

**LANNER ELECTRONICS INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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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, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, LANNER ELECTRONICS INC. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: LANNER ELECTRONICS INC.

Chairman: Chou I Wen

Date: March 19, 2020



安侯建業聯合會計師事務所
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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, 2019 and 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years 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, 2019 and 2018, 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 of the Consolidated financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2018 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 the 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 11% and 12% of its consolidated total assets, and 27% and 28% of its consolidated total revenues for both years ended December 31, 2019 and 2018, respectively.

The Company has prepared its parent company only financial statements as of and for the years ended December 31, 2019 and 2018, 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(n) 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. 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 20% of the consolidated total assets of the Group as of December 31, 2019. 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 matters.

How the matter was addressed in our audit:

Understanding the management's accounting policy on inventory measurement to determine whether 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 19, 2020

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

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

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	
		Amount	%	Amount	%
Assets					
Current assets:					
1100	Cash and cash equivalents (note 6(a))	\$ 1,154,657	19	955,871	17
1110	Financial assets at fair value through profit or loss—current (note 6(b))	101,100	2	112	-
1150	Notes receivable, net (note 6(e))	9,043	-	56,591	-
1170	Accounts receivable, net (note 6(c))	1,225,566	20	1,357,359	23
1200	Other receivables (note 6(d))	48,586	1	15,529	-
130x	Inventories (note 6(e))	1,900,134	31	1,996,740	33
1476	Other financial assets—current (note 8)	2,633	-	2,373	-
1410	Prepayments	90,265	1	69,166	1
1479	Other current assets	98,887	2	63,496	1
	Total current assets	4,630,871	76	4,517,237	75
Non-current assets:					
1600	Property, plant and equipment (notes 6(g) and 8)	1,311,084	22	1,073,310	18
1755	Right-of-use assets (notes 6(g) and 7)	39,173	1	-	-
1915	Prepayments for equipment	12,799	-	311,537	6
1780	Intangible assets (note 6(h))	4,342	-	4,751	-
1840	Deferred income tax assets (note 6(m))	60,690	1	68,416	1
1960	Prepayments for investments in stocks	8,145	-	-	-
1995	Other non-current assets (note 7)	21,262	-	25,909	-
	Total non-current assets	1,457,495	24	1,483,923	25
Equity attributable to shareholders of the company (notes 6(o), 6(n) and 6(o)):					
Share capital:					
	Common stock	3110		3110	
	Capital surplus	3200		3200	
Retained earnings:					
	Legal reserve	3310		3310	
	Special reserve	3320		3320	
	Unappropriated retained earnings	3350		3350	
Other equity:					
	Financial statements translation differences for foreign operations	3410		3410	
	Total equity attributable to shareholders of the company				
	Non-controlling interests	36xx		36xx	
	Total equity	6,088,366	100	6,001,160	100
	Total liabilities and equity	6,088,366	100	6,001,160	100
Liabilities and Equity					
Current liabilities:					
	Short-term debts (notes 6(i) and 8)	\$ 250,944	4	253,528	4
	Long-term debts, current portion (notes 6(i) and 8)	1,097	-	1,840	-
	Current contract liabilities (note 6(q))	35,212	1	39,020	1
	Accounts payable	1,140,723	19	1,402,579	23
	Current tax liabilities	35,942	1	42,667	1
	Other payables (notes 6(i) and 6(r))	592,043	9	573,403	10
	Provisions—current (note 6(i))	41,607	1	46,905	1
	Current lease liabilities (notes 6(k) and 7)	24,807	-	-	-
	Other current liabilities (note 6(q))	224,785	4	201,465	3
	Total current liabilities	2,347,160	39	2,561,407	43
Non-current liabilities:					
	Long-term debts (notes 6(i) and 8)	-	-	17,743	-
	Long-term deferred revenue (note 6(q))	37,382	1	26,956	-
	Deferred income tax liabilities (note 6(m))	175,145	3	144,345	2
	Non-current lease liabilities (notes 6(k) and 7)	15,670	-	-	-
	Accrued pension liabilities (note 6(l))	38,743	1	33,138	1
	Other non-current liabilities	1,026	-	2,870	-
	Total non-current liabilities	267,966	5	225,052	3
	Total liabilities	2,615,126	44	2,786,459	46
Equity attributable to shareholders of the company (notes 6(o), 6(n) and 6(o)):					
Share capital:					
	Common stock	1,180,084	19	1,089,934	18
	Capital surplus	709,964	12	704,585	12
Retained earnings:					
	Legal reserve	310,278	5	267,854	4
	Special reserve	57,366	1	44,515	1
	Unappropriated retained earnings	1,014,072	17	888,967	15
	Total equity	3,181,716	23	3,181,716	20
Other equity:					
	Financial statements translation differences for foreign operations	(92,949)	(2)	(57,366)	(1)
	Total equity attributable to shareholders of the company	3,178,815	52	2,938,489	49
	Non-controlling interests	294,425	4	276,212	5
	Total equity	3,473,240	56	3,214,701	54
	Total liabilities and equity	6,088,366	100	6,001,160	100

