%. On September 30, 2020, the Group purchased 105 thousand shares from non-related party amounting to \$1,295, resulting in the Group's shareholding ratio to increase from 66.28% to 66.58%.
- Note 8 : Since the Group only held 45.21% of rights of PEGAVISION CORPORATION (PEGAVISION), with the remaining 54.79% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over PEGAVISION, therefore, PEGAVISION has been included in the consolidated financial statements of the Group.
- Note 9 : PEGAVISION handled a cash increase of \$100,000 and issued the ordinary shares of 10,000 thousand shares, with a face value of \$10 (dollars) per share, prior to its initial listing according to the IPO. However, the Group did not increase its shares proportionally in PEGAVISION, and sold ordinary shares 855 thousand shares, resulting in its shareholding ratio to decrease from 54.87% to 45.21%.
- Note 10 : Subsidiary established by the Group in the second quarter of 2020.
- Note 11 : Subsidiary established by the Group in the third quarter of 2020.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 12 : Based on the consideration of the Group's reorganization, the shares of PEGAVISION (SHANGHAI) LIMITED, originally held by Pegavision Holdings Corporation, was transferred to Pegavision Corporation. All related registration procedures had been completed on May 13, 2020.

Note 13 : Based on the consideration of the Group's reorganization, delisting application of PEGAVISION HOLDINGS CORPORATION had been completed on September 2, 2020.

Note 14 : Subsidiary established by the Group in the third quarter of 2019.

Note 15 : It was liquidated in December 2019.

Note 16 : It was written off in the fourth quarter of 2019.

Note 17 : It was written off in the second quarter of 2020.

Note 18 : It is an insignificant subsidiary, and its financial statements for the nine months ended September 30, 2020 and 2019, have not been reviewed.

(vii) Subsidiaries excluded from consolidation : None.

(d) Foreign currency

(i) Foreign currency transaction

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

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

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

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

(ii) Foreign operations

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

An asset is classified as current when :

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

All other assets are classified as non-current.

A liability is classified as current when :

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

All other liabilities are classified as non-current.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Cash and cash equivalents

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

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

(g) Financial assets

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

(i) Financial assets

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

1) Financial assets measured at amortized cost

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

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Fair value through other comprehensive income (FVOCI)

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

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

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

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

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

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

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

3) Fair value through profit or loss (FVTPL)

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

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

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PEGATRON CORPORATION AND SUBSIDIARIES
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4) Business model assessment

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

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

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

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

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

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

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

- a) contingent events that would change the amount or timing of cash flows ;
- b) terms that may adjust the contractual coupon rate, including variable rate features ;

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PEGATRON CORPORATION AND SUBSIDIARIES
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- c) prepayment and extension features ; and
 - d) terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)
- 6) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7) Derecognition of financial assets

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Treasury shares

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

4) Financial liabilities

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

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

5) Derecognition of financial liabilities

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Offsetting of financial assets and liabilities

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

7) Financial guarantee contract

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

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

(h) Inventories

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

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

(i) Non-current assets held for sale

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

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

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

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

(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 the equity method are included, after adjustments to align the said investees' accounting policies with those of the Group, in the consolidated financial statements from the date on which significant influence commences until the date that significant influence ceases.

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

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

(k) Investment property

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

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

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

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

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

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

(iv) Reclassification to investment property

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Leased

(i) Identifying a lease

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

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

(ii) As a lessee

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

- 1) the rent concessions occurring as a direct consequence of the COVID-19 pandemic;
- 2) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- 3) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 4) there is no substantive change to other terms and conditions of the lease.

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

- (iii) As a lessor

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

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

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

- (n) Intangible assets

- (i) Recognition and measurement

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

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

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

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

- (ii) Subsequent expenditure

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Amortization

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

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

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

Computer software cost 1-5 years

Intangible assets in development 1-10 years

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

(o) Impairment – non-financial assets

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

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

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

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Revenue from contracts with customers

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

(i) Sale of goods

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

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

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

(ii) Rendering of services

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

(iii) Financial components

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

(q) Employee benefits

(i) Defined contribution plans

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined benefit plans

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

(iii) Short-term employee benefits

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

(r) Share-based payment

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

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

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

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

(s) Income taxes

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

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(t) Business combination

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

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

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

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

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

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Government grant

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

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. If the grant is used for reimbursing 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.

(v) Earnings per share

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

(w) Operating segments

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

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

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

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2019.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

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

(a) Cash and cash equivalents

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand	\$ 12,663	10,354	11,993
Cash in banks	36,830,042	36,563,302	31,443,726
Time deposits	111,199,813	104,823,503	105,417,691
Cash equivalents	<u>2,187,412</u>	<u>4,398,754</u>	<u>2,063,028</u>
	<u>\$ 150,229,930</u>	<u>145,795,913</u>	<u>138,936,438</u>

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

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

	September 30, 2020	December 31, 2019	September 30, 2019
Current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	\$ 1,681,592	875,720	837,835
Shares of stock of unlisted companies	16,500	16,500	16,500
Beneficiary certificates	2,345,093	2,437,370	2,074,413
Shares of stock of overseas listed companies	9,731,961	3,471,939	4,947,346
Non-current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	218,750	225,050	223,650
Beneficiary certificates	238,520	259,706	278,726
Shares of stock of overseas unlisted companies	<u>71,510</u>	<u>71,510</u>	<u>79,651</u>
Total	<u>\$ 14,303,926</u>	<u>7,357,795</u>	<u>8,458,121</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Equity instruments at fair value through other comprehensive income :			
Shares of stock of listed companies	\$ 475,589	586,407	612,716
Shares of stock of unlisted companies	148,557	150,000	150,000
Shares of stock of overseas listed companies	205,887	-	-
Shares of stock of overseas unlisted companies	<u>82,496</u>	<u>121,751</u>	<u>131,606</u>
Total	<u>\$ 912,529</u>	<u>858,158</u>	<u>894,322</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 and the nine months ended September 30, 2020 and 2019, respectively, the Group has recognized dividend \$11,493, \$19,919, 11,493 and 19,919 from equity instruments designated at fair value through other comprehensive income. Dividends are recognized as non-operating income and expenses. Please refer to Note 6(aa).

For the nine months ended September 30, 2020, the Group has sold its shares as a result of investment strategic. The shares sold had a fair value of \$172,221 and the Group realized a cumulative gain of \$153,818, which is already included in other comprehensive income. The cumulative gain has been converted to retained earnings. No strategic investments were disposed for the nine months ended September 30, 2019, and there were no transfers of any cumulative gains or losses within equity relating to these investments.

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Notes and accounts receivable, net

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

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Notes receivables from operating activities	\$ 18,426	20,232	28,315
Accounts receivable-measured at amortized cost	202,632,913	200,499,571	222,719,438
Accounts receivable-fair value through other comprehensive income	-	7,495,000	-
Less : Allowance for impairment	<u>1,660,294</u>	<u>1,676,398</u>	<u>1,770,037</u>
	<u>\$ 200,991,045</u>	<u>206,338,405</u>	<u>220,977,716</u>

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

(ii) Credit loss

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

The loss allowance provision was determined as follows :

	<u>September 30, 2020</u>		
	<u>Gross carrying amount</u>	<u>Expected loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 198,251,182	0%~1%	(46,021)
Overdue 0 to 30 days	2,650,404	1%~30%	(62,575)
Overdue 31 to 120 days	192,317	1%~100%	(15,430)
Overdue 121 to 365 days	38,399	9%~100%	(17,231)
Over 365 days past due	<u>1,519,037</u>	100%	<u>(1,519,037)</u>
	<u>\$ 202,651,339</u>		<u>(1,660,294)</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	September 30, 2019		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 218,178,625	0%~1%	(29,042)
Overdue 0 to 30 days	2,347,064	1%~30%	(52,163)
Overdue 31 to 120 days	572,428	1%~100%	(43,088)
Overdue 121 to 365 days	14,009	50%~100%	(10,117)
Over 365 days past due	<u>1,635,627</u>	100%	<u>(1,635,627)</u>
	<u>\$ 222,747,753</u>		<u>(1,770,037)</u>

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

	For the nine months ended September 30	
	2020	2019
Balance on January 1	\$ 1,676,398	1,780,928
Impairment losses recognized	35,239	47,471
Amounts written off	(1,134)	-
Impairment loss reversed	(47,697)	(59,475)
Foreign exchange (gains) losses	<u>(2,512)</u>	<u>1,113</u>
Balance on September 30	<u>\$ 1,660,294</u>	<u>1,770,037</u>

The aforesaid financial assets were not pledged as collateral.

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Accounts receivable factoring

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

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

September 30, 2020							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
ANZ (Note 2)	\$ -	USD 830,000	USD 830,000	USD -	None	0.58 %	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.
December 31, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
ANZ (Note 1)	\$ 7,495,000	USD 1,200,000	USD 950,000	USD 250,000	None	2.03%~ 2.93%	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.
September 30, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
ANZ (Note 1)	\$ -	USD 1,200,000	USD 1,200,000	USD -	None	2.87%~ 2.93%	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.

