

**LANNER ELECTRONICS INC.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Report  
For the Years Ended December 31, 2018 and 2017**

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

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## **Representation Letter**

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

Company name: LANNER ELECTRONICS INC.

Chairman: Chou I Wen

Date: March 21, 2019



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## Independent Auditors' Report

To the Board of Directors of LANNER ELECTRONICS INC.:

### Opinion

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

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and report of another auditor, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Other Matter

We did not audit the financial statements of LANNER ELECTRONICS USA INC.. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LANNER ELECTRONICS USA INC., is based solely on the report of another auditor. The financial statements of LANNER ELECTRONICS USA INC. reflect 12% of its consolidated total assets, and 28% of its consolidated total revenues for both years ended December 31, 2018 and 2017.



The Company has prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion with other matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

#### **1. Revenue recognition**

Please refer to notes 4(m), 6(p) and 6(q) for disclosures related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by the investors and management while evaluating the Group's finance or operating performance. The Group initially adopted IFRS 15, wherein the accuracy of the timing and amount of revenue recognized have significant impact on its financial statements, for which the assumptions and judgments of revenue measurement and recognition rely on subjective judgments of the management. Therefore, we consider revenue recognition as one of our key audit matters.

How the matter was addressed in our audit:

Testing the effectiveness of the design and implementing the internal control (both manual and system control) of sales and collecting cycle; reviewing the significant sales contracts to determine whether the accounting treatment is reasonable; analyzing the changes in significant sales from the customers from the most recent period and previous year, and the changes in the price and quantity of each category of product line to determine whether if there are any significant misstatements; selecting sales transactions from a period of time before and after the balance sheet date, and verifying with the vouchers to determine the accuracy of the timing and amounts of revenue recognition; understanding whether if there is a significant subsequent sales return or discount.

#### **2. Impairment of trade receivables**

Please refer to notes 4(g), 5, and 6(c) for disclosures related to trade receivable of the financial statements.

Description of key audit matter:

The trade receivables constituted 23% of the consolidated total assets of the Group as of December 31, 2018. Therefore, the management is required to establish a policy on its allowance for impairment in order to evaluate the customers' financial status, as well as the political and economic environment. Therefore, we consider the impairment of trade receivables as one of our key audit matters.

How the matter was addressed in our audit:

Obtaining the list of accounts receivable balance to send confirmations for selected samples; acquiring the Group's computation of impairment loss rate to review its appropriateness; deriving the aging analysis of accounts receivable to verify the accuracy of aging periods by examining relevant documents of selected receivables; reviewing whether the recognition of provision for the impairment loss is based on impairment loss rate; and evaluating whether the recognition of impairment on accounts receivable made by the management is reasonable.



### 3. Inventory measurement

Please refer to notes 4(h), 5, and 6(e) for disclosures related to inventory measurement.

Description of key audit matter:

The electronic industry faces rapid evolving technology. Therefore, the characteristic of fierce competition may result in large fluctuations in market demand and prices. In addition, the increasing performance of product within time basis may result in a decline on the price of raw material, wherein the carrying value of inventories may exceed its net realizable value. Also the measurement of inventory depends on the evaluation of the management based on evidence from internal and external, both subjective and objective. Therefore, we consider the inventory measurement as one of our key audit matter.

How the matter was addressed in our audit:

Understanding the management's accounting policy on inventory measurement to determine whether if it is reasonable and is being implemented; reviewing the inventory aging documents and analyzing their changes; obtaining the documents on inventory measurement and evaluating whether the basis used for net realizable value is reasonable; selecting samples and verifying them with the vouchers to test the accuracy of the amounts; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the supervisors) are responsible for overseeing Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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



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

The engagement partners on the audit resulting in this independent auditors' report are Po-Shu Huang and Yung-Sheng Wang.

KPMG

Taipei, Taiwan (Republic of China)  
March 21, 2019

#### **Notes to Readers**

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

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



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017			December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Assets</b>					<b>Liabilities and Equity</b>				
<b>Current assets:</b>					<b>Current liabilities:</b>				
1100 Cash and cash equivalents (note 6(c))	\$ 955,871	17	788,156	16	2100 Short-term debts (notes 6(i) and 8)	\$ 253,528	4	125,307	2
1110 Financial assets at fair value through profit or loss—current (note 6(b))	112	-	104,784	2	2322 Long-term debts, current portion (notes 6(i) and 8)	1,840	-	1,784	-
1150 Notes receivable, net (note 6(c))	56,591	-	2,739	-	2130 Current contract liabilities (note 6(p))	39,020	1	-	-
1170 Accounts receivable, net (note 6(c))	1,357,359	23	1,100,465	21	2170 Accounts payable	1,402,579	23	1,176,183	23
1200 Other receivables (notes 6(d) and 7)	15,529	-	97,214	2	2230 Current tax liabilities	42,667	1	30,432	1
130x Inventories (note 6(c))	1,996,740	33	1,754,500	34	2219 Other payables (notes 6(k) and 6(r))	573,403	10	517,302	10
1476 Other financial assets—current (note 8)	2,373	-	2,351	-	2250 Provisions—current (note 6(j))	46,905	1	48,369	1
1410 Prepayments	69,166	1	69,370	1	2399 Other current liabilities (notes 6(p) and 6(q))	201,465	3	169,510	3
1479 Other current assets	63,496	1	51,007	1	<b>Total current liabilities</b>	<b>2,561,407</b>	<b>43</b>	<b>2,068,887</b>	<b>40</b>
<b>Total current assets</b>	<b>4,517,237</b>	<b>75</b>	<b>3,970,586</b>	<b>77</b>	<b>Non-Current liabilities:</b>				
<b>Non-current assets:</b>					2540 Long-term debts (notes 6(i) and 8)	17,743	-	18,287	-
1543 Financial assets carried at cost—non-current (note 6(i))	-	-	500	-	2630 Long-term deferred revenue (notes 6(p) and 6(q))	26,956	-	42,586	1
1600 Property, plant and equipment (notes 6(g) and 8)	1,073,310	18	1,078,987	21	2570 Deferred income tax liabilities (note 6(t))	144,345	2	100,097	2
1915 Prepayments for equipment	311,537	6	51,920	1	2640 Accrued pension liabilities (note 6(k))	33,138	1	33,193	1
1780 Intangible assets (note 6(h))	4,751	-	6,369	-	2670 Other non-current liabilities	2,870	-	1,118	-
1840 Deferred income tax assets (note 6(i))	68,416	1	54,563	1	<b>Total non-current liabilities</b>	<b>225,052</b>	<b>3</b>	<b>195,281</b>	<b>4</b>
1995 Other non-current assets (note 7)	25,909	-	18,155	-	<b>Total liabilities</b>	<b>2,786,459</b>	<b>46</b>	<b>2,264,168</b>	<b>44</b>
<b>Total non-current assets</b>	<b>1,483,923</b>	<b>25</b>	<b>1,210,494</b>	<b>23</b>	<b>Equity attributable to shareholders of the company (notes 6(k), 6(m) and 6(n)):</b>				
					<b>Share capital:</b>				
					3110 Common stock	1,089,934	18	1,046,494	20
					3200 Capital surplus	704,585	12	656,348	13
					<b>Retained earnings:</b>				
					3310 Legal reserve	267,854	4	232,991	4
					3320 Special reserve	44,515	1	29,708	1
					3350 Unappropriated retained earnings	888,967	15	748,447	14
					<b>Other equity:</b>	<b>1,201,336</b>	<b>20</b>	<b>1,011,146</b>	<b>19</b>
					3410 Financial statements translation differences for foreign operations	(57,366)	(1)	(44,515)	(1)
					<b>Total equity attributable to shareholders of the company</b>	<b>2,938,489</b>	<b>49</b>	<b>2,669,473</b>	<b>51</b>
					<b>Non-controlling interests</b>	<b>276,212</b>	<b>5</b>	<b>247,439</b>	<b>5</b>
					<b>Total equity</b>	<b>3,214,701</b>	<b>54</b>	<b>2,916,912</b>	<b>56</b>
<b>Total assets</b>	<b>\$ 6,001,160</b>	<b>100</b>	<b>\$ 5,181,080</b>	<b>100</b>	<b>Total liabilities and equity</b>	<b>\$ 6,001,160</b>	<b>100</b>	<b>\$ 5,181,080</b>	<b>100</b>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2018 and 2017**

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

		2018		2017	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(p) and 6(q))	\$ 7,460,780	100	6,434,499	100
5000	Operating cost (notes 6(e), 6(g), 6(j), 6(k), 6(n), 6(r) and 7)	<u>5,430,112</u>	<u>73</u>	<u>4,634,471</u>	<u>72</u>
	Gross profit, net	<u>2,030,668</u>	<u>27</u>	<u>1,800,028</u>	<u>28</u>
	Operating expenses (notes 6(c), 6(g), 6(h), 6(k), 6(n), 6(r) and 7):				
6100	Selling expenses	585,808	8	532,721	8
6200	Administrative expenses	312,512	4	291,909	5
6300	Research and development expenses	578,402	8	477,443	7
6450	Impairment loss (impairment gain and reversal of impairment loss)	<u>(1,618)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total operating expenses	<u>1,475,104</u>	<u>20</u>	<u>1,302,073</u>	<u>20</u>
	Operating profit	<u>555,564</u>	<u>7</u>	<u>497,955</u>	<u>8</u>
	Non-operating income and expenses (notes 6(j) and 6(s)):				
7010	Other income	62,663	1	38,835	1
7020	Other gains and losses	(10,741)	-	(41,181)	(1)
7050	Financial costs	<u>(3,203)</u>	<u>-</u>	<u>(3,657)</u>	<u>-</u>
	Total non-operating income and expenses	<u>48,719</u>	<u>1</u>	<u>(6,003)</u>	<u>-</u>
	Net income before tax	604,283	8	491,952	8
7951	Less: income tax expense (note 6(l))	<u>127,244</u>	<u>2</u>	<u>98,025</u>	<u>2</u>
	Net income	<u>477,039</u>	<u>6</u>	<u>393,927</u>	<u>6</u>
8300	Other comprehensive income (loss):				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Gains (losses) on remeasurements of defined benefit plans	(341)	-	850	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Components of other comprehensive income that will not be reclassified to profit or loss	<u>(341)</u>	<u>-</u>	<u>850</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(18,926)	-	(18,553)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total Items that may be reclassified subsequently to profit or loss	<u>(18,926)</u>	<u>-</u>	<u>(18,553)</u>	<u>-</u>
	Other comprehensive income (loss), net	<u>(19,267)</u>	<u>-</u>	<u>(17,703)</u>	<u>-</u>
	Total comprehensive income	<u>\$ 457,772</u>	<u>6</u>	<u>376,224</u>	<u>6</u>
	Net income attributable to:				
8610	Shareholders of the parent company	\$ 424,236	5	348,628	5
8620	Non-controlling interests	<u>52,803</u>	<u>1</u>	<u>45,299</u>	<u>1</u>
		<u>\$ 477,039</u>	<u>6</u>	<u>393,927</u>	<u>6</u>
	Total comprehensive income attributable to:				
8710	Shareholders of the parent company	\$ 411,044	5	332,446	5
8720	Non-controlling interests	<u>46,728</u>	<u>1</u>	<u>43,778</u>	<u>1</u>
		<u>\$ 457,772</u>	<u>6</u>	<u>376,224</u>	<u>6</u>
9750	Basic earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ 3.92</u>		<u>3.27</u>	
9850	Diluted earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ 3.84</u>		<u>3.20</u>	

See accompanying notes to consolidated financial statements.