(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, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (note 6(q))	\$ 7,724,798	100	7,460,780	100
5000	Operating cost (notes 6(e), 6(f), 6(g), 6(h), 6(j), 6(k), 6(l), 6(o) and 6(r))	<u>5,508,718</u>	<u>71</u>	<u>5,430,112</u>	<u>73</u>
	Gross profit, net	<u>2,216,080</u>	<u>29</u>	<u>2,030,668</u>	<u>27</u>
	Operating expenses (notes 6(c), 6(f), 6(g), 6(h), 6(k), 6(l), 6(o), 6(r) and 7):				
6100	Selling expenses	603,237	8	585,808	8
6200	Administrative expenses	355,650	5	312,512	4
6300	Research and development expenses	570,062	7	578,402	8
6450	Impairment loss (impairment gain and reversal of impairment loss)	<u>15,665</u>	<u>-</u>	<u>(1,618)</u>	<u>-</u>
	Total operating expenses	<u>1,544,614</u>	<u>20</u>	<u>1,475,104</u>	<u>20</u>
	Operating profit	<u>671,466</u>	<u>9</u>	<u>555,564</u>	<u>7</u>
	Non-operating income and expenses (notes 6(j), 6(k), 6(s) and 7):				
7010	Other income	48,053	-	62,663	1
7020	Other gains and losses	(6,472)	-	(10,741)	-
7050	Financial costs	<u>(7,865)</u>	<u>-</u>	<u>(3,203)</u>	<u>-</u>
	Total non-operating income and expenses	<u>33,716</u>	<u>-</u>	<u>48,719</u>	<u>1</u>
	Net Income before tax	705,182	9	604,283	8
7950	Less: Income tax expenses (note 6(m))	<u>144,265</u>	<u>2</u>	<u>127,244</u>	<u>2</u>
	Net income	<u>560,917</u>	<u>7</u>	<u>477,039</u>	<u>6</u>
8300	Other comprehensive income (loss).net (note 6(l)):				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Gains (losses) on remeasurements of defined benefit plans	(6,088)	-	(341)	-
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>(6,088)</u>	<u>-</u>	<u>(341)</u>	<u>-</u>
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(46,523)	(1)	(18,926)	-
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>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(46,523)</u>	<u>(1)</u>	<u>(18,926)</u>	<u>-</u>
8300	Other comprehensive income	<u>(52,611)</u>	<u>(1)</u>	<u>(19,267)</u>	<u>-</u>
	Total comprehensive income	<u>\$ 508,306</u>	<u>6</u>	<u>457,772</u>	<u>6</u>
	Net income attributable to:				
8610	Shareholders of the parent company	\$ 492,428	6	424,236	5
8620	Non-controlling interests	<u>68,489</u>	<u>1</u>	<u>52,803</u>	<u>1</u>
		<u>\$ 560,917</u>	<u>7</u>	<u>477,039</u>	<u>6</u>
	Total comprehensive income attributable to:				
8710	Shareholders of the parent company	\$ 450,757	5	411,044	5
8720	Non-controlling interests	<u>57,549</u>	<u>1</u>	<u>46,728</u>	<u>1</u>
		<u>\$ 508,306</u>	<u>6</u>	<u>457,772</u>	<u>6</u>
9750	Basic earnings per share (in New Taiwan Dollars) (note 6(p))	<u>\$ 4.18</u>		<u>3.62</u>	
9850	Diluted earnings per share (in New Taiwan Dollars) (note 6(p))	<u>\$ 4.12</u>		<u>3.56</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, 2019 and 2018