Note 1 : In October 2017, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

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

For the three months and the nine months ended September 30, 2020 and 2019, the Company recognized a fee and interest on bank advance payment of \$872, \$0, \$930 and \$65,952, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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As of September 30, 2020, December 31, 2019 and September 30, 2019, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows :

September 30, 2020							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
Mega International Commercial Bank	\$ <u>368,814</u>	USD <u>30,000</u>	USD <u>27,285</u>	USD <u>2,715</u>	None	0.519%	The accounts receivable factoring is without recourse

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

September 30, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
Mega International Commercial Bank	\$ <u>210,042</u>	USD <u>30,000</u>	USD <u>30,000</u>	USD <u>-</u>	None	-%	The accounts receivable factoring is without recourse

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

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

September 30, 2020					
Purchaser	Amount Transferred	Factored Line	Advanced Amount (listed as short- term loan)	Range of interest rate	Collateral
City bank (CHINA)	\$ - (USD- thousand)	2,620,350 (USD90,000 thousand)	- (USD- thousand)	0.68%	Accounts receivable

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Other receivables

	September 30, 2020	December 31, 2019	September 30, 2019
Other receivables	\$ 1,978,110	1,489,704	1,681,354
Less : Allowance for impairment	<u>17,595</u>	<u>17,002</u>	<u>17,638</u>
	<u>\$ 1,960,515</u>	<u>1,472,702</u>	<u>1,663,716</u>

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

(f) Inventories

	September 30, 2020	December 31, 2019	September 30, 2019
Merchandise	\$ 2,212,581	1,285,078	906,376
Finished goods	58,883,310	61,552,810	63,768,500
Work in process	33,658,873	18,134,156	31,023,001
Raw materials	<u>57,819,437</u>	<u>31,614,069</u>	<u>43,877,354</u>
Subtotal	152,574,201	112,586,113	139,575,231
Less: Allowance for inventory market decline and obsolescence	<u>6,859,155</u>	<u>6,522,623</u>	<u>7,978,509</u>
Total	<u>\$ 145,715,046</u>	<u>106,063,490</u>	<u>131,596,722</u>

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Cost of goods sold	\$ 316,930,602	336,101,802	893,477,390	900,443,303
Provision on (reversal of) inventory market price decline	(81,757)	37,633	336,532	(97,919)
Loss on disposal of inventory	4,242,032	4,500,439	11,059,296	13,851,030
Unallocated manufacturing overhead	603,576	841,402	2,648,932	3,956,481
Loss on physical inventory	<u>7,141</u>	<u>4,417</u>	<u>10,317</u>	<u>9,021</u>
	<u>\$ 321,701,594</u>	<u>341,485,693</u>	<u>907,532,467</u>	<u>918,161,916</u>

For the nine months ended September 30, 2020 and three months ended September 30, 2019, the Group recognized an inventory valuation loss, accounted for as cost of goods sold, due to the decreasing value from the carrying amount to the net realized value.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the three months ended September 30, 2020 and the nine months ended September 30, 2019, the Group recognized a gain from the reversal of allowance for inventory valuation loss due to the destocking of inventories. Such gain was deducted from cost of goods sold.

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

(g) Non-current assets held for sale

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

(h) Investments accounted for using the equity method

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

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>	
Individually insignificant associates	\$ <u>376,473</u>	<u>256,093</u>	<u>271,300</u>	
	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
The Group's share of profit (loss) of the associates				
(Loss) profit for the period	\$ (20,757)	28,136	120,451	75,150
Other comprehensive profit (loss)	<u>318</u>	<u>(430)</u>	<u>172</u>	<u>(372)</u>
Total comprehensive income profit (loss)	\$ <u>(20,439)</u>	<u>27,706</u>	<u>120,623</u>	<u>74,778</u>

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

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

Investments accounted for using the 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiaries that have material non-controlling interest

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

Subsidiaries	Main operation place/Country of registration	Equity ownership of non-controlling interest		
		September 30, 2020	December 31, 2019	September 30, 2019
KINSUS and its subsidiaries	Taiwan	61.43 %	61.44 %	61.45 %
ASROCK and its subsidiaries	Taiwan	44.08 %	44.08 %	44.10 %
CASETEK CAYMAN	Taiwan/ Cayman	40.59 %	40.59 %	40.59 %

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

(i) Information regarding KINSUS and its subsidiaries

	September 30, 2020	December 31, 2019	September 30, 2019
Current assets	\$ 21,019,324	19,340,507	18,389,253
Non-current assets	20,920,854	22,362,838	23,003,839
Current liabilities	(10,718,347)	(10,841,218)	(11,672,183)
Non-current liabilities	(2,376,553)	(2,024,427)	(2,470,269)
Net assets	<u>\$ 28,845,278</u>	<u>28,837,700</u>	<u>27,250,640</u>
Non-controlling interest	<u>\$ 18,025,384</u>	<u>17,957,674</u>	<u>16,656,249</u>

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Operating revenue	<u>\$ 6,871,934</u>	<u>5,997,496</u>	<u>19,550,452</u>	<u>16,091,213</u>
Net income (loss) for the period	\$ 184,661	(258,801)	598,575	(2,029,823)
Other comprehensive income (loss)	18,037	(73,919)	(34,720)	(37,578)
Comprehensive income (loss)	<u>\$ 202,698</u>	<u>(332,720)</u>	<u>563,855</u>	<u>(2,067,401)</u>
Net income (loss) attribute to non-controlling interest	<u>\$ 146,238</u>	<u>(121,403)</u>	<u>461,451</u>	<u>(1,109,798)</u>
Comprehensive income (loss) attribute to non-controlling interest	<u>\$ 161,728</u>	<u>(158,134)</u>	<u>446,642</u>	<u>(1,129,221)</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the nine months ended September 30	
	2020	2019
Cash flows from operating activities	\$ 3,228,938	1,329,561
Cash flows from investing activities	(1,782,726)	(3,183,968)
Cash flows from financing activities	(1,130,960)	1,468,172
Net increase (decrease) in cash and cash equivalents	<u>\$ 315,252</u>	<u>(386,235)</u>

(ii) Information regarding ASROCK and its subsidiaries

	September 30, 2020	December 31, 2019	September 30, 2019
Current assets	\$ 11,654,399	9,706,137	9,833,194
Non-current assets	614,730	560,035	450,869
Current liabilities	(5,166,315)	(3,747,151)	(3,847,788)
Non-current liabilities	(79,914)	(64,554)	(67,601)
Net assets	<u>\$ 7,022,900</u>	<u>6,454,467</u>	<u>6,368,674</u>
Non-controlling interest	<u>\$ 3,317,458</u>	<u>3,030,844</u>	<u>2,975,241</u>

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Operating revenue	\$ <u>5,199,482</u>	<u>3,867,590</u>	<u>13,513,231</u>	<u>9,552,222</u>
Net income for the period	\$ 533,017	229,784	1,139,219	444,912
Other comprehensive (loss) income	(73,369)	(2,676)	(116,652)	40,652
Comprehensive income	<u>\$ 459,648</u>	<u>227,108</u>	<u>1,022,567</u>	<u>485,564</u>
Net income attribute to non-controlling interest	<u>\$ 260,085</u>	<u>113,903</u>	<u>576,347</u>	<u>219,363</u>
Comprehensive income attribute to non-controlling interest	<u>\$ 227,743</u>	<u>112,682</u>	<u>525,326</u>	<u>237,254</u>

	For the nine months ended September 30	
	2020	2019
Cash flows from operating activities	\$ 1,264,627	852,957
Cash flows from investing activities	292,634	(234,817)
Cash flows from financing activities	(503,880)	(496,635)
Net increase decrease in cash and cash equivalents	<u>\$ 1,053,381</u>	<u>121,505</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Information regarding CASETEK CAYMAN

	September 30, 2020	December 31, 2019	September 30, 2019
Current assets	\$ 39,513,741	26,620,964	26,669,594
Non-current assets	26,494,262	25,082,697	25,603,198
Current liabilities	(28,601,293)	(14,543,892)	(15,177,718)
Non-current liabilities	(7,429,502)	(6,559,372)	(5,828,125)
Net assets	<u>\$ 29,977,208</u>	<u>30,600,397</u>	<u>31,266,949</u>
Non-controlling interest	<u>\$ 12,024,610</u>	<u>12,385,305</u>	<u>12,655,808</u>

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Operating revenue	<u>\$ 12,707,784</u>	<u>8,839,290</u>	<u>29,443,191</u>	<u>24,288,235</u>
Net income (loss) for the period	\$ 757,203	12,708	235,446	(649,315)
Other comprehensive income (loss)	446,415	(809,078)	(252,240)	(482,596)
Comprehensive income (loss)	<u>\$ 1,203,618</u>	<u>(796,370)</u>	<u>(16,794)</u>	<u>(1,131,911)</u>
Net income (loss) attribute to non-controlling interest	<u>\$ 307,290</u>	<u>4,127</u>	<u>95,549</u>	<u>(268,608)</u>
Comprehensive income (loss) attribute to non-controlling interest	<u>\$ 487,109</u>	<u>(327,093)</u>	<u>(6,684)</u>	<u>(464,455)</u>

	For the nine months ended September 30	
	2020	2019
Cash flows from operating activities	\$ 3,696,277	4,028,772
Cash flows from investing activities	(3,659,669)	(1,629,737)
Cash flows from financing activities	1,392,416	(1,722,294)
Net increase in cash and cash equivalents	<u>\$ 1,429,024</u>	<u>676,741</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 were as follows :