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

**LANNER ELECTRONICS INC. AND SUBSIDIARIES****Consolidated Statements of Changes in Equity****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent					Financial statements translation differences for foreign operations		Total equity attributable to owners of parent		Non-controlling interests	Total equity
	Retained earnings					Total retained earnings	Unappropriated retained earnings	Total equity attributable to owners of parent			
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings						
\$	1,036,446	639,874	194,899	2,225	778,494	975,618	(27,483)	2,624,455	105,123	2,729,578	
Balance at January 1, 2017											
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	38,092	-	(38,092)	-	-	-	-	-	-
Special reserve	-	-	-	27,483	(27,483)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(313,950)	(313,950)	-	(313,950)	-	(313,950)	(313,950)
Net income	-	-	-	-	348,628	348,628	-	348,628	45,299	393,927	393,927
Other comprehensive income (loss)	-	-	-	-	850	850	(17,032)	(16,182)	(1,521)	(17,703)	(17,703)
Total comprehensive income (loss)	-	-	-	-	349,478	349,478	(17,032)	332,446	43,778	376,224	376,224
Changes in ownership interests in subsidiaries	-	846	-	-	-	-	-	846	98,538	99,384	99,384
Remuneration cost of employee stock options	-	7,187	-	-	-	-	-	7,187	-	7,187	7,187
Stock options exercised by employees	10,048	8,441	-	-	-	-	-	18,489	-	18,489	18,489
Balance at December 31, 2017	1,046,494	656,348	232,991	29,708	748,447	1,011,146	(44,515)	2,669,473	247,439	2,916,912	2,916,912
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	34,863	-	(34,863)	-	-	-	-	-	-
Special reserve	-	-	-	14,807	(14,807)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(212,340)	(212,340)	-	(212,340)	(17,955)	(230,295)	(230,295)
Stock dividends	21,240	-	-	-	(21,240)	(21,240)	-	-	-	-	-
Net income	-	-	-	-	424,236	424,236	-	424,236	52,803	477,039	477,039
Other comprehensive income (loss)	-	-	-	-	(341)	(341)	(12,851)	(13,192)	(6,075)	(19,267)	(19,267)
Total comprehensive income (loss)	-	-	-	-	423,895	423,895	(12,851)	411,044	46,728	457,772	457,772
Remuneration cost of employee stock options	-	1,463	-	-	-	-	-	1,463	-	1,463	1,463
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(125)	(125)	-	(125)	-	(125)	(125)
Stock options exercised by employees	22,200	46,774	-	-	-	-	-	68,974	-	68,974	68,974
Balance at December 31, 2018	\$ 1,089,934	704,585	267,854	44,515	888,967	1,201,336	(57,366)	2,938,489	276,212	3,214,701	3,214,701

See accompanying notes to consolidated financial statements.



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

**LANNER ELECTRONICS INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars)**

	2018	2017
<b>Cash flows from operating activities:</b>		
Consolidated net income before tax	\$ 604,283	491,952
<b>Adjustments:</b>		
Adjustments to reconcile profit and loss:		
Depreciation expense	101,548	101,613
Amortization expense	1,511	1,502
Expected credit gain / Provision for bad debt expense	(1,618)	7,354
Net loss on financial assets or liabilities at fair value through profit or loss	(395)	(619)
Interest expense	3,203	3,657
Interest income	(7,711)	(4,936)
Remuneration cost of employee stock options	1,463	7,187
Loss on disposal of property, plant and equipment, net	42	898
Total adjustments to reconcile profit and loss	<u>98,043</u>	<u>116,656</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets or liabilities at fair value through profit or loss	105,067	(54,156)
Notes receivable	(53,852)	3,722
Accounts receivable	(255,370)	(2,484)
Other receivable	81,685	47,587
Inventories	(242,240)	(368,976)
Prepayments	204	(3,647)
Other current assets	(12,489)	(444)
Other financial assets	(22)	82,606
Total changes in operating assets, net	<u>(377,017)</u>	<u>(295,792)</u>
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	-	(1,009)
Contract liabilities	22,322	-
Notes payable	-	(7,060)
Accounts payable	226,396	153,747
Other payables	55,626	(72,628)
Provisions	(1,464)	7,015
Other current liabilities	37,926	51,488
Net defined benefit liability	(396)	(453)
Deferred revenue	(4,903)	670
Total changes in operating liabilities, net	<u>335,507</u>	<u>131,770</u>
Total changes in operating assets and liabilities, net	<u>(41,510)</u>	<u>(164,022)</u>
Total adjustments	<u>56,533</u>	<u>(47,366)</u>
Cash used in operating activities	660,816	444,586
Interest income received	7,711	4,967
Interest paid	(2,728)	(3,629)
Income taxes paid	(84,414)	(95,132)
Net cash provided by operating activities	<u>581,385</u>	<u>350,792</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	375	-
Acquisition of property, plant and equipment	(91,509)	(74,337)
Proceeds from disposal of property, plant and equipment	-	1,012
Increase in refundable deposits	(3,722)	-
Increase in other financial assets	-	(9,067)
Increase in other non-current assets	(4,032)	(6,713)
Decrease (increase) in prepayments for equipment	(262,451)	2,902
Net cash used in investing activities	<u>(361,339)</u>	<u>(86,203)</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	243,327	113,514
Decrease in short-term loans	(114,579)	(42,220)
Repayments of long-term debt	(1,809)	(18,874)
Increase in other non-current liabilities	1,752	915
Cash dividends paid	(230,295)	(313,950)
Exercise of employee share options	68,974	18,489
Change in non-controlling interests	-	20,087
Net cash used in financing activities	<u>(32,630)</u>	<u>(222,039)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(19,701)</u>	<u>(15,717)</u>
Net increase in cash and cash equivalents	167,715	26,833
Cash and cash equivalents at beginning of period	788,156	761,323
Cash and cash equivalents at end of period	<u>\$ 955,871</u>	<u>788,156</u>

See accompanying notes to consolidated financial statements.

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

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

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

**(1) Company history**

LANNER ELECTRONICS INC. (the Company) was incorporated on October 30, 1986, under the laws of the Republic of China (ROC). The Company and its subsidiaries (the Group) are mainly engaged in the manufacturing and trading of computer peripheral equipment, computer software design and development services, and related information processing trade business. Please refer to note 14.

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

The consolidated financial statements were approved by the Board of Directors and issued on March 21, 2019.

**(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, or after, January 1, 2018. The differences between the current version and the previous version are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

(i) IFRS 15 "Revenue from Contracts with Customers"

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

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

The following are the nature and impacts of the changes in accounting policies:

1) Sales of goods

For the sale of products, revenue is currently recognized when the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 15 on the Group's consolidated financial statements:

Impacted line items on the consolidated balance sheet	December 31, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
Advance sales receipts (recognized under other current liabilities)	\$ 39,020	(39,020)	-	16,698	(16,698)	-
Contract liabilities	-	39,020	39,020	-	16,698	16,698
Impact on liabilities		\$ -			-	

(ii) IFRS 9 "Financial Instruments"

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

(Continued)



## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

The detail of new significant accounting policies and the nature and effect of the changes in the previous accounting policies are set out below:

#### 1) Classification of financial assets and financial liabilities

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

The adoption of IFRS 9 did not have any significant impact on the Group's accounting policies on financial liabilities.

#### 2) Impairment of financial assets

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

#### 3) Transition

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

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

(Continued)

# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of the previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018:

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Equity instruments	Financial assets at cost (note 1)	500	FVOCI	500
Trade and other receivables	Loans and receivables (note 2)	1,103,204	Amortized cost	1,103,204

Note 1: The Group held equity instrument investment for long-term strategic purposes, as permitted by IFRS 9, at the date of initial application as measured at FVOCI. Since the amounts of unrealized gain or loss were immaterial, the Group would not make any retroactive adjustment.

Note 2: Notes and accounts receivable that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

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

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity effect
<b>Fair value through profit or loss</b>						
Beginning balance of FVTPL (IAS 39)	\$ 104,784	-	-	104,784	-	-
<b>Fair value through other comprehensive income</b>						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 500	-	-	500	-	-
<b>Amortized cost</b>						
Beginning balance of trade and other receivables	\$ 1,103,204	-	-	1,103,204	-	-

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

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

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

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

(i) IFRS 16 "Leases"

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

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

1) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Group can choose to apply either of the following:

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

(Continued)



**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

**2) Transition**

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

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

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

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

- apply a single discount rate to a portfolio of leases with similar characteristics.
  - adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
  - apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
  - exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
  - use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Group estimated that its right-of-use assets and lease liabilities to increase by \$80,951 thousand on January 1, 2019. No significant impact is expected for the Group's finance leases. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Group is not required to make any adjustments for leases where the Group is the intermediate lessor in a sub-lease.**

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The Group does not expect the application of IFRIC23 to have any significant impact on its consolidated financial statements on January 1, 2019.

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

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

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

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

The Group assessed that the above IFRSs may not be relevant to the Group.

**(4) Summary of significant accounting policies**

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations" ) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission, R.O.C..

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(b) Basis of preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for those otherwise explained in the accounting policies in the notes.