(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	
	Retained earnings						Total retained earnings	Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings					
Balance at January 1, 2018	\$ 1,046,494	656,348	232,991	29,708	748,447	1,011,146	(44,515)	2,669,473	247,439	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)
Stock dividends	21,240	-	-	-	(21,240)	(21,240)	-	-	-	-
Net income	-	-	-	-	424,236	424,236	-	424,236	52,803	477,039
Other comprehensive income (loss)	-	-	-	-	(341)	(341)	(12,851)	(13,192)	(6,075)	(19,267)
Total comprehensive income (loss)	-	-	-	-	423,895	423,895	(12,851)	411,044	46,728	457,772
Remuneration cost of employee stock options	-	1,463	-	-	-	-	-	1,463	-	1,463
Disposal of investments in equity instruments designated at fair value through other comprehensive income										
-	-	-	-	-	(125)	(125)	-	(125)	-	(125)
Stock options exercised by employees	22,200	46,774	-	-	-	-	-	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
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	42,424	-	(42,424)	-	-	-	-	-
Special reserve	-	-	-	12,851	(12,851)	-	-	-	-	-
Cash dividends	-	-	-	-	(218,540)	(218,540)	-	(218,540)	(39,336)	(257,876)
Stock dividends	87,420	-	-	-	(87,420)	(87,420)	-	-	-	-
Net income	-	-	-	-	492,428	492,428	-	492,428	68,489	560,917
Other comprehensive income (loss)	-	-	-	-	(6,088)	(6,088)	(35,583)	(41,671)	(10,940)	(52,611)
Total comprehensive income (loss)	-	-	-	-	486,340	486,340	(35,583)	450,757	57,549	508,306
Stock options exercised by employees	2,730	5,379	-	-	-	-	-	8,109	-	8,109
Balance at December 31, 2019	\$ 1,180,084	709,964	310,278	57,366	1,014,072	1,381,716	(92,949)	3,178,815	294,425	3,473,240

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

	2019	2018
Cash flows from operating activities:		
Consolidated net income before tax	\$ 705,182	604,283
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	143,186	101,548
Amortization expense	247	1,511
Impairment loss (reversal of impairment loss)	15,665	(1,618)
Net loss on financial assets or liabilities at fair value through profit or loss	(2,100)	(395)
Interest expense	7,865	3,203
Interest income	(6,233)	(7,711)
Remuneration cost of employee stock options	-	1,463
Loss (gains) on disposal of property, plant and equipment, net	(60)	42
Total adjustments to reconcile profit and loss	158,570	98,043
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets or liabilities at fair value through profit or loss	(98,888)	105,067
Notes receivable	47,549	(53,852)
Accounts receivable	116,127	(255,370)
Other receivable	13,271	81,685
Inventories	94,600	(242,240)
Prepayments	(21,099)	204
Other current assets	(35,391)	(12,489)
Other financial assets	(22)	(22)
Total changes in operating assets, net	116,147	(377,017)
Changes in operating liabilities:		
Contract liabilities	(3,808)	22,322
Accounts payable	(261,856)	226,396
Other payables	17,610	55,626
Provisions	(5,298)	(1,464)
Other current liabilities	29,372	37,926
Net defined benefit liability	(483)	(396)
Deferred revenue	6,380	(4,903)
Total changes in operating liabilities, net	(218,083)	335,507
Total changes in operating assets and liabilities, net	(101,936)	(41,510)
Total adjustments	56,634	56,533
Cash provided by operating activities	761,816	660,816
Interest income received	5,995	7,711
Interest paid	(4,814)	(2,728)
Income taxes paid	(112,671)	(84,414)
Net cash provided by operating activities	650,326	581,385
Cash flows from investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	375
Increase in prepayments for investments	(8,145)	-
Acquisition of property, plant and equipment	(94,099)	(91,509)
Proceeds from disposal of property, plant and equipment	118	-
Decrease (increase) in refundable deposits	1,890	(3,722)
Decrease (increase) in other non-current assets	2,757	(4,032)
Increase in prepayments for equipment	(11,297)	(262,451)
Net cash used in investing activities	(108,776)	(361,339)
Cash flows from financing activities:		
Increase in short-term loans	425,224	243,327
Decrease in short-term loans	(423,032)	(114,579)
Repayments of long-term debt	(18,552)	(1,809)
Payment of lease liabilities	(37,560)	-
Increase (decrease) in other non-current liabilities	(1,844)	1,752
Cash dividends paid	(257,876)	(230,295)
Exercise of employee share options	8,109	68,974
Net cash used in financing activities	(305,531)	(32,630)
Effect of exchange rate changes on cash and cash equivalents	(37,233)	(19,701)
Net decrease in cash and cash equivalents	198,786	167,715
Cash and cash equivalents at beginning of period	955,871	788,156
Cash and cash equivalents at end of period	\$ 1,154,657	955,871

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, 2019 and 2018

(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 19, 2020.