	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2020	\$ 7,754,662	55,296,414	67,162,106	1,396,155	34,116,157	3,246,801	168,972,295
Additions	773,090	1,000,699	3,618,321	98,448	2,307,846	4,148,954	11,947,358
Disposals and obsolescence	-	(144,975)	(2,073,978)	(164,094)	(1,669,447)	-	(4,052,494)
Reclassifications	-	2,453,826	1,794,058	3,039	1,682,914	(4,167,690)	1,766,147
Effect of movement in exchange rate	(13,844)	(1,030,998)	(561,387)	(23,295)	(554,822)	(28,233)	(2,212,579)
Balance on September 30, 2020	<u>\$ 8,513,908</u>	<u>57,574,966</u>	<u>69,939,120</u>	<u>1,310,253</u>	<u>35,882,648</u>	<u>3,199,832</u>	<u>176,420,727</u>
Balance on January 1, 2019	\$ 6,384,886	48,479,698	71,612,529	1,444,578	32,195,791	10,391,635	170,509,117
Additions	-	180,553	681,177	141,073	1,828,751	2,551,426	5,382,980
Disposals and obsolescence	-	(144,614)	(3,118,743)	(142,970)	(2,210,129)	-	(5,616,456)
Reclassifications	1,369,663	5,860,744	3,161,540	3,360	2,097,135	(8,863,515)	3,628,927
Effect of movement in exchange rate	1,099	(75,758)	(519,694)	8,996	36,046	56,034	(493,277)
Balance on September 30, 2019	<u>\$ 7,755,648</u>	<u>54,300,623</u>	<u>71,816,809</u>	<u>1,455,037</u>	<u>33,947,594</u>	<u>4,135,580</u>	<u>173,411,291</u>
Depreciation and impairment loss :							
Balance on January 1, 2020	\$ -	19,467,445	46,288,167	1,118,844	21,849,079	-	88,723,535
Depreciation for the period	-	2,342,818	5,409,718	109,775	4,113,681	-	11,975,992
Impairment reversal gain	-	-	(732)	-	(2,679)	-	(3,411)
Reclassifications	-	60,266	(43,602)	-	(74,631)	-	(57,967)
Disposals and obsolescence	-	(127,488)	(1,817,628)	(162,653)	(1,451,049)	-	(3,558,818)
Effect of movement in exchange rate	-	(477,177)	(493,699)	(23,112)	(438,753)	-	(1,432,741)
Balance on September 30, 2020	<u>\$ -</u>	<u>21,265,864</u>	<u>49,342,224</u>	<u>1,042,854</u>	<u>23,995,648</u>	<u>-</u>	<u>95,646,590</u>
Balance on January 1, 2019	\$ -	17,315,572	45,237,334	1,257,084	19,093,365	-	82,903,355
Depreciation for the period	-	2,068,336	6,119,111	92,943	4,329,730	-	12,610,120
Impairment loss (reversal gain)	-	(1)	10,402	-	(166)	-	10,235
Reclassifications	-	(10)	(467)	-	76,794	-	76,317
Disposals and obsolescence	-	(139,574)	(2,266,652)	(142,256)	(1,829,463)	-	(4,377,945)
Effect of movement in exchange rate	-	(15,812)	(370,639)	8,856	12,092	-	(365,503)
Balance on September 30, 2019	<u>\$ -</u>	<u>19,228,511</u>	<u>48,729,089</u>	<u>1,216,627</u>	<u>21,682,352</u>	<u>-</u>	<u>90,856,579</u>
Carrying amounts :							
Balance on January 1, 2020	<u>\$ 7,754,662</u>	<u>35,828,969</u>	<u>20,873,939</u>	<u>277,311</u>	<u>12,267,078</u>	<u>3,246,801</u>	<u>80,248,760</u>
Balance on September 30, 2020	<u>\$ 8,513,908</u>	<u>36,309,102</u>	<u>20,596,896</u>	<u>267,399</u>	<u>11,887,000</u>	<u>3,199,832</u>	<u>80,774,137</u>
Balance on January 1, 2019	<u>\$ 6,384,886</u>	<u>31,164,126</u>	<u>26,375,195</u>	<u>187,494</u>	<u>13,102,426</u>	<u>10,391,635</u>	<u>87,605,762</u>
Balance on September 30, 2019	<u>\$ 7,755,648</u>	<u>35,072,112</u>	<u>23,087,720</u>	<u>238,410</u>	<u>12,265,242</u>	<u>4,135,580</u>	<u>82,554,712</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 September 30		For the nine months ended September 30	
	2020	2019	2020	2019
	Impairment loss (reversal gain) \$	5,370	(264)	(3,411)

- (ii) KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries completed a series of farmland 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) The Group's impairment reversal gain or loss was recognized under other income and losses in the consolidated statement of comprehensive income. The recoverable amount of individual asset was estimated based on its value-in-use.
- (iv) In June 2020, the plants of CASETEK CAYMAN and its subsidiaries did not meet the definition of non-current assets held-for-sale, therefore, they were reclassified to property, plant, and equipment. Please refer to Notes 6(g) for details.
- (v) Please refer to Note 6(aa) for gain and loss on the disposal of property, plant and equipment.
- (vi) Please refer to Note 8 for the details of property, plant and equipment pledged as collateral.
- (k) Right-of-use assets

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

	Land	Buildings	Machinery equipment	Transportation equipment	Total
Cost:					
Balance on January 1, 2020	\$ 4,186,259	3,837,947	17,793	2,918	8,044,917
Additions	45,549	2,029,405	-	1,300	2,076,254
Reductions	-	(748,132)	-	-	(748,132)
Reclassification	44,976	-	-	-	44,976
Effect of changes in foreign exchange rates	(86,966)	(73,704)	-	(13)	(160,683)
Balance on September 30, 2020	\$ 4,189,818	5,045,516	17,793	4,205	9,257,332
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	4,540,409	2,925,838	17,793	1,331	7,485,371
Additions	12,883	1,215,675	-	577	1,229,135
Reductions	-	(380,820)	-	-	(380,820)
Effect of changes in foreign exchange rates	550	20,150	-	-	20,700
Balance on September 30, 2019	\$ 4,553,842	3,780,843	17,793	1,908	8,354,386

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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, 2020	\$ 788,316	1,360,026	6,888	1,085	2,156,315
Depreciation for the period	76,176	1,360,702	5,166	1,094	1,443,138
Reclassification	10,136	-	-	-	10,136
Reductions	-	(523,664)	-	-	(523,664)
Effect of changes in foreign exchange rate	(18,231)	(49,155)	-	(8)	(67,394)
Balance on September 30, 2020	<u>\$ 856,397</u>	<u>2,147,909</u>	<u>12,054</u>	<u>2,171</u>	<u>3,018,531</u>
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	778,162	-	-	-	778,162
Depreciation for the period	74,207	1,085,104	5,166	559	1,165,036
Reductions	-	(83,316)	-	-	(83,316)
Effect of changes in foreign exchange rates	392	(2,005)	-	-	(1,613)
Balance on September 30, 2019	<u>\$ 852,761</u>	<u>999,783</u>	<u>5,166</u>	<u>559</u>	<u>1,858,269</u>
Carrying amounts:					
Balance on January 1, 2020	<u>\$ 3,397,943</u>	<u>2,477,921</u>	<u>10,905</u>	<u>1,833</u>	<u>5,888,602</u>
Balance on September 30, 2020	<u>\$ 3,333,421</u>	<u>2,897,607</u>	<u>5,739</u>	<u>2,034</u>	<u>6,238,801</u>
Balance on September 30, 2019	<u>\$ 3,701,081</u>	<u>2,781,060</u>	<u>12,627</u>	<u>1,349</u>	<u>6,496,117</u>

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

(l) Investment property

Investment property is owned by the Group, and the movements were as follows :

	<u>Buildings</u>
Carrying amounts:	
Balance on January 1, 2020	<u>\$ 44,496</u>
Balance on September 30, 2020	<u>\$ 41,032</u>
Balance on January 1, 2019	<u>\$ 48,712</u>
Balance on September 30, 2019	<u>\$ 46,859</u>

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

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Rental income	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Direct operating expenses arising from investment property that generate rental income	<u>\$ 749</u>	<u>793</u>	<u>2,279</u>	<u>2,368</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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- (ii) As of September 30, 2020, December 31, 2019 and September 30, 2019, the fair value of investment property of the Group was \$76,257, \$83,623 and \$81,387, 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 nine months ended September 30, 2020 and 2019. Information on depreciation for the period is discussed in Note 12. Please refer to Note 6(l) of the consolidated financial statements for the year ended December 31, 2019 for other related information.
- (iv) As of September 30, 2020, December 31, 2019 and September 30, 2019, the aforesaid investment properties were not pledged as collateral.
- (m) Intangible assets