(ii) Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is Company's functional currency. The assets and liabilities of foreign operations are translated to the Group's functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at the average rate. Foreign currency differences are recognized in other comprehensive income. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

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

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

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) List of subsidiaries included in the consolidated financial statements

List of subsidiaries included in the consolidated financial statements

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership		Note
			December 31, 2018	December 31, 2017	
The Company	LANNER ELECTRONICS USA, INC. (LANNER (USA))	Trading of computer peripheral products	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS (MAURITIUS) INC. (LANNER (MAURITIUS))	Investing	100.00 %	100.00 %	
The Company	LEI TECHNOLOGY CANADA INC. (LEI)	Trading of computer peripheral products	100.00 %	100.00 %	
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership		Note
			December 31, 2018	December 31, 2017	
LANCOM	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral products	80.00 %	80.00 %	Note 1
LANCOM	Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	Note 2
L&S	Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	100.00 %	100.00 %	
Beijing LSZC Investment Co., Ltd.	Dongguan Lihua Haiwell Tech. Co., Ltd. (Haiwell)	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	
Beijing LSZC Investment Co., Ltd.	Beijing HDZX Technology Co., Ltd. (HDZX)	Trading of computer peripheral products	39.90 %	39.90 %	Notes 3 and 4

Note 1: In June 2017, Beijing L&S Lancom Platform Tech. Co., Ltd. had a capital increase in cash of CNY 3,000 thousand. However, the Group did not acquire these new common shares proportionally, resulting in the Group's shares to decrease.

Note 2: In March 2017, the Board of Directors approved a resolution to acquire 100% ownership of Lanner Technology (Dongguan) Co., Ltd. at price of USD250 thousand.

Note 3: In July 2017, Beijing LSZC Investment Co., Ltd had a capital increase in cash of CNY1,438 thousand. However, the Group did not acquire these new common shares proportionally, resulting in the Group's shares to decrease.

Note 4: Lanner holds less than 50% of the ownership of Beijing LSZC Investment Co., Ltd. However, considering the proportion of the remaining shares held by the management of the Group, the Group still holds control over Beijing LSZC Investment Co., Ltd. and its operation. As such, Beijing HDZX Technology Co., Ltd. is considered to be a subsidiary of the Group.

**(d) Foreign currency**

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

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

Foreign currency differences arising on translation are recognized in profit or loss, except for the available-for-sale financial assets which are recognized in other comprehensive income.

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

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in 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 or a 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.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability 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.

(f) Cash and cash equivalents

Cash and cash equivalents comprised cash, cash in banks and short term investments with high liquidity that are subject to an insignificant risk of changes in their fair value.

The time deposits with maturity of one year or less from the acquisition date are listed in cash and cash equivalents because they are held for the purpose of meeting short-term cash commitments instead of investment or other purposes. They are also readily convertible to fixed amount of cash, and are subject to an insignificant risk of changes in value.

(g) Financial instruments

(i) Financial assets (applicable commencing January 1, 2018)

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

(Continued)



**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI )

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.

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

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

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI as described above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which 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.

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### 4) Impairment of financial assets

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

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

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

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

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

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

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

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.

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.

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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

#### 5) Derecognition of financial assets

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

#### (ii) Financial assets (policy applicable before January 1, 2018)

The Group classifies financial assets as financial assets at fair value through profit or loss, available-for-sale financial assets, and loans to other parties and receivables.

##### 1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expense. Based on previous experiences, the Group uses trade-date accounting upon acquiring or disposing financial assets.

##### 2) Available-for sale financial assets

Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expense.

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

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 3) Receivables

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

#### 4) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

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

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

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

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

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

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

#### 5) Derecognition of financial assets

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

#### (iii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity

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

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

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

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

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

Interest, gains or losses related to financial liabilities are recognized in profit or loss, and recorded under non-operating income and expenses.

(Continued)



## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Upon conversion, the financial liability shall be reclassified as equity, and no gain or loss will be recognized.

2) Financial liability at fair value through profit or loss

Available-for-sale financial liabilities are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend expense, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive expense and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expense.

3) Other financial liabilities

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

4) Derecognition of financial liabilities

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

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities 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.

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

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

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(h) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. When the cost of inventories is higher than the net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If net realizable value increases in the future, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(i) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, and any borrowing cost that is eligible for capitalization.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

(ii) Subsequent cost

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

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

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

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

Buildings	20~50 years
Machinery equipment	3~10 years
Other equipment	2.5~24 years

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

(j) Intangible assets

(i) Goodwill

Goodwill arises from business combinations in which the acquisition method is adopted, and is recorded at cost, less, accumulated impairment losses.

(ii) Customer relations

The customer relations due from acquisition is assessed to amortize using a direct method of 3-year basis. The face value of the customer relations is measured by deducting the accumulated amortization or impairment from the cost.

(k) Impairment—non-financial assets

With regard to non-financial assets (other than inventories and deferred tax assets), the Group assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount for assets with an indication of impairment. If it is not possible to determine the recoverable amount for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

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

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash-generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash-generating unit cannot exceed the carrying amount of the individual asset or cash-generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(l) Provisions

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

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(m) Revenue from contracts with customers

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

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

i) Sale of goods

The Group manufactures and sells industrial personal computers and network communication apparatus to computer manufacturers. The Group recognizes revenue when control of the products has been 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's obligation to provide a refund for faulty electronic components under the standard warranty terms is recognized as a provision for warranty; please refer to note 6(j).

The Group provides equipment certain customers who buy product with an extended warranty over the two-year period in addition to the assurance that the product complies with agreed-upon specifications. This kind of contract contains two performance obligations, and therefore, the transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. The management estimates the stand-alone selling prices at contract inception based on the observable prices at which the Group would sell the product and the extended warranty, separately, in similar circumstances and to similar customers. The Group recognizes revenue for the service-type warranty on a straight-line basis over the extended warranty period. The payment terms of the extended warranty are similar to those of the products.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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) **Financing components**

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment made 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.

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

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is deferred and realized at execution if it can be distinguished by after-sale services; relative cost is recognized at execution as well.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For export transactions, transfer occurs upon loading the goods onto the relevant carrier at the port; however, for sales in the domestic market, transfer usually occurs when the product is received at the customer's warehouse.

(n) **Employee benefits**

(i) **Defined contribution plans**

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

(ii) **Defined benefit plans**

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

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings.

#### (iii) Short-term employee benefits

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

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

#### (o) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of 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 settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(p) Income tax

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

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

Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the below exceptions:

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

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(q) Business combination

The Group uses the acquisition method for its business combination. Goodwill is measured as an aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and the amount of any non-controlling interest in the acquiree, including non-controlling interests that belong to the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

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

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

Non-controlling interests that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured by the Group using either the fair value on acquisition date or the non-controlling interests' proportionate share of the recognized amounts of the acquire's identifiable net assets. The choice of measurement is based on every transaction. Other types of non-controlling interests are measured (1) at fair value on the acquisition date or (2) by using other basis in accordance with the IFRSs endorsed by FSC.

(r) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The weighted-average number of common shares outstanding is adjusted retroactively for the increase in common shares outstanding from stock issuance arising from the capitalization of retained earnings, or additional paid-in capital.

When computing diluted earnings per share with regards to employee bonuses in the form of stock, the closing price at the balance sheet date is used as the basis of computation in the number of shares to be issued. When computing diluted earnings per share prior to the following year's Board of Directors the effect of dilution from these potential stocks is taken into consideration.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(s) Operating segments

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

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

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

The Management will continually review the estimates and basic assumptions. Changes in accounting estimates will be recognized in the period of change and the future period of their impact.

There are no critical judgments in applying the accounting policies that have significant effect on the amounts recognized in the consolidated financial statements.

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

(a) Impairment assessment of account receivable

Assessing impairment loss of account receivables takes company arrears record, receivable aging analysis and receiving to the customers in to consideration, and measured by the difference between the carrying amount of the assets and the present value of the recoverable amount. Please refer to note 6(c) for the recognition of impairment loss.

(b) Inventory measurement

Since inventories are measured at the lower of cost or net realizable value, the Group evaluated the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. Please refer to note 6(e) for inventory measurement.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(6) Explanation of significant accounts**

**(a) Cash and cash equivalents**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Cash	\$ 8,577	9,244
Working capital	80	80
Cash in banks	651,854	360,208
Checking deposits	7,759	5,385
Foreign currency deposits	287,601	413,239
Cash and cash equivalents per consolidated statements of cash flow	<u><u>\$ 955,871</u></u>	<u><u>788,156</u></u>

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

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Financial assets at designation as at fair values through profit or loss:		
Forward contracts	\$ 112	-
Financial assets held for trading:		
Derivative instruments not used for hedging		250
Non-derivative financial assets		104,534
Total	<u><u>\$ 112</u></u>	<u><u>104,784</u></u>

Please refer to note 6(s) for the gains or losses on disposal of financial assets and liabilities remeasured at fair value through profit or loss.

The Group uses derivative financial instruments to manage exposures due to fluctuations of foreign exchange risk derived from its operating activities. As of December 31, 2018 and 2017, the Group reported the following derivative financial instruments as held-for-trading financial assets (liabilities) without the application of hedge accounting:

	<b>Fair value</b>	<b>Currency</b>	<b>Contract amount</b>
<b>December 31, 2018</b>			
Forward Contracts	\$ 112	USD/TWD	2,450
<b>December 31, 2017</b>			
Forward Contracts	\$ 250	USD/TWD	2,800

As of December 31, 2018 and 2017, the maturity dates of the derivative financial assets and liabilities were between January 18, 2019 to February 1, 2019 and February 2, 2018 to March 5.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(c) Notes and accounts receivable (including related parties)

	December 31, 2018	December 31, 2017
Notes receivable	\$ 56,591	2,739
Accounts receivable	1,373,332	1,118,150
Less: allowance for impairment	15,973	17,685
	<u>\$ 1,413,950</u>	<u>1,103,204</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision in Asia (except China), America and Europe as of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 896,036	0.06%~0.18%	691
1 to 30 days past due	108,019	0.47%~1.11%	1,001
31 to 60 days past due	2,361	1.71%~27.12%	128
61 to 90 days past due	13,590	17.10%~47.82%	2,778
91 to 120 days past due	2,467	54.02%~100%	2,157
More than 121 days past due	4,802	100%	4,802
	<u>\$ 1,027,275</u>		<u>11,557</u>

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

	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 380,757	0%~0.75%	29
1 to 30 days past due	7,734	1.41%~3.19%	109
31 to 60 days past due	5,229	4.44%~6.10%	232
61 to 90 days past due	2,249	7.32%~9.03%	165
91 to 120 days past due	2,051	17.77%~37.57%	365
121 to 150 days past due	1,628	37.62%~60%	613
151 to 180 days past due	285	65.89%~80%	188
More than 181 days past due	2,715	100%	2,715
	<u>\$ 402,648</u>		<u>4,416</u>

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<b>December 31, 2017</b>
Past due 1 to 30 days	133,357
Past due 31 to 90 days	74,551
More than 90 days past due	14,334
	<u><b>222,242</b></u>

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

	<b>2018</b>	<b>2017</b>	<b>2017</b>	<b>Total</b>
		<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	
Balance on January 1, 2018 and 2017 per IAS 39	\$ 17,685	10,753	-	10,753
Adjustment on initial application of IFRS 9	-			
Balance on January 1, 2018 per IFRS 9	17,685			
Impairment loss recognized	-	-	7,354	7,354
Impairment loss reversed	(1,618)	-	-	-
Write off	-	(424)	-	(424)
Foreign exchange losses	(94)	(64)	66	2
Balance on December 31, 2018 and 2017	<u>\$ 15,973</u>	<u>10,265</u>	<u>7,420</u>	<u>17,685</u>

The Group has not provided the notes and accounts receivable and other receivables as collateral or factored them for cash.