(3) New standards, amendments and interpretations adopted

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2019. The differences between the current version and the previous version are as follows:

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

Except for the following items, the 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”.

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

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

1) Definition of a lease

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

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on, or after, January 1, 2019.

2) As a lessee

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

The Group decided to apply the recognition exemptions to the short-term leases of its buildings and leases of transportation equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

(Continued)

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

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

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

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

3) As a lessor

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

Under IFRS 16, the Group is required to assess the classification of a sub-lease by reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Group concluded that the sub-lease is a finance lease under IFRS 16.

4) Impacts on financial statements

On transition to IFRS 16, the Group both recognized the additional amounts of \$78,031 thousands of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.56%.

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

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

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 88,789
Recognition exemption for:	
leases of low-value assets	(7,567)
	<u>\$ 81,222</u>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 78,031
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	<u>\$ 78,031</u>

(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 IFRIC 23 to have any significant impact on its consolidated financial statements on December 31, 2019.

(b) The impact of IFRS endorsed by FSC that will soon take effect

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

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

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

(Continued)

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

(4) Summary of significant accounting policies

- (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the Regulations) and the IFRSs endorsed by the FSC.

- (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 subsidiaries. Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(Continued)

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

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

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Group.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over its subsidiaries are accounted for as equity transactions. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the shareholders of the parent.

When the Group loses control of a subsidiary, the Group derecognizes the assets (including goodwill) and liabilities of the former subsidiary at their carrying amounts from the consolidated statement and re-measures the fair value of retained interest at the date when control is lost. A gain or loss is recognized in profit or loss and is calculated as the difference between:

- 1) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and
- 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any noncontrolling interest.

The Group shall apply the accounting treatment to all previously recognizes amount related to its subsidiary in its comprehensive income as if the related assets and liabilities were disposed by the Group directly.

(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, 2019	December 31, 2018	
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 %	

(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, 2019	December 31, 2018	
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	
LANCOM	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral products	80.00 %	80.00 %	
LANCOM	Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral products	100.00 %	100.00 %	
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 %	Note 1

Note 1: Lanner holds less than 50% of the ownership of LSZC. However, considering the proportion of the remaining shares held by the management of the Group, the Group still holds control over LSZC and its operation. As such, HDZX is considered to be a subsidiary of the Group.

(d) Foreign currency

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

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

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

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

- (i) It expected to be settled liability in its normal operating cycle;
- (ii) It held liability 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

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

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

(Continued)

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

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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.

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

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

3) Fair value through profit or loss (FVTPL)

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

(Continued)

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

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

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and trade receivables, other receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI and contract 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 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 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

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

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 charged to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

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

5) Derecognition of financial assets

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Financial liabilities

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

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

(Continued)

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

4) Derecognition of financial liabilities

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

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

5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

6) Financial guarantee contract

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

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

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(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.

(Continued)

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

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

1) buildings	31~51 years
2) machinery	3~10 years
3) other equipment	2~24 years

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

(Continued)

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

(j) Leases

Applicable from January 1, 2019

(i) Identifying a lease

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

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

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

(ii) As a lessee

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

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

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

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

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

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

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

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

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

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

The Group has elected not to recognize the right-of-use assets and lease liabilities for its short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(iii) As a lessor

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

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

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

Applicable before January 1, 2019

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term.

(ii) Lessee

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

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

Other leases are operating leases and are not recognized in the Group's balance sheets. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Intangible assets

(i) Recognition and measurement

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

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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Expenditure on research activities is recognized in profit or loss as incurred.

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

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

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

(iii) Amortization

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

The estimated useful lives for current and comparative periods are as follows:

- | | |
|---------------------------|---------|
| 1) Customer relationships | 3 years |
|---------------------------|---------|

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

(I) Impairment — non-financial assets

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

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

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

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

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

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

(m) 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.

(n) Revenue from contracts with customers

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

(i) Sale of goods

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

The Group'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).

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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The Group provides 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. 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 product.

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 payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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

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

(iii) Short-term employee benefits

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

(p) 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 during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognized in profit or loss.

(q) Income tax

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

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

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

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

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

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

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

- (r) 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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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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.

(s) 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.

(t) 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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(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.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash	\$ 1,224	8,577
Working capital	-	80
Demand deposits	376,922	651,854
Checking deposits	5,391	7,759
Time deposits	548,500	-
Foreign currency deposits	222,620	287,601
Cash and cash equivalents per consolidated statements of cash flow	<u><u>\$ 1,154,657</u></u>	<u><u>955,871</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.