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

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Costs:			
Balance on January 1, 2020	\$ 1,720,354	1,433,887	3,154,241
Additions	-	79,211	79,211
Disposals	-	(277,354)	(277,354)
Reclassifications	-	1,192	1,192
Effect of changes in foreign exchange rate	<u>(30,210)</u>	<u>(18,403)</u>	<u>(48,613)</u>
Balance on September 30, 2020	<u>\$ 1,690,144</u>	<u>1,218,533</u>	<u>2,908,677</u>
Balance on January 1, 2019	\$ 1,746,024	1,488,815	3,234,839
Additions	-	77,161	77,161
Disposals	-	(37,184)	(37,184)
Reclassifications	-	10,092	10,092
Effect of changes in foreign exchange rate	<u>11,351</u>	<u>2,114</u>	<u>13,465</u>
Balance on September 30, 2019	<u>\$ 1,757,375</u>	<u>1,540,998</u>	<u>3,298,373</u>
Amortization and impairment loss:			
Balance on January 1, 2020	\$ 671,792	1,184,558	1,856,350
Amortization for the period	-	151,527	151,527
Disposals	-	(277,354)	(277,354)
Effect of changes in foreign exchange rate	<u>-</u>	<u>(18,162)</u>	<u>(18,162)</u>
Balance on September 30, 2020	<u>\$ 671,792</u>	<u>1,040,569</u>	<u>1,712,361</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Balance on January 1, 2019	\$ 671,792	1,087,175	1,758,967
Amortization for the period	-	208,369	208,369
Disposals	-	(37,184)	(37,184)
Effect of changes in foreign exchange rate	-	2,468	2,468
Balance on September 30, 2019	<u>\$ 671,792</u>	<u>1,260,828</u>	<u>1,932,620</u>
Carrying amounts:			
Balance on January 1, 2020	<u>\$ 1,048,562</u>	<u>249,329</u>	<u>1,297,891</u>
Balance on September 30, 2020	<u>\$ 1,018,352</u>	<u>177,964</u>	<u>1,196,316</u>
Balance on January 1, 2019	<u>\$ 1,074,232</u>	<u>401,640</u>	<u>1,475,872</u>
Balance on September 30, 2019	<u>\$ 1,085,583</u>	<u>280,170</u>	<u>1,365,753</u>

(i) Goodwill impairment

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

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

For the nine months ended September 30, 2020 and 2019, there were no significant addition, disposal, impairment loss, or reversal gain on goodwill. Please refer to Note 6(m) of the consolidated financial statements for the year ended December 31, 2019 for other related information.

(n) Other financial assets and other assets

Other financial assets and other assets were as follows :

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Other financial assets-current	\$ 19,646,141	3,564,920	3,169,012
Other financial assets-Non-current	1,052,282	481,158	359,282
Other current assets	9,568,771	5,674,300	6,281,389
Other Non-current assets	<u>134,307</u>	<u>50,065</u>	<u>116,587</u>
	<u>\$ 30,401,501</u>	<u>9,770,443</u>	<u>9,926,270</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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(o) Short-term loans

	September 30, 2020	December 31, 2019	September 30, 2019
Unsecured bank loans	<u>\$ 126,405,920</u>	<u>64,808,786</u>	<u>88,829,677</u>
Interest rate	<u>0.32%~3.20%</u>	<u>0.60%~4.70%</u>	<u>0.60%~3.685%</u>

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

(p) Long-term loans

	September 30, 2020	December 31, 2019	September 30, 2019
Unsecured bank loans	\$ 11,829,157	9,192,450	9,342,500
Secured bank loans	-	-	900,000
	11,829,157	9,192,450	10,242,500
Less: current portion	<u>(1,085,357)</u>	<u>(2,657,496)</u>	<u>(4,019,821)</u>
Total	<u>\$ 10,743,800</u>	<u>6,534,954</u>	<u>6,222,679</u>
Interest rate	<u>0.35%~3.35%</u>	<u>0.60%~3.97%</u>	<u>1.074%~3.97%</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 \$3,334,839 and \$6,210,325 for the nine months ended September 30, 2020 and 2019, respectively. In addition, the Group proceeded from long-term loans of \$6,181,900 and \$4,459,200 for the nine months ended September 30, 2020 and 2019, respectively. Please refer to Note 6(aa) for interest expenses.

(ii) Collateral for bank loans

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

(iii) Loan covenants

On January 3, 2018 and January 30, 2015, CASETEK CAYMAN signed a USD360,000 thousand 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).

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

CASETEK CAYMAN was in compliance with the above financial covenants as of December 31, 2019. For other related information, please refer to Note 6(p) of the consolidated financial statements for the year ended December 31, 2019.

(q) Bonds payable

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Ordinary corporate bonds issued	\$ 20,500,000	23,500,000	23,500,000
Unamortized discount on bonds payable	(16,929)	(19,661)	(20,571)
Bonds payable, end of the year	20,483,071	23,480,339	23,479,429
Less: current portion	(1,000,000)	(3,000,000)	(3,000,000)
	<u>\$ 19,483,071</u>	<u>20,480,339</u>	<u>20,479,429</u>

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest expense	<u>\$ 50,140</u>	<u>56,322</u>	<u>161,354</u>	<u>133,747</u>

On March 26, 2020, the Board of Directors approved to issue unsecured ordinary corporate bonds with the total maximum amount of 10 billion, which have been approved and declared effective by the Taipei Exchange (TPEX) on October 12, 2020, the offering information and main rights, were as follows :

<u>Item</u>	<u>1st unsecured ordinary bonds issued in 2020</u>
1.Issuing amount	The Bonds are issued at 5 billion in NTD (same as below).
2.Par value	Each unit is valued at 1 million.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	The Bonds has 5-year term. The issuance period of The Bonds commences from October 12, 2020 and matures on October 12, 2025.
5.Coupon rate	The Bonds bears annual coupon rates of 0.65% .
6.Repayment	The Bonds are repayable on maturity.
7.Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8.Guarantee	The Bonds are unsecured ordinary corporate bonds.

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On March 14, 2019, the Board of Directors approved to issue unsecured ordinary corporate bonds with the total amount not exceeding 15 billion dollars, which were approved and declared effective by TPEX on June 3, 2019. For other related information, please refer to Note 6(q) of the consolidated financial statements for the year ended December 31, 2019.

(r) Lease liabilities

The Group's lease liabilities were as follows :

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2019</u>
Current	\$ <u>1,483,313</u>	<u>1,195,039</u>	<u>1,367,327</u>
Non-current	\$ <u>1,450,697</u>	<u>1,294,702</u>	<u>1,430,723</u>

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

The amounts recognized in profit or loss were as follows :

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ <u>29,756</u>	<u>27,956</u>	<u>91,976</u>	<u>82,794</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>26,825</u>	<u>4,259</u>	<u>32,998</u>	<u>11,404</u>
Income from sub-leasing right-of-use assets	\$ <u>135</u>	<u>257</u>	<u>577</u>	<u>413</u>
Expenses relating to short-term leases	\$ <u>87,777</u>	<u>85,665</u>	<u>178,277</u>	<u>408,611</u>
Expenses relating to leases of low-value, excluding short-term leases of low-value assets	\$ <u>6,960</u>	<u>335</u>	<u>7,531</u>	<u>931</u>
Covid-19 - related rent concessions	\$ <u>12,925</u>	<u>-</u>	<u>21,341</u>	<u>-</u>

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

	<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>
Total cash outflow for leases	\$ <u>1,651,170</u>	<u>1,603,082</u>

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

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

(s) Employee benefits

(i) Defined benefit plans

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

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Operating cost	\$ 43	67	127	206
Operating expense	992	872	2,963	2,626
	\$ 1,035	939	3,090	2,832

(ii) Defined contribution plans

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Operating cost	\$ 1,063,255	1,066,809	2,409,891	3,420,666
Operating expense	191,782	202,714	505,911	628,048
	\$ 1,255,037	1,269,523	2,915,802	4,048,714

(iii) Short-term employee benefits

As of September 30, 2020, December 31, 2019 and September 30, 2019, the Group's short-term employee benefits liabilities were \$318,447, \$277,395 and \$270,114, respectively.

(t) Income tax

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

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Current income tax expense				
Current period incurred	\$ 1,858,869	2,335,258	5,263,448	4,914,010
Prior years income tax adjustment	4,205	(1,783)	(33,403)	(119,113)
Income tax expense	\$ 1,863,074	2,333,475	5,230,045	4,794,897

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Items that will be reclassified subsequently to profit or loss :				
Exchange differences on translation of foreign financial statements	\$ 498	(1,186)	(439)	(1,171)

- (iv) Status of approval of income tax

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

Years of Approval	Company Name
2016	PEGAVISION CORPORATION
2017	KINSUS INTERCONNECT TECHNOLOGY CORP., KINSUS INVESTMENT and ASROCK INCORPORATION.
2018	PEGA INTERNATIONAL LIMITED, AMA, AZUREWAVE, AZURE LIGHTING TECHNOLOGIES, INC., EZWAVE TECHNOLOGIES, INC., ASUS INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, STARLINK ELECTRONICS CORPORATION, HUA YUAN INVESTMENT LTD, AS FLY TRAVEL SERVICE LTD, RI KUAN METAL CORPORATION., ASROCK RACK, INC., LUMENS OPTICS and FUYANG TECHNOLOGY CORPORATION.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Capital and other equity

Except for the following disclosure, there were no significant change for capital and other equity for the nine months ended September 30, 2020 and 2019. For the related information, please refer to Note 6(v) of the consolidated financial statements for the year ended December 31, 2019.

(i) Ordinary shares

For the nine months ended September 30, 2020 and 2019, the Company had retired 581 and 977 thousand shares, respectively, of restricted employee stock. The authorized capital of the Company consisted of 3,000,000 thousand shares, with par value of \$10 (dollars) per share, and the outstanding capital consisted of 2,610,511, 2,611,092, and 2,611,400 thousand common shares of stock, as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively. All share proceeds from outstanding capital have been collected.