(d) Other receivables

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other receivables—related parties	\$ -	75,770
Other	15,529	21,444
	<u><b>\$ 15,529</b></u>	<u><b>97,214</b></u>

As of December 31, 2018 and 2017, the Group had no other receivables that were past due. Therefore, no provisions for doubtful debt were required after the management's assessment. For other credit risk information, please refers to note 6(t).

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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(e) Inventories

	December 31, 2018	December 31, 2017
Merchandise	\$ 1,327	1,092
Finished goods	995,938	846,761
Work in process	352,595	234,957
Raw material	646,880	671,690
Total	<u>\$ 1,996,740</u>	<u>1,754,500</u>

Inventories are measured at the lower of cost and net realizable value. Hence, the Group makes judgments and estimates in the net realizable value of inventory for financial statement. The rapid development on technology may significantly affect the market demand on electronic products, which can lead to product obsolescence, resulting in the cost of inventory to exceed its net realizable value. Valuation of the inventory is based according to the estimated future demand for its products. Hence, there is a possibility for the valuation to have a significant fluctuation.

As of December 31, 2018 and 2017, the Group's inventories had not pledged as collateral.

Aside from charging operating costs through the ordinary sale of inventories, other gains and losses directly recorded under operating costs in the years 2018 and 2017 were as follows:

	2018	2017
Loss on market value of inventory	\$ 15,846	15,045
Loss on physical count	15,932	14,966
Loss (gains) from scrapped inventory	1,436	(25)
Total	<u>\$ 33,214</u>	<u>29,986</u>

(f) Financial assets carried at cost—noncurrent

	Stockholding rate %	Investment cost	Amount
<b>December 31, 2017</b>			
Alliance III venture Capital Corp	1.00	\$ <u>500</u>	<u>500</u>

Alliance III venture Capital Corp has liquidated completed on October 2018, the Group has received the remainder of the investment fund amounting to \$375 thousand.

The aforementioned investments held by the Group are measured at amortized cost at year-end given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(g) Property, plant and equipment

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

	Land	Buildings	Machinery	Other equipment	Total
Cost or deemed cost:					
Balance at January 1, 2018	\$ 498,671	450,389	138,302	463,128	1,550,490
Additions	10,353	4,725	18,053	58,378	91,509
Disposals	-	-	(925)	(6,338)	(7,263)
Reclassification	-	-	-	2,834	2,834
Effect of changes in exchange rates	858	1,152	164	(1,525)	649
Balance at December 31, 2018	<u>\$ 509,882</u>	<u>456,266</u>	<u>155,594</u>	<u>516,477</u>	<u>1,638,219</u>
Balance at January 1, 2017	\$ 500,964	462,606	134,665	408,244	1,506,479
Additions	-	-	4,783	69,554	74,337
Disposals	-	-	(463)	(20,845)	(21,308)
Reclassification	-	(8,637)	-	7,784	(853)
Effect of changes in exchange rates	(2,293)	(3,580)	(683)	(1,609)	(8,165)
Balance at December 31, 2017	<u>\$ 498,671</u>	<u>450,389</u>	<u>138,302</u>	<u>463,128</u>	<u>1,550,490</u>
Depreciation and impairment loss:					
Balance at January 1, 2018	\$ -	88,308	116,659	266,536	471,503
Depreciation	-	11,864	7,944	81,740	101,548
Disposal	-	-	(925)	(6,296)	(7,221)
Effect of changes in exchange rates	-	264	138	(1,323)	(921)
Balance at December 31, 2018	<u>\$ -</u>	<u>100,436</u>	<u>123,816</u>	<u>340,657</u>	<u>564,909</u>
Balance at January 1, 2017	\$ -	78,523	101,501	211,905	391,929
Depreciation	-	11,396	15,865	74,352	101,613
Disposal	-	-	(331)	(19,067)	(19,398)
Reclassification	-	(1,076)	-	164	(912)
Effect of changes in exchange rates	-	(535)	(376)	(818)	(1,729)
Balance at December 31, 2017	<u>\$ -</u>	<u>88,308</u>	<u>116,659</u>	<u>266,536</u>	<u>471,503</u>
Carrying value:					
December 31, 2018	<u>\$ 509,882</u>	<u>355,830</u>	<u>31,778</u>	<u>175,820</u>	<u>1,073,310</u>
December 31, 2017	<u>\$ 498,671</u>	<u>362,081</u>	<u>21,643</u>	<u>196,592</u>	<u>1,078,987</u>
January 1, 2017	<u>\$ 500,964</u>	<u>384,083</u>	<u>33,164</u>	<u>196,339</u>	<u>1,114,550</u>

Please refer to note 8 for the information of the pledged property, plant and equipment, as of December 31, 2018 and 2017.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(h) Intangible assets

The cost, amortization, and impairment of the intangible assets of the Group were as follows:

	<u>Goodwill</u>	<u>Customer relation</u>	<u>Total</u>
Costs:			
Balance at January 1, 2018	\$ 4,601	4,545	9,146
Effect of changes in exchange rates	(99)	(95)	(194)
Balance at December 31, 2018	<u>\$ 4,502</u>	<u>4,450</u>	<u>8,952</u>
Balance at January 1, 2017	\$ 4,654	4,598	9,252
Effect of changes in exchange rates	(53)	(53)	(106)
Balance at December 31, 2017	<u>\$ 4,601</u>	<u>4,545</u>	<u>9,146</u>
Amortization:			
Balance at January 1, 2018	\$ -	2,777	2,777
Amortization	-	1,511	1,511
Effect of changes in exchange rates	-	(87)	(87)
Balance at December 31, 2018	<u>\$ -</u>	<u>4,201</u>	<u>4,201</u>
Balance at January 1, 2017	\$ -	1,277	1,277
Amortization	-	1,502	1,502
Effect of changes in exchange rates	-	(2)	(2)
Balance at December 31, 2017	<u>\$ -</u>	<u>2,777</u>	<u>2,777</u>
Carrying value:			
December 31, 2018	<u>\$ 4,502</u>	<u>249</u>	<u>4,751</u>
December 31, 2017	<u>\$ 4,601</u>	<u>1,768</u>	<u>6,369</u>
January 1, 2017	<u>\$ 4,654</u>	<u>3,321</u>	<u>7,975</u>

(i) Amortization

Goodwill and customer relations were obtained by acquiring subsidiaries in March 2016. For amortization expense, please refer to note 12.

(ii) Impairment Loss

In accordance with IAS 36 “impairment of assets,” the Group assesses the impairment loss of intangible assets—goodwill, at the end of each reporting period. The recoverable amount of the cash generating unit is the expected discount present value of future cash in flows. As of December 31, 2018 and 2017, based on the result of the assessment of the Group, the recoverable amount of the cash-generating unit was higher than the book value. Therefore, there was no impairment loss.

- 1) The cash flow projections were estimated on the basis of previous experience, actual operating results, and the financial budget.

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# LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

- 2) Forecast of operating revenue, operating cost, and operating expenses are based on the future operational plan, with consideration on the changes and competition in the market industry.
- 3) For the years ended December 31, 2018 and 2017, the discount rates for the present value of recoverable amounts was 10% and 9%.

(iii) The Group did not pledge any collateral on intangible assets.

(i) Short-term and long-term borrowings

The details, terms and clauses of the Group's short-term and long-term borrowings were as follows:

(i) Short-term borrowings

December 31, 2018				
	Currency	Interest rate	Maturity year	Amount
Secured loans	TWD	1.05	2019	\$ 98,000
Unsecured loans	TWD	1.05	2019	100,000
Unsecured loans	RMB	5.39	2019	44,491
Unsecured loans	USD	4.4571	2019	11,037
Total				<u>\$ 253,528</u>

  

December 31, 2017				
	Currency	Interest rate	Maturity year	Amount
Secured loans	TWD	1.05	2018	\$ 50,000
Unsecured loans	TWD	1.08	2018	50,000
Unsecured loans	RMB	5.65	2018	13,635
Unsecured loans	USD	3.6183	2018	11,672
Total				<u>\$ 125,307</u>

Please refer to note 6(t) for the disclosures on the Group's risk exposure to interest rates and liquidity risks.

As of December 31, 2018 and 2017, the unused credit facilities of the Group's short-term borrowings amounted to \$670,000 thousand and \$829,815 thousand, respectively.

(ii) Long-term borrowings

December 31, 2018				
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	4.4675	2020	\$ 19,583
Current				\$ 1,840
Non-current				17,743
Total				<u>\$ 19,583</u>

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2017</b>			
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	3.4257	2020	\$ <b>20,071</b>
Current				\$ 1,784
Non-current				18,287
Total				<b>\$ 20,071</b>

Please refer to note 6(t) for the disclosures on the Group's risk exposure to interest rates and liquidity risks.

(iii) Collateral of loans

The Group has mortgaged their assets as collateral of loans. Please refer to note 8.