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Derivative instruments not used for hedging	\$ 778	112
Non-derivative financial assets	100,322	-
Total	\$ 101,100	112

Please refer to note 6(s) for the gains or losses on 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, 2019 and 2018, the Group reported the following derivative financial instruments as held-for-trading financial assets (liabilities) without the application of hedge accounting:

	Fair value	Currency	Contract amount
December 31, 2019			
Forward Contracts	\$ 778	USD/TWD	USD 5,500 / TWD 166,199
December 31, 2018			
Forward Contracts	\$ 112	USD/TWD	USD 2,450 / TWD 75,278

As of December 31, 2019 and 2018, the maturity dates of the derivative financial assets and liabilities were between January 3, 2020 to February 7, 2020 and January 18, 2019 and February 1, 2019.

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

	December 31, 2019	December 31, 2018
Notes receivable	\$ 9,043	56,591
Accounts receivable	1,255,257	1,373,332
Less: allowance for impairment	29,691	15,973
	\$ 1,234,609	1,413,950

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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. 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 was determined as follows:

December 31, 2019			
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 802,752	0.04%~0.11%	599
1 to 30 days past due	91,736	1.11%~1.47%	1,234
31 to 60 days past due	18,954	1.71%~33.34%	3,111
61 to 90 days past due	11,393	17.10%~78.15%	2,089
91 to 120 days past due	5,918	54.02%~100%	3,416
More than 121 days past due	6,400	100%	6,400
	\$ 937,153		16,849

December 31, 2018			
	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
	\$ 1,027,275		11,557

The loss allowance provision in China as of December 31, 2019 was determined as follows:

December 31, 2019			
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 253,257	0%~1.55%	964
1 to 30 days past due	38,069	0.27%~4.78%	525
31 to 60 days past due	20,672	5.09%~9.93%	1,052
61 to 90 days past due	881	11.72%~20.20%	178
91 to 120 days past due	4,602	22.60%~28.71%	1,040
121 to 150 days past due	116	42.60%~48.80%	56
151 to 180 days past due	2,145	75.62%~86.50%	1,622
More than 181 days past due	7,405	100%	7,405
	\$ 327,147		12,842

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	December 31, 2018		
	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><u>\$ 402,648</u></u>		<u><u>4,416</u></u>

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

	2019	2018
Balance on January 1	\$ 15,973	17,685
Impairment losses recognized	15,665	-
Impairment losses reversed	-	(1,618)
Amounts written off	(1,376)	-
Foreign exchange losses	(571)	(94)
Balance on December 31	<u><u>\$ 29,691</u></u>	<u><u>15,973</u></u>

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

(d) Other receivables

	December 31, 2019	December 31, 2018
Other	<u><u>\$ 48,586</u></u>	<u><u>15,529</u></u>

As of December 31, 2019 and 2018, 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).

(e) Inventories

	December 31, 2019	December 31, 2018
Merchandise	\$ 549	1,327
Finished goods	814,751	995,938
Work in process	347,705	352,595
Raw material	737,129	646,880
Total	<u><u>\$ 1,900,134</u></u>	<u><u>1,996,740</u></u>

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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, 2019 and 2018, 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 2019 and 2018 were as follows:

	2019	2018
Loss on (reversal of) market value of inventory	\$ (3,154)	15,846
Loss from scrapped inventory	53,037	15,932
Loss (gain) on physical count	(2,030)	1,436
Total	<u><u>\$ 47,853</u></u>	<u><u>33,214</u></u>

The Group reversed the allowance for loss on inventory for the year ended December 31, 2018, when the Group sold, scrapped or used the inventories for which an allowance had been provided for the year ended December 31, 2019.

(f) 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, 2019	\$ 509,882	456,266	155,594	516,477	1,638,219
Additions	-	19,351	26,329	48,419	94,099
Disposals	-	-	(6,722)	(18,350)	(25,072)
Reclassification	-	218,183	238	43,032	261,453
Effect of changes in exchange rates	(624)	(9,309)	(1,016)	(6,077)	(17,026)
Balance at December 31, 2019	<u><u>\$ 509,258</u></u>	<u><u>684,491</u></u>	<u><u>174,423</u></u>	<u><u>583,501</u></u>	<u><u>1,951,673</u></u>
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><u>\$ 509,882</u></u>	<u><u>456,266</u></u>	<u><u>155,594</u></u>	<u><u>516,477</u></u>	<u><u>1,638,219</u></u>