As of September 30, 2020, December 31, 2019 and September 30, 2019, the restricted employee stocks have expired, of which 48, 300, and 308 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

As of September 30, 2020, December 31, 2019, and September 30, 2019, the Company has listed, in total, 709, 790, and 903 thousand units of GDR, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed company shares totaling 3,544, 3,949, and 4,513 thousand shares of stock, respectively.

(iii) Capital surplus

The components of the capital surplus were as follows :

	September 30, 2020	December 31, 2019	September 30, 2019
From issuance of share capital	\$ 66,429,493	65,571,841	65,567,675
From conversion of convertible bonds	11,073,663	11,073,663	11,073,663
From treasury stock transactions	23,614	23,614	23,614
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,432,458	2,432,387	2,383,056
Changes in ownership interest in subsidiaries	1,283,162	1,215,540	865,445
Employee stock options	1,304	1,304	1,304
Restricted stock to employees	1,701,049	323,835	188,262
Other	409,917	409,917	409,917
	<u>\$ 83,354,660</u>	<u>81,052,101</u>	<u>80,512,936</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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(iv) Retained earnings

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

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

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

1) Legal reserve

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

2) Special reserve

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Earnings distribution

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

	For the nine months ended September 30	
	2019	2018
Common stock dividends per share (dollars)		
— Cash	\$ 4.50	3.50

(v) Other equity (net of tax)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2020	\$ (10,982,396)	(303,654)	(8,287)	(11,294,337)
Exchange differences on foreign operation	(3,235,513)	-	-	(3,235,513)
Exchange differences on associates accounted for using the equity method	172	-	-	172
Unrealized gain from financial assets measured at fair value through other comprehensive income	-	110	-	110
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	153,818	-	153,818
Deferred compensation cost arising from issuance of restricted stock	-	-	(1,342,709)	(1,342,709)
Balance on September 30, 2020	\$ (14,217,737)	(149,726)	(1,350,996)	(15,718,459)
Balance on January 1, 2019	\$ (7,482,556)	(386,322)	(524,686)	(8,393,564)
Exchange differences on foreign operation	327,185	-	-	327,185
Exchange differences on associates accounted for using the equity method	(372)	-	-	(372)
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	88,317	-	88,317
Deferred compensation cost arising from issuance of restricted stock	-	-	516,400	516,400
Balance on September 30, 2019	\$ (7,155,743)	(298,005)	(8,286)	(7,462,034)

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

	For the nine months ended September 30	
	2020	2019
Balance on January 1	\$ 35,580,451	36,417,945
Income (loss) attributable to non-controlling interests	1,319,634	(1,259,632)
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	(203,530)	(190,916)
Changes in ownership interest in subsidiaries	(77,490)	(105,420)
Changes in non-controlling interests	(941,552)	(359,882)
Balance on September 30	<u>\$ 35,677,513</u>	<u>34,502,095</u>

(v) Share-based payment

Except for the following disclosure, there were no significant changes for share-based payment for the three months ended September 30, 2020 and 2019. For the related information, please refer to Note 6(w) of the consolidated financial statements for the year ended December 31, 2019.

(i) Restricted employee stock

In the board of directors' meeting on June 19, 2020, the Company decided to award 60,000 thousand new shares of restricted stock to those full-time employees who meet the Company's requirements. The restricted stock has been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C.. In the board of directors meeting on September 22, 2020, the Company decided to issue 53,103 thousand shares of restricted employee stock, and set December 8, 2020 as the date of capital increase. The fair value on the given date is \$63.2 dollar per share.

Those employees with the restricted stock awards are entitled to purchase shares at the price of \$10 (dollars) per share, with the condition that these employees continue to provide service to the Company for at least 1, 2, 3, and 4 years (from the grant date), with 25% of the restricted stock is vested in year 1, after the grant date, 25% of the restricted stock is vested in year 2 after the grant date, 25% is vested in year 3 after the grant date, and 25% is vested in year 4 after the grant date, respectively. The restricted stock is kept by a trust, which is appointed by the Company, before it is vested. These shares shall not be sold, pledged, transferred, gifted, or disposed of by any other means to third parties during the custody period. The voting rights of these shareholders are executed by the custodian, and the custodian will act based on law and regulations. If the shares remain unvested after the vesting period, the Company will repurchase all the unvested shares at the issue price, and cancel the shares thereafter.

For the nine months ended September 30, 2020 and 2019, 329 and 788 thousand shares of restricted employee stock have expired, which were converted to capital surplus of \$3,076 and \$7,880, respectively. As of September 30, 2020, December 31, 2019, and September 30, 2019, the Company has deferred compensation cost arising from the issuance of restricted employee stock of \$1,350,996, \$8,287, and \$8,286, respectively.

(Continued)

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(ii) Expenses recognized in profit or loss

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

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Expenses resulting from the issuance of restricted employee stock	\$ <u>17,041</u>	<u>55,343</u>	<u>413,934</u>	<u>296,330</u>

(w) Subsidiary's share-based payments

Except for the following disclosure, there were no significant changes for share-based payment for the three months ended September 30, 2020 and 2019. For the related information, please refer to Note 6(x) of the consolidated financial statements for the year ended December 31, 2019.

(i) Restricted stock to employee of AZUREWAVE

The restricted employee stock that have been bought back by AZUREWAVE due to the leave of employees are 54 thousand shares. The date of capital decrease, March 25, 2020, had been approved by the board of directors, and the shares had been retired.

For the three months and nine months ended September 30, 2020 and 2019, AZUREWAVE recognized share-based compensation cost of \$0, \$459 \$1,160 and \$1,844, respectively, due to the issuance of restricted employee stock. As of September 30, 2020 and 2019, AZUREWAVE has deferred compensation cost of \$0 and \$792, respectively.

(ii) Restricted stock to employee of ASROCK

1) ASROCK RACK INCORPORATION

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

Employees with restricted stock awards who keep working for ASROCK RACK INCORPORATION for three years, 50% of the restricted shares of stock are vested in year 3, which started at the granted date. During the service, employees cannot violate the law, code of conduct, code of business ethics conduct, etc. Employees with restricted stock awards who keep working for ASROCK RACK INCORPORATION for four years, residual 50% of the restricted shares of stock is vested in year 4, which started at the granted date. Meanwhile, during the service, employees cannot violate the law, code of conduct, code of business ethics conduct etc. The restricted stock is kept by a trust, which is appointed by ASROCK RACK INCORPORATION, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted or by any other means of

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PEGATRON CORPORATION AND SUBSIDIARIES
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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

On May 29, 2020, the Board of Directors of ASROCK 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 are awarded to those employees who meet certain requirement of ASROCK and ASROCK RACK INCORPORATION. Duration is 18 months. One year after issuance, the certificate owners can exercise a specific proportion of the option certificates. The exercise price of the option is \$22 (dollars) per share. After the issue of the options, even if ASROCK RACK INCORPORATION has changed the total amount of the common shares, the price would not be changed.

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

Grant date	Total shares issued (In thousands of shares)	Exercise price per share
May 29, 2020	1,500	NT\$ 22

For the nine months ended September 30, 2020, the assumptions and pricing model adopted in this share-based payments were as follows :

	For the nine months ended September 30 2019
Expected volatility rate	30.95%
Risk-free interest rate	0.2763%
Expected duration of option	1.5 years
Weighted average stock price	NT\$11.72
Pricing model	Binomial options pricing model

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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 follows :

	For the nine months ended September 30	
	2020	
	Outstanding number of options	Weighted average exercise price
Outstanding as of January 1 (In thousand units)	-	\$ -
Granted during the period	1,500	22
Outstanding as of September 30 (In thousand units)	1,500	22
Exercisable as of September 30 (In thousand units)	-	
Weighted average fair value of the options granted	\$ 0.11	

As of September 30, 2020, related information about outstanding options on the share-based payments was as follows :

	Exercise price	Weighted average residual duration
September 30, 2020		
Outstanding option	\$ 22	1.25 years

2) 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 are 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 (dollars) per share. After the issue of the options, even if ASROCK INDUSTRIAL COMPUTER has changed the total amount of the common shares, the price would not be changed.

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

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

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

	For the nine months ended September 30 2019
Expected volatility rate	31.74%
Risk-free interest rate	0.5741%
Expected duration of option	2.5 years
Weighted average stock price	NT\$8.10
Pricing model	Binomial options pricing model

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

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

	For the nine months ended September 30			
	2020		2019	
	Outstanding number of options	Weighted average exercise price	Outstanding number of options	Weighted average exercise price
Outstanding as of January 1 (In thousand units)	1,500	\$ 10	-	-
Granted during the period	-	-	1,500	10
Exercising during the period	(750)	-	-	-
Outstanding as of September 30 (In thousand units)	750	10	1,500	10
Exercisable as of September 30 (In thousand units)	750		-	
Weighted average fair value of the options granted	\$ -		\$ 0.81	

As of September 30, 2020 and 2019, related information about outstanding options on the share-based payments was as follows :

	Exercise price	Weighted average residual duration
September 30, 2020		
Outstanding option	\$ 10	0.75 years
September 30, 2019		
Outstanding option	\$ 10	1.75 years

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

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

Stock price at grant date	NT\$17.24
Exercise price	NT\$10.00
Expected price volatility	26.96%
Risk-free interest rate	0.3874%
Expected life of the option	0.0795 years
Weighted average stock price	NT\$12.28

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

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Expense resulting from equity-settled share-based payment \$	<u>3,412</u>	<u>16,038</u>	<u>23,957</u>	<u>59,456</u>

(iii) Employee stock option of FUYANG TECHNOLOGY CORPORATION

The expenses resulting from share-based payment transactions for the three months and the nine months ended September 30, 2020 and 2019, were as follows :

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Expenses resulting from employee stock option \$	<u>-</u>	<u>344</u>	<u>691</u>	<u>2,238</u>

(iv) Compensated restricted stock to employee of KINSUS

- 1) On August 28, 2018, KINSUS issued 4,841 shares of new employee restricted stock, and incurred 184,530 to capital surplus, of restricted stock of KINSUS. As of September 30, 2020, 539 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$5,387. Subsequently, the deferred compensation cost of KINSUS arising from the issuance of its employee restricted stock amounted to \$4,641.