(j) Provisions

	<b>Warranty provision</b>	<b>Legal matter</b>	<b>Total</b>
Balance at January 1, 2018	\$ 41,999	6,370	48,369
Provisions made during the year	37,544	-	37,544
Provisions used during the year	(29,328)	(1,000)	(30,328)
Reversal of provisions during the year	(3,246)	(5,370)	(8,616)
Effect of changes in exchange rates	(64)	-	(64)
Balance at December 31, 2018	<b>\$ 46,905</b>	<b>-</b>	<b>46,905</b>
Balance at January 1, 2017	\$ 34,984	6,370	41,354
Provisions made during the year	33,676	-	33,676
Provisions used during the year	(26,338)	-	(26,338)
Effect of changes in exchange rates	(323)	-	(323)
Balance at December 31, 2017	<b>\$ 41,999</b>	<b>6,370</b>	<b>48,369</b>

(i) Warranties

In 2018 and 2017, provisions are estimated based on the historical data of trading of interment communications equipment, which are mainly associated with the Company's business products. The Group anticipates the warranties to occur in the following year of the sales.

(ii) Legal

A legal claim brought against the Group and another individual by a former employee demanding for compensation, wherein the Group originally estimated the related damage to be \$6,370 thousand as of December 31, 2017. However, based on the final decision made by the court in April 2018, both accused will only have to pay the amount of \$3,884 thousand, plus, interest, which is calculated using 5% rate per annum beginning October 14, 2007, until the repayment date. Out of the said amount, the Group has to pay \$1,000 thousand, with the remaining amount being assumed by the other individual. Since the Group had overestimated its debt provision, the remaining balance had been recognized as other income.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(k) Employee benefits

(i) Defined benefit plans

The following table shows a reconciliation between the present value of the defined benefit obligation and the fair value of plan assets:

	December 31, 2018	December 31, 2017
The present value of the defined benefit obligations	\$ 55,710	56,167
Fair value of plan assets	(22,572)	(22,974)
The net defined benefit liability	<u>\$ 33,138</u>	<u>33,193</u>

The Group makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$22,572 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in present value of the Group's defined benefit plan obligation for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Defined benefit obligation at 1 January	\$ 56,167	56,401
Current service costs and interest	1,060	976
Remeasurements of the net defined benefit liability (asset)		
—Return on plan assets (excluding amounts included in net interest expense)	(391)	637
—Due to changes in financial assumption of actuarial (losses) gains	1,357	(1,494)
Benefits paid by the plan	(2,483)	(353)
Defined benefit obligation at 31 December	<u>\$ 55,710</u>	<u>56,167</u>

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# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

### 3) Movement of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2018 and 2017, were as follows:

	<b>2018</b>	<b>2017</b>
Fair value of plan assets, January 1	\$ 22,974	21,905
Remeasurements of the net defined benefit liability (asset)		
— Return on plan assets (excluding amounts included in net interest expense)	916	220
Contributions made	1,165	1,202
Benefits paid by the plan	(2,483)	(353)
Fair value of plan assets, December 31	\$ <u>22,572</u>	<u>22,974</u>

### 4) Expenses recognized in profit or loss

The expenses recognized on profit or loss for the years ended December 31, 2018 and 2017, were as follows:

	<b>2018</b>	<b>2017</b>
Current service cost	\$ 321	368
Net interest on the defined benefit liability (asset)	448	381
	\$ <u>769</u>	<u>749</u>
	<b>2018</b>	<b>2017</b>
Operating costs	\$ 430	447
Selling expenses	87	31
Research and development expenses	252	271
	\$ <u>769</u>	<u>749</u>

### 5) Remeasurement in the net defined benefit liability (asset) recognized in other comprehensive income

The Group's Remeasurement in the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2018 and 2017, were as follows:

	<b>2018</b>	<b>2017</b>
Cumulative amount, January 1	\$ 13,138	13,988
Recognized during the period	341	(850)
Cumulative amount, December 31	\$ <u>13,479</u>	<u>13,138</u>

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

6) Actuarial assumptions

The principal actuarial assumption used to determine the present value of the defined benefit obligation on December 31, 2018 and 2017 is as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Discount rate	1.125 %	1.375 %
Future salary increases rate	3.300 %	3.300 %

The Group expects to make contributions of \$1,123 thousand to the defined benefit plans in the next year starting from the reporting date of 2018.

The weighted average duration of the defined benefit obligation is 13.54 years.

7) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2018 and 2017, the present value of defined benefit obligation impact was as follow:

	<b>The impact of defined benefit obligation</b>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2018		
Discount rate (0.25%)	\$ (1,357)	1,411
Future salary increase rate (0.25%)	1,356	(1,304)
December 31, 2017		
Discount rate (0.25%)	(1,440)	1,494
Future salary increase rate (0.25%)	1,439	(1,393)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

(ii) Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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The Group's pension costs under the defined contribution method were \$37,085 thousand and \$34,155 thousand for 2018 and 2017, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

(iii) Short-term employee benefit

	December 31, 2018	December 31, 2017
Annual leave benefit	\$ <u>23,737</u>	<u>25,610</u>

(l) Income tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. The tax rate of foreign subsidiaries for 2018 and 2017 is 15% to 25%.

(i) Income tax expenses (benefit)

The amount of income tax for 2018 and 2017 were as follows:

	2018	2017
Current tax expense		
Current period	\$ 94,330	73,105
Adjustment for prior periods	<u>2,319</u>	<u>5,191</u>
	<u>96,649</u>	<u>78,296</u>
Deferred income tax expense		
Origination and reversal of temporary differences	21,297	19,729
Effect on tax rated changes	<u>9,298</u>	<u>-</u>
	<u>30,595</u>	<u>19,729</u>
Income tax expense from continuing operations	\$ <u>127,244</u>	<u>98,025</u>

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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Reconciliation of the Company's income tax expense (benefit) and the profit before tax for 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
Net income before tax	<u>\$ 604,283</u>	<u>491,952</u>
Income tax using the Company's domestic tax rate	\$ 120,857	83,632
Effect of tax rates in foreign jurisdiction	20,983	25,488
Effect on tax rated changes	9,298	-
Previously underestimate income tax	2,319	5,191
Non-deductible expenses	63	2,391
Tax-free revenue	(5,697)	-
Unrecognized tax loss of deferred tax assets	(2,513)	-
Unrecognized changes in temporary differences	(2,097)	(3,809)
Surtax on unappropriated earnings	6,622	-
R&D tax credits utilized	(29,047)	(13,611)
Others	<u>6,456</u>	<u>(1,257)</u>
Total	<u>\$ 127,244</u>	<u>98,025</u>

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

Deferred income tax assets have not been recognized in respect of the following items:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Deductible temporary differences	\$ -	2,097
Tax losses	-	11,721
	<u>\$ -</u>	<u>13,818</u>

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2018 and 2017 were as follows:

Deferred income tax assets:

	<b>Unrealized profit from sales</b>	<b>Tax differences from sales</b>	<b>Others</b>	<b>Total</b>
Balance at January 1, 2018	\$ 17,262	10,737	26,564	54,563
Recognized in profit or loss	1,914	1,445	10,494	13,853
Balance at December 31, 2018	<u>\$ 19,176</u>	<u>12,182</u>	<u>37,058</u>	<u>68,416</u>
Balance at January 1, 2017	\$ 23,598	12,988	24,208	60,794
Recognized in profit or loss	(6,336)	(2,251)	2,356	(6,231)
Balance at December 31, 2017	<u>\$ 17,262</u>	<u>10,737</u>	<u>26,564</u>	<u>54,563</u>

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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Deferred income tax liabilities:

	Foreign investment income accounted for using equity method	Others	Total
<b>Balance at January 1, 2018</b>	\$ (99,155)	(942)	(100,097)
Recognized in profit or loss	(43,695)	(553)	(44,248)
<b>Balance at December 31, 2018</b>	<u>\$ (142,850)</u>	<u>(1,495)</u>	<u>(144,345)</u>
<b>Balance at January 1, 2017</b>	\$ (89,373)	-	(89,373)
Recognized in profit or loss	(9,782)	(942)	(10,724)
<b>Balance at December 31, 2017</b>	<u>\$ (99,155)</u>	<u>(942)</u>	<u>(100,097)</u>

(iii) Examination and Approval

The tax returns of the Company were examined and approved by the tax authorities through 2016.

(m) Capital and other equity

As of December 31, 2018 and 2017, the ordinary shares with par value of \$10 per share, amounted to \$1,500,000 thousand; also, 108,993 thousand and 104,649 thousand common stocks, respectively, were issued from the shares mentioned above. All issued shares were paid up upon issuance.

A reconciliation of the Company's outstanding shares for the years ended December 31, 2018 and 2017 were as follows:

	Unit: thousands shares 2018	2017
Balance at January 1	104,649	103,645
Stock dividends of ordinary share	2,124	-
Exercise of employee share options	2,220	1,004
<b>Balance at December 31</b>	<u><b>108,993</b></u>	<u><b>104,649</b></u>

(i) Issue of common stock

On June 19, 2018, the stockholders approved a resolution to transfer the stockholders' bonus of \$21,240 thousand for the issuance of 2,124 thousand shares of common stocks, with a face value of 10 dollars per share. The Company has received the approval from the Financial Supervisory Commission for this capital increase on July 17, 2018, with August 12, 2018 recognized as the date of capital increase.

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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Due to the exercise of the employee stock options in 2018 and 2017, the Company issued 2,220 thousand shares and 1,004 thousand shares of stocks, respectively. Exercise prices were \$31.7 and \$29.7 per share in 2018 and \$18.4 in 2017.

(ii) Capital surplus

The composition of the Company's capital surplus are as follows:

	December 31, 2018	December 31, 2017
Share premium from issuance	\$ 673,767	610,986
Changes in equity of associates and joint ventures accounted for using equity method	17,539	17,539
Employee share options	3,887	19,016
Employee share options expired	9,392	8,807
	<u>\$ 704,585</u>	<u>656,348</u>

In accordance with the ROC Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10% of the actual share capital amount.

(iii) Retained earnings

1) Legal reserve

In accordance with the Company Act, 10% of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

2) Special earnings reserve

By choosing to apply exemptions granted under IFRS 1 First-time Adoption of International Financial Reporting Standards during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments (gains) recognized under shareholders' equity were reclassified to retained earnings at the adoption date. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special earnings reserve during earnings distribution. However, when adjusted retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC are insufficient for the appropriation of a special earnings reserve at the transition date, the Company may appropriate a special earnings reserve up to the amount of increase in retained earnings. Upon the use, disposal, or reclassification of related assets, the Company may reverse the special earnings reserve proportionately. As a result of elections made according to IFRS 1, the Company has reclassified \$(13,624) thousand to retained earnings and is not required to appropriate a special earnings reserve.