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Total</u>
Depreciation and impairment loss:					
Balance at January 1, 2019	\$ -	100,436	123,816	340,657	564,909
Depreciation	-	18,416	10,932	74,973	104,321
Disposal	-	-	(6,722)	(18,292)	(25,014)
Effect of changes in exchange rates	-	(488)	(210)	(2,929)	(3,627)
Balance at December 31, 2019	<u>\$ -</u>	<u>118,364</u>	<u>127,816</u>	<u>394,409</u>	<u>640,589</u>
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>
Carrying value:					
December 31, 2019	<u>\$ 509,258</u>	<u>566,127</u>	<u>46,607</u>	<u>189,092</u>	<u>1,311,084</u>
December 31, 2018	<u>\$ 509,882</u>	<u>355,830</u>	<u>31,778</u>	<u>175,820</u>	<u>1,073,310</u>
January 1, 2018	<u>\$ 498,671</u>	<u>362,081</u>	<u>21,643</u>	<u>196,592</u>	<u>1,078,987</u>

Please refer to note 8 for the information of the pledged property, plant and equipment, as of December 31, 2019 and 2018.

(g) Right-of-use assets

The Group leases its assets including its buildings and transportation equipment. Information about leases, for which the Group is the lessee, is presented below:

	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	71,613	6,498	78,111
Balance at January 1, 2019	71,613	6,498	78,111
Additions	4,289	1,478	5,767
Lease modification	(5,128)	-	(5,128)
Effect of changes in foreign exchange rates	(1,652)	-	(1,652)
Balance at December 31, 2019	<u>\$ 69,122</u>	<u>7,976</u>	<u>77,098</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	\$ -	-	-
Depreciation	36,296	2,569	38,865
Effect of changes in exchange rates	(940)	-	(940)
Balance at December 31, 2019	<u>\$ 35,356</u>	<u>2,569</u>	<u>37,925</u>
Carrying value:			
December 31, 2019	<u>\$ 33,766</u>	<u>5,407</u>	<u>39,173</u>

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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, 2019	\$ 4,502	4,450	8,952
Effect of changes in exchange rates	(160)	(160)	(320)
Balance at December 31, 2019	<u>\$ 4,342</u>	<u>4,290</u>	<u>8,632</u>
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>
Amortization:			
Balance at January 1, 2019	\$ -	4,201	4,201
Amortization	-	247	247
Effect of changes in exchange rates	-	(158)	(158)
Balance at December 31, 2019	<u>\$ -</u>	<u>4,290</u>	<u>4,290</u>
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>
Carrying value:			
December 31, 2019	<u>\$ 4,342</u>	<u>-</u>	<u>4,342</u>
December 31, 2018	<u>\$ 4,502</u>	<u>249</u>	<u>4,751</u>
January 1, 2018	<u>\$ 4,601</u>	<u>1,768</u>	<u>6,369</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 inflows. As of December 31, 2019 and 2018, 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
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- 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, 2019 and 2018, the discount rates for the present value of recoverable amounts was 9% and 10%.

(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, 2019				
	Currency	Interest rate	Maturity year	Amount
Unsecured loans	RMB	5.22	2020	\$ 128,688
Unsecured loans	USD	2.75~4.18	2020	122,256
Total				<u><u>\$ 250,944</u></u>

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><u>\$ 253,528</u></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, 2019 and 2018, the unused credit facilities of the Group's short-term borrowings amounted to \$1,317,790 thousand and \$670,000 thousand, respectively.

(ii) Long-term borrowings

December 31, 2019				
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	4.9326	2020	\$ <u><u>1,097</u></u>
Current				\$ 1,097
Non-current				-
Total				<u><u>\$ 1,097</u></u>

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

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

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

	Warranty provision	Legal matter	Total
Balance at January 1, 2019	\$ 46,905	-	46,905
Provisions made during the year	29,416	-	29,416
Provisions used during the year	(31,616)	-	(31,616)
Reversal of provisions during the year	(2,730)	-	(2,730)
Effect of changes in exchange rates	(368)	-	(368)
Balance at December 31, 2019	\$ <u>41,607</u>	-	<u>41,607</u>
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	\$ <u>46,905</u>	-	<u>46,905</u>

(i) Warranties

In 2019 and 2018, provisions are estimated based on the historical data of trading of interment communications equipment, which are mainly associated with the Group's business products. The Group anticipates the warranties to occur in the following year of the sales.

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

(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, 2018. 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.

(k) Lease liabilities

The Group's lease liabilities were as follow:

	December 31, 2019
Current	\$ <u>24,807</u>
Non-current	\$ <u>15,670</u>

For the maturity analysis, please refer to note 6(t).