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PEGATRON CORPORATION AND SUBSIDIARIES
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- 2) On February 28, 2019, the board of KINSUS approved to issue 659 thousand shares of restricted stock, with the record date for the capital increase on March 18, 2019. However, only 599 thousand shares were actually issued, with a fair value of \$43.45 (dollars) per share at the granted date, resulting in the capital surplus- employee restricted stock to increase by \$19,396.

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

<u>Vesting conditions</u>	<u>Percentage of vesting shares</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.

As of September 30, 2019, 37 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$372. On September 30, 2019, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$662.

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

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expense resulting from equity-settled share-based payment	<u>\$ 5,933</u>	<u>14,637</u>	<u>18,183</u>	<u>71,407</u>

- 4) KINSUS did not made any cancellations or amendments to share-based payment transactions for the nine months ended September 30, 2020 and 2019.

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(x) Earnings per share

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

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Basic earnings per share				
Profit attributable to ordinary shareholders	\$ <u>6,817,483</u>	<u>6,296,661</u>	<u>15,436,099</u>	<u>11,092,868</u>
Weighted-average number of ordinary shares	<u>2,610,498</u>	<u>2,611,176</u>	<u>2,610,625</u>	<u>2,611,462</u>
	\$ <u>2.61</u>	<u>2.41</u>	<u>5.91</u>	<u>4.25</u>
Diluted earnings per share				
Profit attributable to ordinary shareholders (diluted)	\$ <u>6,817,483</u>	<u>6,296,661</u>	<u>15,436,099</u>	<u>11,092,868</u>
Weighted-average number of ordinary shares	2,610,498	2,611,176	2,610,625	2,611,462
Effect of potentially dilutive ordinary shares				
Employee stock bonus	<u>20,502</u>	<u>17,352</u>	<u>29,872</u>	<u>21,716</u>
Weighted-average number of ordinary shares (diluted)	<u>2,631,000</u>	<u>2,628,528</u>	<u>2,640,497</u>	<u>2,633,178</u>
	\$ <u>2.59</u>	<u>2.40</u>	<u>5.85</u>	<u>4.21</u>

(y) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>For the three months ended September 30, 2020</u>		
	Strategic Investment		Total
	DMS	Group	
Primary geographical markets :			
Europe	\$ 107,359,798	2,125,568	109,485,366
U.S.A.	140,371,009	9,247,372	149,618,381
Taiwan	28,215,455	3,368,290	31,583,745
China	6,414,940	12,196,040	18,610,980
Japan	9,588,993	566,028	10,155,021
Other countries	<u>15,937,222</u>	<u>245,372</u>	<u>16,182,594</u>
	<u>\$ 307,887,417</u>	<u>27,748,670</u>	<u>335,636,087</u>

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For the three months ended September 30, 2019			
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 123,988,319	3,948,841	127,937,160
U.S.A.	121,336,584	5,387,453	126,724,037
Taiwan	34,385,077	5,396,723	39,781,800
China	10,761,653	6,340,249	17,101,902
Japan	24,257,976	428,000	24,685,976
Other countries	18,451,919	112,170	18,564,089
	\$ 333,181,528	21,613,436	354,794,964
For the nine months ended September 30, 2020			
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 335,196,782	4,593,891	339,790,673
U.S.A.	377,744,029	23,044,483	400,788,512
Taiwan	60,541,160	8,992,793	69,533,953
China	30,558,531	30,442,708	61,001,239
Japan	18,658,850	1,358,664	20,017,514
Other countries	48,806,094	2,019,211	50,825,305
	\$ 871,505,446	70,451,750	941,957,196
For the nine months ended September 30, 2019			
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 377,454,933	6,254,668	383,709,601
U.S.A.	290,723,253	16,829,304	307,552,557
Taiwan	92,238,716	7,577,967	99,816,683
China	27,574,826	23,240,128	50,814,954
Japan	56,719,092	505,333	57,224,425
Other countries	48,663,494	493,164	49,156,658
	\$ 893,374,314	54,900,564	948,274,878

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(ii) Contract balances

	September 30, 2020	December 31, 2019	September 30, 2019
Notes receivable	\$ 18,426	20,232	28,315
Accounts receivable	202,632,913	207,994,571	222,719,438
Less: Allowance for impairment	<u>1,660,294</u>	<u>1,676,398</u>	<u>1,770,037</u>
Total	<u>\$ 200,991,045</u>	<u>206,338,405</u>	<u>220,977,716</u>
Contract liabilities	<u>\$ 2,511,656</u>	<u>1,942,418</u>	<u>1,957,677</u>

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

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 nine months ended September 30, 2020 and 2019.

(z) Remuneration of employees and directors

Based on the amended Company's Articles of Incorporation, remuneration of employees and directors are appropriated at the rate of at least 7% and no more than 0.7% of profit before tax, respectively. Prior years' accumulated deficit is first offset before any appropriation of profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

For the three months and the nine months ended September 30, 2020 and 2019, remuneration of employees of \$575,000, \$540,000, \$1,308,000 and \$937,000, respectively, and remuneration of directors of \$57,000, \$54,000, \$130,000 and \$93,000, respectively, were estimated on the basis of the Company's net profit before tax, excluding the remuneration of employees and directors of each period, multiplied by the percentage of remuneration of employees and directors as specified in the Company's Articles of Incorporation. Such amounts were recognized as operating cost or operating expense for that period. Management is expecting that the differences, if any, between the actual distributed amounts and estimated amounts will be treated as changes in accounting estimates and charged to profit or loss. The number of shares to be distributed were calculated based on the closing price of the Company's ordinary shares, one day prior to the Board of Directors meeting.

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

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(aa) Non-operating income and expenses

(i) Interest income

The components of interest income were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Interest income from bank deposits	\$ 589,082	905,621	2,501,985	2,792,823

(ii) Other income

The components of other income were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Subsidy income	\$ 740,940	140,802	1,785,114	1,020,139
Rental income	210,629	250,954	639,769	651,755
Technical service income	158,290	104,934	399,215	384,668
Other income	195,427	119,104	452,083	206,264
	\$ 1,305,286	615,794	3,276,181	2,262,826

(iii) Other gains and losses

The components of other gain and losses were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Expected credit (loss) reversal gain	\$ -	(2,486)\$	-	2,038
Gains (losses) on disposals of property, plant and equipment	20,193	(25,616)	63,753	(25,994)
Foreign exchange gains	82,499	251,737	693,863	392,096
Gains on lease modifications	5,046	86	8,016	2,145
Reversal gain (impairment loss) on non-financial assets	(5,370)	11,122	3,411	(10,235)
Net gains on financial assets measured at fair value through profit or loss	1,639,414	1,378,115	4,456,222	2,264,241
	\$ 1,741,782	1,612,958	5,225,265	2,624,291

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(iv) Finance costs

The components of finance costs were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
Interest expenses	\$ 308,179	735,878	1,462,042	2,683,624
Financial expense- bank fees and factoring fees, etc.	4,311	4,291	10,235	12,966
	<u>\$ 312,490</u>	<u>740,169</u>	<u>1,472,277</u>	<u>2,696,590</u>

(ab) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

As of September 30, 2020, December 31, 2019 and September 30, 2019, the accounts receivable from the Group's top three customers were amounted to \$142,515,189, \$151,554,738 and \$153,187,826, respectively, representing 70%, 73% and 69% of accounts receivable, respectively, which exposes the Group to credit risk.