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

In accordance with the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special earnings reserve resulting from the first-time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

#### 3) Earnings distribution

The Company's articles of incorporation require that after-tax earnings from the current year shall first be used to offset any prior year's deficit and pay income tax; and 10% of the remaining 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. Special reserve may be appropriated for operations or to meet regulations. After the distribution of dividends, the remaining earnings, if any, may be appropriated according to the proposal presented in the annual stockholders' meetings by the board of directors.

After the abovementioned appropriation, in order to operate proper investment and maintain Capital adequacy ratio simultaneously, the Company uses the Residual dividend policy to measure its monetary demand for the future according to its budget planned for the following years, then executes financial intermediation with retain earnings, after which, distributes cash dividends with the remaining earnings, which should not less than 30% of the total dividends amount.

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 (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. The amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. As of December 31, 2018 and 2017 the special earnings reserve amounted to \$44,515 thousand and \$29,708 thousands, respectively.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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Earnings distribution for 2017 and 2016 was decided via the general meeting of shareholders held on June 19, 2018 and June 15, 2017, respectively. The relevant dividend distributions to shareholders were as follows:

	2017		2016	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 2.0	212,340	3.0	313,950
Stock	0.2	21,240	-	-
Total		<u>\$ 233,580</u>		<u>313,950</u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2018	\$ (44,515)	(4,354)	(48,869)
Foreign exchange differences arising from net assets of foreign operation	(12,851)	(6,075)	(18,926)
Balance at December 31, 2017	<u>\$ (57,366)</u>	<u>(10,429)</u>	<u>(67,795)</u>
Balance at January 1, 2017	\$ (27,483)	(2,833)	(30,316)
Foreign exchange differences arising from net assets of foreign operation	(17,032)	(1,521)	(18,553)
Balance at December 31, 2017	<u>\$ (44,515)</u>	<u>(4,354)</u>	<u>(48,869)</u>

(n) Share-based payment

On January 6, 2012, the Securities and Futures Bureau approved the Company's issuance of 3,000 units of Employee's Stock option; with each unit representing 1,000 shares of common stock, wherein a total of 3,000 thousand shares may be subscribed. The option holder is eligible, two years after issuance until the sixth year of issuance, to convert a certain percentage of options to common stocks at the price designated on the issuance date. Under such circumstances as changes in equity or distribution of cash dividends, the exercise price per share and the number of subscription per option are to be adjusted using a specific formula. However, the adjusted exercise price should not be lower than the par value. All options were granted on June 7, 2012 and their fair value on the grant date was priced using the Black Scholes option pricing model. The weighted-average data of each assumption were as follows:

Dividend rate	-	%
Expected volatility	13.41	%
Risk-free interest rate	0.93	%
Expected life	5	years

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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The Company estimates the compensation to be \$6,936 thousand based on the above assumptions. The compensation had been completed amortized from 2012 to 2015.

The outstanding stock option rights as follows:

	2017	
	Units	Exercise price (dollars)
<b>Employee stock options in 2012</b>		
Outstanding balance as of January 1	795	\$ 18.4
Options granted	-	-
Options exercised	725	18.4
Options cancelled	-	-
Options expired	70	18.4
Outstanding balance as of December 31	-	-
Exercisable as of December 31	-	-
Exercisable shares per unit as of December 31 — adjusted	-	-
Fair market value	\$ 3.7	

The expected duration of the employee stock option issued in 2012 was expired on June 7, 2017.

On August 25, 2015, the Securities and Futures Bureau approved the Company's issuance of 3,000 units of Employee's Stock option; with each unit representing 1,000 shares of common stock, wherein a total of 3,000 thousand shares may be subscribed. The option holder is eligible, two years after issuance until the sixth year of issuance, to convert a certain percentage of options to common stocks at the price designated on the issuance date. Under such circumstances as changes in equity or distribution of cash dividends, the exercise price per share and the number of subscription per option are to be adjusted using a specific formula. However, the adjusted exercise price should not be lower than the par value. All options were granted on September 17, 2015 and their fair value on the grant date was priced using the Black Scholes option pricing model. The weighted-average data of each assumption were as follows:

Dividend rate	- %
Expected volatility	34.99 %
Risk-free interest rate	0.8779 %
Expected life	5 years

The Company estimates the compensation to be \$20,657 thousand based on the above assumptions. The compensation will be amortized over three years. Under the fair value method, the compensation of the option were estimated to be \$1,463 thousand and \$7,187 thousand in 2018 and 2017. The additional paid-in capital also increased due to the stock option plan.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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The outstanding stock option rights as follows:

		<b>2018</b>	
		<b>Units</b>	<b>Exercise price (dollars)</b>
<b>Employee stock options in 2015</b>			
Outstanding balance as of January 1		2,780	\$ 31.7
Options granted		-	-
Options exercised		2,220	31.7/29.7
Options cancelled		75	31.7/29.7
Options expired		-	-
Outstanding balance as of December 31		<u>485</u>	29.7
Exercisable as of December 31		<u>485</u>	-
Exercisable shares per unit as of December 31 — adjusted		<u>1,000</u>	
Fair market value		<u>\$ 4.3</u>	

  

		<b>2017</b>	
		<b>Units</b>	<b>Exercise price (dollars)</b>
<b>Employee stock options in 2015</b>			
Outstanding balance as of January 1		2,810	\$ 34.1
Options granted		-	-
Options exercised		-	-
Options cancelled		30	31.7
Options expired		-	-
Outstanding balance as of December 31		<u>2,780</u>	31.7
Exercisable as of December 31		<u>-</u>	-
Exercisable shares per unit as of December 31 — adjusted		<u>1,000</u>	
Fair market value		<u>\$ 4.3</u>	

As of December 31, 2018, the expected duration of the employee stock option issued in 2015 was 1.71 years.

(o) Earnings per share

The calculation of the Group's basic earnings per share and diluted earnings per share for years ended December 31, 2018 and 2017 were as follows:

(i) Basic earnings per share

	<b>2018</b>	<b>2017</b>
Net income attributable to ordinary shareholders of the Company	<u>\$ 424,236</u>	<u>348,628</u>
Weighted-average number of ordinary shares	<u>\$ 108,335</u>	<u>106,685</u>
Basic earnings per share (in NT dollars)	<u>3.92</u>	<u>3.27</u>

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Diluted earnings per share

	<b>2018</b>	<b>2017</b>
Net income attributable to ordinary shareholders of the Company (diluted)	<u>\$ 424,236</u>	<u>348,628</u>
Weighted-average number of ordinary shares (basic)	108,335	106,685
Impact of potential common shares		
Effect of employee stock bonus	1,920	1,421
Effect of employee stock option	<u>161</u>	<u>797</u>
Weighted-average number of ordinary shares (diluted)	<u>\$ 110,416</u>	<u>108,903</u>
Diluted earnings per share (in NT dollars)	<u>3.84</u>	<u>3.20</u>

For calculation of the dilutive effect of the stock option, the average market value is assessed based on the quoted market price where the Company's option is outstanding.

(p) Revenue from contracts with customers

(i) Details of revenue

	<b>2018</b>		
	<b>Sale of Network Communication and other related products</b>	<b>Others</b>	<b>Total</b>
Primary geographical markets:			
Asia	\$ 3,019,128	19,242	3,038,370
America	3,453,346	62,803	3,516,149
Europe	753,463	3,143	756,606
Others	<u>149,288</u>	<u>367</u>	<u>149,655</u>
	<u>\$ 7,375,225</u>	<u>85,555</u>	<u>7,460,780</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 6,481,152	79,140	6,560,292
Others	<u>894,073</u>	<u>6,415</u>	<u>900,488</u>
	<u>\$ 7,375,225</u>	<u>85,555</u>	<u>7,460,780</u>

Unearned revenue, net for consolidated Company amounted to \$4,690 thousand for the years ended December 31, 2018. As of December 31, 2018, accumulated unearned revenue amounted to \$49,458 thousand. Unearned revenue was booked due to identifiable services to be rendered.

(ii) Contract balances

	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Current contract liabilities	<u>\$ 39,020</u>	<u>16,698</u>

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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For details on accounts receivable and allowance for impairment, please refer to note 6(c).

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$16,698 thousand.

The contract liabilities primarily relate to the advance consideration received from customers for the electronic components sales contracts, for which revenue is recognized when products are delivered to customers.

**(q) Revenue**

The details of the Group's revenue for the year ended December 31, 2017 were as follows:

	<u>2017</u>
Sale of goods	\$ 6,354,394
Service income	<u>80,105</u>
	<u><u>\$ 6,434,499</u></u>

Unearned revenue, net for consolidated Company amounted to \$4,557 thousand for the year ended December 31, 2017. As of December 31, 2017, accumulated unearned revenue amounted to \$54,362 thousand. Unearned revenue was booked due to identifiable services to be rendered.

**(r) Remuneration to employees, directors and supervisors**

In accordance with the Company's article, the Company should contribute 10% to 20% of its profit as employee remuneration, and no greater than 2% as directors' and supervisors' remuneration, when there is profit for the year. However, if the Company has accumulated deficits, the profit should first be used to offset the deficit.

Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

For the years ended December 31, 2018 and 2017, the Company recognized its employee remuneration of \$72,462 thousand and \$56,482 thousand, respectively, and directors' and supervisors' remuneration of \$7,246 thousand and \$5,648 thousand, respectively. These amounts are calculated by using the Company's pre-tax net profit for the period before deducting the amount of the remuneration to employees and directors under the Company's articles of association, and expensed under operating cost or expense. Related information would be available at the Market Observation Post System website.