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	\$ <u>2,021</u>
Expenses relating to short-term leases	\$ <u>2,712</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>5,360</u>

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

	2019
Total cash outflow for leases	\$ <u>47,653</u>

(l) 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, 2019	December 31, 2018
The present value of the defined benefit obligations	\$ 62,755	55,710
Fair value of plan assets	(24,012)	(22,572)
The net defined benefit liability	<u>\$ 38,743</u>	<u>33,138</u>

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

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 \$24,012 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, 2019 and 2018, were as follows:

	2019	2018
Defined benefit obligation at 1 January	\$ 55,710	56,167
Current service costs and interest	939	1,060
Remeasurements of the net defined benefit liability (asset)		
— Return on plan assets (excluding amounts included in net interest expense)	6,253	(391)
— Due to changes in financial assumption of actuarial (losses) gains	675	1,357
Benefits paid by the plan	(822)	(2,483)
Defined benefit obligation at 31 December	<u>\$ 62,755</u>	<u>55,710</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, 2019 and 2018, were as follows:

	2019	2018
Fair value of plan assets, January 1	\$ 22,572	22,974
Remeasurements of the net defined benefit liability (asset)		
— Return on plan assets (excluding amounts included in net interest expense)	1,071	916
Contributions made	1,191	1,165
Benefits paid by the plan	(822)	(2,483)
Fair value of plan assets, December 31	<u><u>\$ 24,012</u></u>	<u><u>22,572</u></u>

4) Expenses recognized in profit or loss

The expenses recognized on profit or loss for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Current service cost	\$ 341	321
Net interest on the defined benefit liability (asset)	367	448
	<u><u>\$ 708</u></u>	<u><u>769</u></u>
	2019	2018
Operating costs	\$ 393	430
Selling expenses	105	87
Research and development expenses	210	252
	<u><u>\$ 708</u></u>	<u><u>769</u></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, 2019 and 2018, were as follows:

	2019	2018
Cumulative amount, January 1	\$ 13,479	13,138
Recognized during the period	6,088	341
Cumulative amount, December 31	<u><u>\$ 19,567</u></u>	<u><u>13,479</u></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, 2019 and 2018 is as follows:

	<u>2019.12.31</u>	<u>2018.12.31</u>
Discount rate	1.000 %	1.125 %
Future salary increases rate	3.300 %	3.300 %

The Group expects to make contributions of \$1,177 thousand to the defined benefit plans in the next year starting from the reporting date of 2019.

The weighted average duration of the defined benefit obligation is 12.86 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, 2019 and 2018, the present value of defined benefit obligation impact was as follow:

	The impact of defined benefit obligation	
	<u>Increase</u>	<u>Decrease</u>
December 31, 2019		
Discount rate (0.25%)	\$ (1,331)	1,385
Future salary increase rate (0.25%)	1,323	(1,283)
December 31, 2018		
Discount rate (0.25%)	(1,357)	1,411
Future salary increase rate (0.25%)	1,356	(1,304)

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 2019 and 2018.

(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 \$38,632 thousand and \$37,085 thousand for 2019 and 2018, 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, 2019	December 31, 2018
Annual leave benefit	<u><u>\$ 24,785</u></u>	<u><u>23,737</u></u>

(m) Income tax

(i) Income tax expenses (benefit)

The amount of income tax for 2019 and 2018 were as follows:

	2019	2018
Current tax expense		
Current period	\$ 104,456	94,330
Adjustment for prior periods	<u>1,490</u>	<u>2,319</u>
	<u>105,946</u>	<u>96,649</u>
Deferred income tax expense		
Origination and reversal of temporary differences	38,319	21,297
Effect on tax rated change	<u>-</u>	<u>9,298</u>
	<u>38,319</u>	<u>30,595</u>
Income tax expense from continuing operations	<u><u>\$ 144,265</u></u>	<u><u>127,244</u></u>

Reconciliation of the Company's income tax expense (benefit) and the profit before tax for 2019 and 2018 were as follows:

	2019	2018
Net income before tax	<u><u>\$ 705,182</u></u>	<u><u>604,283</u></u>
Income tax using the Company's domestic tax rate	\$ 168,266	120,857
Effect of tax rates in foreign jurisdiction	-	20,983
Effect on tax rated change	-	9,298
Previously underestimate income tax	1,490	2,319
Non-deductible expenses	18	63
Tax-free revenue	-	(5,697)
Unrecognized tax loss of deferred tax assets	-	(2,513)
Unrecognized changes in temporary differences	-	(2,097)
Surat on unappropriated earnings	1,059	6,622
R&D tax credits utilized	(25,335)	(29,047)
Others	<u>(1,233)</u>	<u>6,456</u>
Total	<u><u>\$ 144,265</u></u>	<u><u>127,244</u></u>