3) Accounts receivable of credit risk

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

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

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

The loss allowance provision for the nine months ended September 30, 2020 and 2019 was determined as follows :

	Other receivables
Balance on January 1, 2020	\$ 17,002
Impairment loss recognized	1,121
Reversal of impairment loss	(409)
Effect of changes in foreign exchange rate	(119)
Balance on September 30, 2020	<u>\$ 17,595</u>

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	<u>Other receivables</u>
Balance on January 1, 2019	\$ 14,374
Impairment loss recognized	3,662
Reversal of impairment loss	(18)
Effect of changes in foreign exchange rate	(380)
Balance on September 30, 2019	<u>\$ 17,638</u>

(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
September 30, 2020					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 138,235,077	138,235,077	127,491,277	518,657	10,225,143
Unsecured ordinary corporate bonds	20,500,000	20,500,000	1,000,000	-	19,500,000
Non-interest bearing liabilities	248,418,731	248,418,731	247,701,604	717,127	-
Lease liabilities	<u>2,934,010</u>	<u>2,934,010</u>	<u>1,483,313</u>	<u>852,035</u>	<u>598,662</u>
	<u>\$ 410,087,818</u>	<u>410,087,818</u>	<u>377,676,194</u>	<u>2,087,819</u>	<u>30,323,805</u>
December 31, 2019					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 74,001,236	74,001,236	67,466,282	857,421	5,677,533
Unsecured ordinary corporate bonds	23,500,000	23,500,000	3,000,000	1,000,000	19,500,000
Non-interest bearing liabilities	249,747,416	249,747,416	248,854,746	892,670	-
Lease liabilities	<u>2,489,741</u>	<u>2,489,741</u>	<u>1,195,039</u>	<u>914,164</u>	<u>380,538</u>
	<u>\$ 349,738,393</u>	<u>349,738,393</u>	<u>320,516,067</u>	<u>3,664,255</u>	<u>25,558,071</u>
September 30, 2019					
Non-derivative financial liabilities					
Secured bank loans	\$ 900,000	900,000	-	34,615	865,385
Unsecured bank loans	98,172,177	98,172,177	92,849,498	1,053,929	4,268,750
Unsecured ordinary corporate bonds	23,500,000	23,500,000	3,000,000	1,000,000	19,500,000
Non-interest bearing liabilities	269,688,401	269,688,401	268,811,739	876,662	-
Lease liabilities	<u>2,798,050</u>	<u>2,798,050</u>	<u>1,367,327</u>	<u>1,102,286</u>	<u>328,437</u>
	<u>\$ 395,058,628</u>	<u>395,058,628</u>	<u>366,028,564</u>	<u>4,067,492</u>	<u>24,962,572</u>

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

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(iii) Market risk

1) Currency risk

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

(Unit: Foreign currency / NTD in Thousands)

	September 30, 2020			September 30, 2019		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 13,341,204	29.115	388,429,154	15,427,110	31.040	478,857,494
USD:CNY	632,018	6.8101	18,401,214	448,032	7.0729	13,906,971
CNY:USD	2,506,559	0.1468	10,716,211	1,858,626	0.1414	8,156,732
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	13,250,099	29.115	385,776,632	14,924,568	31.040	463,258,591
USD:CNY	661,330	6.8101	19,254,634	389,824	7.0729	12,100,187
CNY:USD	2,522,121	0.1468	10,782,742	2,663,840	0.1414	11,690,480
December 31, 2019						
	Foreign Currency	Exchange Rate	NTD			
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 18,131,819	29.980	543,591,934			
USD:CNY	433,187	6.9762	12,987,041			
CNY:USD	2,178,975	0.1433	9,364,077			
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	17,505,328	29.980	524,809,733			
USD:CNY	368,450	6.9762	11,046,212			
CNY:USD	2,243,752	0.1433	9,642,454			

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable and other receivables, loans, accounts and other payables that are denominated in foreign currency. A 1% of appreciation or depreciation of each major foreign currency against the Group's functional currency as of September 30, 2020 and 2019 would have increased (decreased) the before-tax net income for the nine months ended September 30, 2020 and 2019 by \$8,676 and \$143,271, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

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3) Foreign exchange gains or losses on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the three months and the nine months ended September 30, 2020 and 2019, foreign exchange gain (including realized and unrealized portions) amounted to \$82,499, \$251,737, \$693,863 and \$392,096, 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 \$203,132 and \$89,742 for the nine months ended September 30, 2020 and 2019, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing and cash advances for accounts receivable factoring.

5) Other market price risk

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

	For the nine months ended September 30			
	2020		2019	
	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)
Increase 3%	\$ 27,376	351,609	26,830	183,149
Decrease 3%	\$ (27,376)	(351,609)	(26,830)	(183,149)

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(iv) Fair value of financial instruments

1) Categories of financial instruments and fair value hierarchy

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

	September 30, 2020				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 14,303,926	13,977,396	-	326,530	14,303,926
Financial assets at fair value through other comprehensive income					
Stock of listed companies	\$ 475,589	475,589	-	-	475,589
Stock of unlisted companies	148,557	-	-	148,557	148,557
Stock of overseas listed companies	205,887	205,887	-	-	205,887
Stock of overseas unlisted companies	82,496	-	-	82,496	82,496
Subtotal	\$ 912,529	681,476	-	231,053	912,529
Financial assets at amortized cost					
Cash and cash equivalents	\$ 150,229,930	-	-	-	-
Notes and accounts receivable	200,991,045	-	-	-	-
Other receivables	1,960,515	-	-	-	-
Other financial assets	20,698,423	-	-	-	-
Subtotal	\$ 373,879,913	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$ 138,235,077	-	-	-	-
Non-interest bearing liabilities	248,418,731	-	-	-	-
Lease liabilities	2,934,010	-	-	-	-
Unsecured ordinary corporate bonds	20,483,071	-	-	-	-
Subtotal	\$ 410,070,889	-	-	-	-

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	September 30, 2019				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at amortized cost					
Cash and cash equivalents	\$138,936,438	-	-	-	-
Notes and accounts receivable	220,977,716	-	-	-	-
Other receivables	1,663,716	-	-	-	-
Other financial assets	<u>3,528,294</u>	-	-	-	-
Subtotal	<u>\$365,106,164</u>	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$ 99,072,177	-	-	-	-
Non-interest bearing liabilities	269,688,401	-	-	-	-
Lease liabilities	2,798,050	-	-	-	-
Unsecured ordinary corporate bonds	<u>23,479,429</u>	-	-	-	-
Subtotal	<u>\$395,038,057</u>	-	-	-	-

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

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

a) Financial assets and liabilities measured at amortized cost

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

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

a) Non-derivative financial instruments

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

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

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

b) Derivative financial instruments

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

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

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the nine months ended September 30, 2020 and 2019.

5) Reconciliation of Level 3 fair values

	<u>At fair value through profit or loss</u>	<u>Fair value through other comprehensive income</u>	
	<u>Non-derivative mandatorily measured at fair value through profit or loss</u>	<u>Unquoted equity instruments</u>	<u>Total</u>
Opening balance, January 1, 2020	\$ 347,716	271,751	619,467
Total gains and losses recognized:			
In profit or loss	(21,186)	-	(21,186)
In other comprehensive income	-	(1,563)	(1,563)
Disposal	-	(39,135)	(39,135)
Ending Balance, September 30, 2020	<u>\$ 326,530</u>	<u>231,053</u>	<u>557,583</u>
Opening balance, January 1, 2019	\$ 202,971	282,075	485,046
Total gains and losses recognized:			
In profit or loss	(16,210)	-	(16,210)
In other comprehensive income	-	(469)	(469)
Purchased	188,116	-	188,116
Ending Balance, September 30, 2019	<u>\$ 374,877</u>	<u>281,606</u>	<u>656,483</u>

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For the years ended September 30, 2020 and 2019, total gains and losses that were included in “other gains and losses” and “unrealized gains and losses from financial assets at fair value through other comprehensive income” were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Total gains and losses recognized:				
In profit or loss, and including “other gains and losses”	\$ <u>(9,006)</u>	<u>(136,099)</u>	<u>(21,186)</u>	<u>(16,210)</u>
In other comprehensive income, and presented in “exchange differences on translation of foreign financial statements”	\$ <u>(420)</u>	<u>(699)</u>	<u>(1,563)</u>	<u>(469)</u>

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

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

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

Quantified information of significant unobservable inputs were as follows :

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
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 September 30, 2020, December 31, 2019 and September 30, 2019, were 1.0~2.6, 1.0~2.6, and 0.9, respectively.) ·Market illiquidity discount (As of September 30, 2020, December 31, 2019 and September 30, 2019, were 20%) 	<ul style="list-style-type: none"> ·The estimated fair value would increase (decrease) if: ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).

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<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> ·The multiplier of price-to-book ratio (As of September 30, 2020, December 31, 2019 and September 30, 2019, were 1.9~6.2, 1.9~6.2, and 1.8~5.7, respectively.) ·Market illiquidity discount (As of September 30, 2020, December 31, 2019 and September 30, 2019, were 20%) 	<ul style="list-style-type: none"> The estimated fair value would increase (decrease) if: ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).
Financial assets at fair value through profit or loss-private fund	Net Asset Value Method	·Net Asset Value	Not applicable

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

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

	<u>Inputs</u>	<u>Fluctuation in inputs</u>	<u>Profit or loss</u>		<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
September 30, 2020						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	880	(880)	-	-
Equity investments without an active market	Market illiquidity discount	1%	880	(880)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,311	(2,311)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,311	(2,311)
December 31, 2019						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	880	(880)	-	-
Equity investments without an active market	Market illiquidity discount	1%	880	(880)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,718	(2,718)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,718	(2,718)

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	Inputs	Fluctuation in inputs	Profit or loss		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
September 30, 2019						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	962	(962)	-	-
Equity investments without an active market	Market illiquidity discount	1%	962	(962)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,816	(2,816)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,816	(2,816)

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 :

September 30, 2020						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 23,396,819	16,405,746	6,991,073	-	-	6,991,073
Other financial asset and short-term loan	\$ 14,556,716	14,556,716	-	-	-	-

September 30, 2020						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 16,405,746	16,405,746	-	-	-	-
Other financial asset and short-term loan	\$ 14,556,716	14,556,716	-	-	-	-

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December 31, 2019						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 23,050,581	15,787,701	7,262,880	-	-	7,262,880

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

September 30, 2019						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 37,249,922	26,056,231	11,193,691	-	-	11,193,691

September 30, 2019						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 26,056,231	26,056,231	-	-	-	-

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

(ac) Financial risk management

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

(ad) Capital management

Management believes that there were no changes in the Group's approach to the targets, policies and procedures in capital management as disclosed in the consolidated financial statements for the year ended December 31, 2019. Also, they believe that for the nine months ended September 30, 2020, there were also no changes in the Group's capital management information. For other related information, please refer to Note 6(af) of the consolidated financial statements for the year ended December 31, 2019.