The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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(s) Non-operating income and expenses

(i) Other income

The details of the Group's other income for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 7,711	4,936
Rent income	5,067	3,556
Other	49,885	30,343
Total other income	<u>\$ 62,663</u>	<u>38,835</u>

(ii) Other gains and losses

The details of the Group's other gains and losses for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Losses on disposal of property, plant and equipment	\$ (42)	(898)
Losses on foreign exchange	(9,649)	(39,974)
Gains on financial assets (liabilities) at fair value through profit or loss	395	619
Other	(1,445)	(928)
Net other losses gains and losses	<u>\$ (10,741)</u>	<u>(41,181)</u>

(iii) Finance costs

The details of the Group's finance costs for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Interest expense — short-term loans	\$ <u>3,203</u>	<u>3,657</u>

(t) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

Approximately, 13% and 17% of the Group's total sales were derived from a single client in 2018 and 2017, respectively. Region wise, approximately 88% and 89% of the sales were significantly concentrated in Asia and America in 2018 and 2017, respectively.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	3-5 years	Over 5 years
<b>December 31, 2018</b>						
Non-derivative financial liabilities						
Short-term debts	\$ 253,528	255,454	255,454	-	-	-
Notes payable	39,020	39,020	39,020	-	-	-
Accounts payable	1,402,579	1,402,579	1,402,579	-	-	-
Other payables	144,255	144,255	144,255	-	-	-
Long-term debts (including due within a year)	19,583	20,896	1,963	18,933	-	-
Guarantee deposits received	2,673	2,673	-	-	-	2,673
	<u>\$ 1,861,638</u>	<u>1,864,877</u>	<u>1,843,271</u>	<u>18,933</u>	<u>-</u>	<u>2,673</u>
<b>December 31, 2017</b>						
Non-derivative financial liabilities						
Short-term debts	\$ 125,307	126,311	126,311	-	-	-
Accounts payable (including related parties)	1,176,183	1,176,183	1,176,183	-	-	-
Other payables	139,573	139,573	139,573	-	-	-
Long-term debts (including due within a year)	20,071	21,809	1,939	1,939	17,931	-
Guarantee deposits received	1,028	1,028	-	-	-	1,028
	<u>\$ 1,462,162</u>	<u>1,464,904</u>	<u>1,444,006</u>	<u>1,939</u>	<u>17,931</u>	<u>1,028</u>

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	Foreign currency	Exchange rate	NTD
<b>December 31, 2018</b>			
Financial assets:			
Monetary items:			
USD (note)	\$ 50,364	30.6590	1,544,115
Financial liabilities:			
Monetary items:			
USD (note)	\$ 36,591	30.6590	1,121,841
<b>December 31, 2017</b>			
Financial assets:			
Monetary items:			
USD (note)	\$ 56,921	29.7350	1,692,556
Financial liabilities:			
Monetary items:			
USD (note)	\$ 37,726	29.7350	1,121,780

Note: Amounts are designated before consolidation.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade receivables and trade and other payables that are denominated in foreign currency. A 1 dollar appreciation (depreciation) of the NTD against the USD as of December 31, 2018 and 2017 would have increased or decreased the net income by \$11,018 thousand and \$15,932 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on Monetary items is disclosed by total amount. For the years ended December 31, 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized abortions) amounted to \$9,649 thousand and \$39,974 thousand, respectively.

(iv) Interest rate analysis

Please refer to the note for liquidity risk management and the Group's interest rate exposure to its financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure of the interest rate on derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is on the basis of the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate increases or decreases by 1%, the Group's net income will increase or decrease by \$2,185 thousand and \$1,207 thousand, respectively, for the years ended December 31, 2018 and 2017, with all other variable factors remain constant. This is mainly due to the Group's borrowing in variable rates.

(v) Information of fair value

1) Categories and fair value of financial instruments

Except for the following, carrying amount of the Group's financial assets and liabilities are valued approximately to their fair value. No additional disclosure is required in accordance to the Regulations.

	December 31, 2018				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ <u>112</u>	<u>-</u>	<u>112</u>	<u>-</u>	<u>112</u>

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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		December 31, 2017			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 250	-	250	-	250
Non-derivative financial assets for trading	104,534	-	104,534	-	104,534
Total	\$ 104,784	-	104,784	-	104,784

2) Valuation techniques and assumptions used in fair value determination

The financial instruments of the Group are evaluated by using the publicly-adopted valuation models. Forward contracts are referred to the evaluation outcomes from financial institutions. The financial instrument in China is evaluated based on the market value. Equity instruments not held for trading are evaluated by using discounted cash flow method.

(u) Financial risk management

(i) Overview

The Group is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

This note expresses the information on risk exposure and objectives, policies and process of risk measurement and management. For detailed information, please refer to the related notes to each risk.

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Management Committee, which is responsible for establishing and monitoring the Group's risk management policies. The committee reports its activities regularly to the Board of Directors.

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

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Board of Directors oversees how management monitors the risk which should be in compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Assisting the Board of Directors in oversight, the internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, and reports the results to the Board of Directors.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

1) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by each customer's condition. However, management also considers the demographics of the customers, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances. The Group's Accounts Receivable and Notes Receivable are mainly due from customers in Asia and America, accounting 84% and 89% of the total amount of the receivables as of December 31, 2018, and 2017, respectively.

The Group has established a credit policy wherein each new customer is assessed for credit rating before standard payment, delivery terms, and conditions are granted. The analysis includes external ratings, when available, and in some cases, bank references. Purchase limits are established for each customer and reviewed regularly. Any amount below the limits requires no approval from the Board of Directors. Customers that fail to meet the Company's rating benchmark are allowed to transact with the Company only on a prepayment basis.

The Group has established an allowance for bad debt account to reflect the estimated losses on trade receivables, other receivables, and investments. The allowance for bad debt account consists of specific losses related to individually significant exposure and unrecognized losses arose from similar assets groups. The allowance for bad debt account is based on the historical collection record of similar financial assets.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transactions are with the counterparties, and the contractually obligated counterparties are the banks, financial institutions, corporate organizations and government agencies with good credits, there are no compliance issues, and therefore, there is no significant credit risk.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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3) Guarantees

The consolidated company policy provides endorsements and assurances to be offered only to companies who it has business relationship with, as well as to those companies who hold more than 50% of the voting rights of the consolidated company, either directly or indirectly. As of December 31, 2018 and 2017, the Group did not provide any endorsement and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of the expected cash flows on financial liabilities (other than trade payables) over the succeeding 60 days. The Group also monitors the level of expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(v) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate, and equity prices which will affect the group's income or the value of its holding of financial instrument. The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimizing the return.

In order to manage market risk, the Group conducts derivative transactions and incurs financial liabilities. All such transactions are within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

1) Currency risk

The group reports its financial statements in TWD, while conducting such transaction as sales, purchase, and borrowing in USD, thereby exposing itself to currency risk.

The Group hedges most of its trade receivables and trade payables denominated in a foreign currency. The Group hedges its currency risk through forward exchange contracts with maturity less than one year from the reporting date.

2) Interest rate risk

To avoid interest rate risk, the Group raises its working capital mainly through long-term and short-term loans. Should long term loans be needed, plans and conditions of early repayment shall be settled in advance.

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# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(v) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, retained earnings, and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group's debt-to-adjusted-capital ratio at the end of the reporting period was as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total liabilities	\$ 2,786,459	2,264,168
Less: cash and cash equivalents	<u>955,871</u>	<u>788,156</u>
Net debt	\$ <u><b>1,830,588</b></u>	<u><b>1,476,012</b></u>
Total equity	\$ <u><b>3,214,701</b></u>	<u><b>2,916,912</b></u>
Debt-to-adjusted-capital ratio	<u><b>57 %</b></u>	<u><b>51 %</b></u>

The increase of the debt to capital equity ratio as of December 31, 2018 was due to the increase in accounts payable, debts and deferred income tax liabilities.

As of December 31, 2018, no changes have been made on the capital management.

(7) Related-party transactions

(a) Parent Company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Related-party and relationship between the Company

The Group has transactions with its related parties as follows:

<u><b>Related-parties</b></u>	<u><b>Relationship between the Company</b></u>
Jie Wei Investment Development Co., Ltd. (Jie Wei)	One of the board of directors of the Company also serves as a director of the related-party
Lanner Foundation	Related party
Mr. Zhang Jun Hai	Key management of Consolidated Company

(c) Significant related party transactions

(i) Leases

A lease contract with the period from June 2015 to May 2020 was signed with other related party on April 25, 2015. In accordance with the contract, the group provided \$175 thousand as deposit and booked the same amount under non-current asset. Rent for the years ended December 31, 2018 and 2017 amounted to \$1,320 thousand. There were no outstanding balance as of December 31, 2018 and 2017.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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(ii) Contribution

With the approval from the broad of directors, the Group agreed to contribute \$3,500 thousand and \$6,200 thousand to Lanner Foundation for the years ended December 31, 2018 and 2017. Recorded under operating expenses—administrative expenses.

(iii) Other

The key management personnel of the Group participated in the cash increase of Beijing Lihua Haiwell Technology Co., Ltd. with the amount of \$75,770 thousand, recognized under other accounts receivable, as of December 31, 2017. There were no such conditions on December 31, 2018.

(d) Key management personnel compensations

Key management personnel compensation comprised:

	2018	2017
Short-term employee benefits	\$ 96,964	93,945
Post-employment benefits	816	810
	<u>\$ 97,780</u>	<u>94,755</u>

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2018	December 31, 2017
Certificate of deposits (recorded under other financial assets—current)	Guarantee for customs	\$ 2,349	2,327
Land	Guarantee for long and short-term debts	414,439	413,582
Building	Guarantee for long and short-term debts	252,000	257,676
		<u>\$ 668,788</u>	<u>673,585</u>

(9) Significant Commitments and Contingencies

(a) The Group's unrecognized construction contract commitments are as follows:

	December 31, 2018	December 31, 2017
Acquisition of property, plant and equipment	<u>\$ 112,673</u>	<u>115,101</u>

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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(b) Operating lease commitments

As of December 31, 2018 and 2017, the Group had signed uncancellable contracts in form of operating lease. The least amount of the rent to be paid in the future are listed as following:

	December 31, 2018	December 31, 2017
Under a year	\$ 45,597	37,112
Over 1 year but under 5 years	37,134	78,655
Over 5 years	6,058	46,664
	<u>\$ 88,789</u>	<u>162,431</u>

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

(12) Other

(a) The following is a summary statement of employee benefits, depreciation and amortization expensed by function:

By function By item	Years ended December 31, 2018			Years ended December 31, 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	214,655	804,660	1,019,315	188,053	693,161	881,214
Labor and health insurance	21,476	49,637	71,113	15,414	48,040	63,454
Pension	8,970	28,884	37,854	7,502	27,402	34,904
Remuneration of directors	-	6,368	6,368	-	4,867	4,867
Others	13,164	39,355	52,519	12,505	35,534	48,039
Depreciation	32,431	69,117	101,548	40,049	61,564	101,613
Amortization	-	1,511	1,511	-	1,502	1,502

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### (13) Other disclosures

##### (a) Information on significant transactions:

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

##### (i) Loans to other parties:

Unit: thousand NTD

No.	Name of lender	Name of borrower	Financial statement account	Related party	Highest balance of financing to other parties during the year	Ending balance	Amount actually drawn	Range of interest rates	Purposes of fund financing for the borrowers (Note 5)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Financing limit for each borrowing company	Maximum financing limit for the lender
													Item	Value		
0	The Company	Beijing L&S Lancom Platform Tech Co., Ltd. (L&S)	Other receivables – related parties	Yes	75,635	75,635	75,635	5.6%	2	-	Operating capital	-	-	-	587,698 (Note 2)	1,175,396 (Note 1)
2	Lancom Holding Co., Ltd.	Beijing L&S Lancom Platform Tech Co., Ltd. (L&S)	Other receivables – related parties	Yes	57,838	57,838	57,838	5.6%	2	-	Operating capital	-	-	-	144,018 (Note 4)	288,035 (Note 3)

Note 1: The allowable aggregate amount of financing provided to others cannot exceed 40% of the Company's stockholder's equity.