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(ae) Financing activities not affecting current cash flow

For the nine months ended September 30, 2020 and 2019, reconciliation of liabilities arising from financing activities was as follows :

	January 1, 2020	Cash flows	Non-cash changes		September 30, 2020
			Foreign exchange movement	Other	
Long-term loans	\$ 9,192,450	2,847,061	(180,569)	(29,785)	11,829,157
Short-term loans	64,808,786	61,597,134	-	-	126,405,920
Bonds payable	23,480,339	(3,000,000)	-	2,732	20,483,071
Lease liabilities	2,489,741	(1,361,729)	(38,470)	1,844,468	2,934,010
Non-controlling interests	35,580,451	(188,153)	(203,530)	488,745	35,677,513
Total liabilities from financing activities	<u>\$135,551,767</u>	<u>59,894,313</u>	<u>(422,569)</u>	<u>2,306,160</u>	<u>197,329,671</u>

	January 1, 2019	Cash flows	Non-cash changes		September 30, 2019
			Foreign exchange movement	Other	
Long-term loans	\$ 11,900,203	(1,751,125)	93,422	-	10,242,500
Short-term loans	86,927,246	1,902,431	-	-	88,829,677
Bonds payable	14,986,762	8,490,500	-	2,167	23,479,429
Lease liabilities	2,945,584	(1,099,342)	22,322	929,486	2,798,050
Non-controlling interests	36,417,945	434,152	(190,916)	(2,159,086)	34,502,095
Total liabilities from financing activities	<u>\$153,177,740</u>	<u>7,976,616</u>	<u>(75,172)</u>	<u>(1,227,433)</u>	<u>159,851,751</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

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

Name of related party	Relationship with the Group
WISE INVESTMENT LIMITED	Associate

(b) Significant transactions with related parties

Receivables from Related Parties

The receivables from related parties were as follows :

Account	Relationship	September 30, 2020	December 31, 2019	September 30, 2019
Other receivables	Associates	\$ -	-	48,780

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(c) Key management personnel compensation :

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Short-term employee \$ benefits	138,015	120,780	354,936	313,864
Post-employment benefits	1,009	865	2,990	2,685
Share-based payments	4,127	11,652	111,144	59,447
	<u>\$ 143,151</u>	<u>133,297</u>	<u>469,070</u>	<u>375,996</u>

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

(8) Pledged assets:

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

Asset	Purpose of pledge	September 30, 2020	December 31, 2019	September 30, 2019
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, lease deposits, short-term loans, travel agency guarantee, etc.	\$ 113,284	203,219	206,401
Other financial asset-restricted deposit	Litigation pledge	4,959	10,998	318,940
Property, plant and equipment	Bank loans	1,379,869	1,383,038	1,384,093
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	186,723	42,985	41,600
		<u>\$ 1,684,835</u>	<u>1,640,240</u>	<u>1,951,034</u>

(9) Commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	September 30, 2020	December 31, 2019	September 30, 2019
EUR	\$ 3	29	-
JPY	3,170,933	1,029,071	1,078,685
USD	439	3,376	3,988

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

	September 30, 2020	December 31, 2019	September 30, 2019
NTD	\$ 16,391	34,263	42,132

- (iii) As of September 30, 2020, December 31, 2019, and September 30, 2019, the significant contracts for purchase of properties by the Group amounted to \$13,007,034, \$15,002,411 and \$16,232,764, of which \$4,383,545, \$2,215,402 and \$3,576,131, respectively, were unpaid.
- (iv) As of September 30, 2020, December 31, 2019, and September 30, 2019, the Group provided endorsement guarantee for bank loans, including Group entities, amounting to \$349,380, \$1,259,160 and \$1,303,680, respectively.
- (v) As of September 30, 2020, December 31, 2019, and September 30, 2019, the Group issued a tariff guarantee of \$1,973,307, \$1,764,424 and \$1,818,165, respectively, to the bank for the purpose of importing goods.
- (vi) Pursuant to a resolution made in the Casetek Cayman (Casetek)'s Extraordinary General Meeting on September 30, 2020, Casetek will complete a triangular merger with Pegatron Corporation and its 100% owned subsidiary, Pegasus Ace Limited, and Casetek will then go private and be delisting from the Taiwan Stock Exchange (TWSE). According to the merger agreement, except for any written request made by disagreeing shareholders regarding the consideration and the shares to be bought back, the tender offer the Group to buy non-controlling shareholders out would be \$87.5 (dollars) per share, \$14,558,356 in total payables.

- (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:

On October 11, 2020, there was a fire broke out in the factory of FUYANG TECHNOLOGY CORPORATION that located at Hsinfeng. The losses of severely burned down plant, equipment and inventory would be covered by full insurance reimbursement. Once the summary of losses is done, FUYANG TECHNOLOGY CORPORATION will submit the insurance claim.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(12) Other:

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

By function	For the three months ended September 30					
	2020			2019		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 13,587,725	4,050,925	17,638,650	12,476,641	3,770,428	16,247,069
Health and labor insurance	1,069,234	236,210	1,305,444	1,188,576	240,168	1,428,744
Pension	1,063,298	192,774	1,256,072	1,066,876	203,586	1,270,462
Others	558,565	236,263	794,828	343,317	254,386	597,703
Depreciation	3,946,936	460,281	4,407,217	4,046,247	466,999	4,513,246
Amortization	17,455	23,149	40,604	35,622	36,445	72,067

By function	For the nine months ended September 30					
	2020			2019		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 38,684,410	11,905,062	50,589,472	36,724,000	10,472,975	47,196,975
Health and labor insurance	2,535,686	678,834	3,214,520	3,011,429	705,161	3,716,590
Pension	2,410,018	508,874	2,918,892	3,420,872	630,674	4,051,546
Others	1,704,877	686,051	2,390,928	985,667	715,150	1,700,817
Depreciation	12,014,258	1,404,872	13,419,130	12,369,616	1,405,540	13,775,156
Amortization	62,892	88,635	151,527	114,363	94,006	208,369

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Depreciation in investment property	\$ 749	793	2,279	2,368

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(13) Other disclosures:

(a) Information on significant transactions:

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

No.	Item	Table
1	Loans to other parties	Table 1
2	Guarantees and endorsements for other parties	Table 2
3	Securities held as of September 30, 2020 (excluding investment in subsidiaries, associates and joint ventures)	Table 3
4	Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock	Table 4
5	Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock	Table 5
6	Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock	None
7	Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock	Table 6
8	Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock	Table 7
9	Trading in derivative instruments	None
10	Business relationships and significant intercompany transactions	Table 10

(b) Information on investees:

Please refer to Table 8 for the information on investees for the nine months ended September 30, 2020.

(c) Information on investment in mainland China:

- (i) Please refer to Table 9 for names of investee, main businesses and products, total amount of capital surplus, method of investment, investment flows, net income (losses) of the investee, percentage of ownership and the upper limit on investment.
- (ii) Please refer to information on significant transactions for either directly or indirectly through a third area, with investee companies in the Mainland Area. The transactions were eliminated in the consolidated financial statements.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
ASUSTek Company Inc.		448,506,484	17.18 %

(14) Segment information:

Please refer to Note 6(y) for the information on revenue for the three months and the nine months ended September 30, 2020 and 2019. The Group's operating segment information and reconciliation were as follows :

	DMS	Strategic Investment Group	Adjustment and eliminations	Total
<u>For the three months ended September 30, 2020</u>				
Reportable segment profit or loss	\$ <u>7,984,251</u>	<u>3,580,655</u>	<u>(2,056,093)</u>	<u>9,508,813</u>
<u>For the three months ended September 30, 2019</u>				
Reportable segment profit or loss	\$ <u>8,126,711</u>	<u>773,789</u>	<u>(263,162)</u>	<u>8,637,338</u>
<u>For the nine months ended September 30, 2020</u>				
Reportable segment profit or loss	\$ <u>19,202,652</u>	<u>5,160,938</u>	<u>(2,377,812)</u>	<u>21,985,778</u>
<u>For the nine months ended September 30, 2019</u>				
Reportable segment profit or loss	\$ <u>14,786,417</u>	<u>(2,738,417)</u>	<u>2,580,133</u>	<u>14,628,133</u>
Reportable segment assets				
September 30, 2020	\$ <u>544,251,522</u>	<u>255,321,557</u>	<u>(161,243,330)</u>	<u>638,329,749</u>
December 31, 2019	\$ <u>492,727,088</u>	<u>234,288,174</u>	<u>(156,495,469)</u>	<u>570,519,793</u>
September 30, 2019	\$ <u>531,632,795</u>	<u>234,283,903</u>	<u>(157,162,395)</u>	<u>608,754,303</u>