Note 2: Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20 percent of the Company's stockholder's equity. The total amount lendable to other subsidiaries and the amount listed above cannot exceed 40 percent of the Company's stockholder's equity.

Note 3: The maximum loan extended to all parties of LANCOM HOLDING CO., Ltd. should not be over 40% of total equity.

Note 4: Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20 percent of LANCOM HOLDING CO., Ltd.'s stockholder's equity. The total amount lendable to other subsidiaries and the amount listed above cannot exceed 40 percent of LANCOM HOLDING CO., Ltd.'s stockholder's equity.

Note 5: Credit period: The financing period should not be over one year.

Note 6: Loans to other parties numbering is as follows:

- (1) if it's ordinary business relationship, the number is "1"  
(2) if it needs short-term financial funds, the number is "2"

##### (ii) Guarantees and endorsements for other parties: None.

##### (iii) Information regarding securities held at the reporting date (subsidiaries, associates and joint ventures not included): None

##### (iv) Information regarding purchase or sale of securities for the period exceeding 300 million or 20% of the Company's paid-in capital:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales			Ending Balance		
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Beijing L&S Lancom Platform Tech Co., Ltd. (L&S)	China Merchants Bank Financial Products - RMB quench Gold Pool	Financial assets at fair value though profit or loss— current	China Merchants Bank	-	-	101,603	-	173,514	-	275,117	275,117	-	-	-
Beijing L&S Lancom Platform Tech Co., Ltd. (L&S)	China Merchants Bank Financial Products - Point Gold Pool	Financial assets at fair value though profit or loss— current	China Merchants Bank	-	-	-	-	324,782	-	324,782	324,782	-	-	-

##### (v) Information on acquisition of real estate with purchase amount exceeding 300 million or 20% of the Company's paid-in capital:

(In Thousands of New Taiwan Dollars)

Name of company	Name of property	Transaction date	Transaction amount	Status of payment	Counter-party	Relationship with the Company	If the counter-party is a related party, disclose the previous transfer information				References for determining price	Purpose of acquisition and current condition	Others
							Owner	Relationship with the Company	Date of transfer	Amount			
Beijing L&S Lancom Platform Tech Co., Ltd. (L&S)	Office of property: Office of Huilongguanhu South Road, Changping District, Beijing	October 25, 2018	262,872	Contract	Counter-party: Beijing Bai Jia Real Estate Group Co., Ltd.	No	-	-	-	-	Valuation report	Operating activities	No

##### (vi) Information regarding receivables from disposal of real estate exceeding 300 million or 20% of the Company's paid-in capital: None.

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- (vii) Information regarding related-parties purchases and/or sales exceeding 100 million or 20% of the Company's paid-in capital:

Unit: thousand dollars

Name of Company	Counter-party	Relationship	Transaction details				The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	Sales	(1,745,157)	(30)	%90 days	-	-	360,854	28 %	(Note 1)
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Sales	(504,967)	(9)	%60 days	-	-	143,905	12 %	(Note 1)
The Company	LEI Technology Canada Ltd.	Subsidiary	Sales	(388,634)	(7)	%120 days	-	-	94,549	6 %	(Note 1)
Dongguan Lihua Haiwell Tech. Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Subsidiary	Sales	(1,079,235)	(77)	%60 days	-	-	-	- %	(Note 1)
Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	Associated company	Sales	(315,054)	(23)	%60 days	-	-	30,771	100 %	(Note 1)

Note 1: The transactions within the Group were eliminated in the consolidated financial statements.

- (viii) Information regarding receivables from related-parties exceeding 100 million or 20% of the Company's paid-in capital:

Unit: thousand dollars

Name of related party	Counter-party	Relationship	Balance of receivables from related party (Note)	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	360,854	4.43	-	-	349,022 (Until March 21, 2019)	-
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	143,905	3.45	-	-	142,351 (Until March 21, 2019)	-

Note: The transactions within the Group were eliminated in the consolidated financial statements.

- (ix) Information regarding trading in derivative financial instruments: Please refer to Notes 6(b).
- (x) Significant transactions and business relationship between the parent company and its subsidiaries in December 31, 2018:

Unit: thousand dollars

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			Percentage of the total consolidated revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	LANNER ELECTRONICS USA, INC.	1	Sales	1,745,157	No significant differences	23.39%
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	504,967	No significant differences	6.77 %
0	The Company	LEI Technology Canada Ltd.	1	Sales	388,634	120 days	5.21 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	360,854	No significant differences	6.01 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	143,905	No significant differences	2.40 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	94,549	120 days	1.57 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	1,079,235	No significant differences	14.46%

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	39,667	No significant differences	6.61 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Sales	315,054	No significant differences	4.22 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Accounts receivable	30,771	No significant differences	0.51 %
2	LANNER ELECTRONICS USA, INC.	The Company	2	Sales	19,960	No significant differences	0.27 %
3	LEI Technology Canada Ltd.	The Company	2	Sales	17,392	No significant differences	0.23 %

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
- (2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) "1" represents downstream transactions.
- (2) "2" represents upstream transactions.
- (3) "3" represents sidestream transactions.

(b) Information on investees:

The following are the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

Name of investor	Investor investee	Address	Scope of business.	Original cost		Ending balance		Maximum investment in 2018	Net income of investee	Investment income (losses)	Remarks
				December 31, 2018	December 31, 2017	Shares	Ratio of shares				
The Company	LANNER ELECTRONICS USA, INC. CO., LTD.	USA	Trading of computer peripheral equipment	248,819	140,935	2,350	100 %	256,712	248,819	34,240	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	676,648	84,990	54,475	(Note 1)
The Company	LEI Technology Canada Ltd.	Canada	Trading of computer peripheral equipment	92,282	56,936	3,105	100 %	77,203	92,282	11,188	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	78,251	78,251	2,623	100 %	720,088	78,251	54,610	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the scope of businesses and products, and other information:

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2018	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2018	Net income on investee	Direct / indirect investment holding percentage	Maximum investment in 2018	Investment income (loss) (Note 2)	Book value (Note 2)	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount							
Beijing L&S Lancom Platform Tech. Co., Ltd. (LAS)	Trading of computer peripheral equipment	118,388	(3)	75,982	-	-	75,982	77,928	80.00 %	75,982	62,342	646,877	-
Beijing LSZC Investment Co. Ltd. (LSZC)	Investing	64,737	(4)a	-	-	-	-	22,136	80.00 %	64,737	17,709	191,412	-
Dongguan Lihua Haiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	48,777	(4)b	-	-	-	-	7,416	80.00 %	48,777	5,933	98,592	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	70,358	(4)b	-	-	-	-	61,920	31.92 %	70,358	18,556	60,932	-
Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral equipment	7,434	(1)	-	-	-	-	(8,059)	100.00 %	7,434	(8,059)	7,662	-

Note 1: The method of investment is divided into the following four categories:

- (1) Remittance from third-region companies to invest in Mainland China.
- (2) Through the establishment of third-region companies then investing in Mainland China.
- (3) Through transferring the investment to third-region existing companies then investing in Mainland China.
- (4) Other methods.
  - a. Investing in Mainland China through Beijing L & S Lancom Platform of Technology Co., Ltd.
  - b. Investing in Mainland China through Beijing LSZC Investment Co., Ltd.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Note 2: The investment income (losses) were recognized under the equity method and based on the financial statements audited by the auditor of the Company.

Note 3: Aforementioned amounts have been eliminated upon consolidated financial statements.

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount remitted from Taiwan to Mainland China at the end of the period	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	75,982	161,928	- (Note 1)

Note 1: The Company was certified as an operations center by the Industrial Development Bureau, Ministry of Economic Affairs, in approval letter No. 10720420590, and the certification is valid from 2018 to 2021. The Company has no limitation on investment in Mainland China during the abovementioned period.

(iii) Significant transactions with investees in Mainland China:

Please refer to “Information on significant transactions” and “Business relationships and significant intercompany transaction” for the indirect and direct business transactions in China. All transactions were eliminated upon consolidation.

**(14) Segment information**

(a) General information

The Group is mainly engaged in the manufacturing and selling of internet and communication equipments. Management reviews the Company's overall performance regularly to evaluate the performance of each segment and allocate its resources accordingly. As the production procedure is highly similar, the Group is identified as a sole operating segment.

(b) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

<u>Geographic information</u>	<u>2018</u>	<u>2017</u>
Revenue from external customers:		
United States	\$ 2,927,775	2,662,472
China	1,775,958	1,643,253
Israel	677,386	700,640
Canada	588,374	423,604
Korea	189,067	2,524
Other countries	<u>1,302,220</u>	<u>1,002,006</u>
Total	<u>\$ 7,460,780</u>	<u>6,434,499</u>

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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<b>Geographical information</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Non-current assets:		
Taiwan	\$ 968,523	981,280
United States	78,561	71,296
China	340,000	81,624
Canada	<u>2,514</u>	<u>3,076</u>
Total	<u><u>\$ 1,389,598</u></u>	<u><u>1,137,276</u></u>

Non-current assets include property, plant and equipment, intangible assets, and other assets. They do not include financial instruments, deferred income tax assets and refundable deposit.

(c) Information about major customers

	<b>2018</b>	<b>2017</b>
Customer A	<u><u>\$ 953,501</u></u>	<u><u>1,100,706</u></u>