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

- (ii) Deferred income tax assets and liabilities— Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2019 and 2018 were as follows:

Deferred income tax assets:

	Unrealized profit from sales	Tax differences from sales	Others	Total
Balance at January 1, 2019	\$ 19,176	12,182	37,058	68,416
Recognized in profit or loss	(1,145)	(1,240)	(5,341)	(7,726)
Balance at December 31, 2019	<u>\$ 18,031</u>	<u>10,942</u>	<u>31,717</u>	<u>60,690</u>
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>

Deferred income tax liabilities:

	Foreign investment income accounted for using equity method	Others	Total
Balance at January 1, 2019	\$ (142,850)	(1,495)	(144,345)
Recognized in profit or loss	(30,286)	(514)	(30,800)
Balance at December 31, 2019	<u>\$ (173,136)</u>	<u>(2,009)</u>	<u>(175,145)</u>
Balance at January 1, 2018	\$ (99,155)	(942)	(100,097)
Recognized in profit or loss	(43,695)	(553)	(44,248)
Balance at December 31, 2018	<u>\$ (142,850)</u>	<u>(1,495)</u>	<u>(144,345)</u>

- (iii) Examination and Approval

The tax returns of the Company were examined and approved by the tax authorities through 2017.

- (n) Capital and other equity

As of December 31, 2019 and 2018, the ordinary shares with par value of \$10 per share, amounted to \$1,500,000 thousand; also, 118,008 thousand and 108,993 thousand common stocks, respectively, were issued from the shares mentioned above. All issued shares were paid up upon issuance.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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A reconciliation of the Company's outstanding shares for the years ended December 31, 2019 and 2018 were as follows:

	Unit: thousands shares	
	2019	2018
Balance at January 1	108,993	104,649
Stock dividends of ordinary share	8,742	2,124
Exercise of employee share options	273	2,220
Balance at December 31	<u>118,008</u>	<u>108,993</u>

(i) Issue of common stock

Upon the approval of the Annual Shareholders' Meeting held on June 19, 2019 and 2018, the Company withdrew \$87,420 thousand and \$21,240 thousand from distributable earnings to issue dividends stocks of 8,742 thousand and 2,124 thousand shares, with a face value of \$10 per share. The changes of company registration were completed accordingly.

The Company issued 273 thousand and 2,220 thousand new shares in 2019 and 2018 respectively, for the exercise of employee stock options. The exercise price was \$29.7 and \$31.7 per share, respectively.

(ii) Capital surplus

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

	December 31, 2019	December 31, 2018
Share premium from issuance	\$ 681,333	673,767
Changes in equity of associates and joint ventures accounted for using equity method	17,539	17,539
Employee share options	1,700	3,887
Employee share options expired	<u>9,392</u>	<u>9,392</u>
	<u>\$ 709,964</u>	<u>704,585</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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(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. In accordance with Rule No. 10802432410 issued by Ministry of Economic Affairs, R.O.C on January 9, 2020, the Company has to apply the profit distribution based on its financial statements in 2019, wherein the Company shall use the amount of net profit after tax, plus, those net amounts other than the net profits, which are recognized as undistributed surplus earnings, as the basis for the legal reserve.

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 Rule 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.

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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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3) Earnings distribution

In accordance with the Company's articles of incorporation require amended on June 19, 2019, that after-tax earnings from the current year shall first be used to offset against 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. Distribution plan shall be executed after a resolution by the shareholders' meeting. The Company authorizes the Distribution plan paid in cash shall be executed after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

In accordance with Article 241 of the Company Act, the distribution of its legal reserve and the following capital reserve, in whole or in part, by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash ; Once upon by cash, the Company authorizes the distribution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

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 Rule 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, 2019 and 2018 the special earnings reserve amounted to \$57,366 thousand and \$44,515 thousands, respectively.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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Earnings distribution for 2018 and 2017 was decided via the general meeting of shareholders held on June 19, 2019 and 2018, respectively. The relevant dividend distributions to shareholders were as follows:

	2018		2017	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 2.0	218,540	2.0	212,340
Stock	0.8	<u>87,420</u>	0.2	<u>21,240</u>
Total		<u><u>\$ 305,960</u></u>		<u><u>233,580</u></u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2019	\$ (57,366)	(10,429)	(67,795)
Foreign exchange differences arising from net assets of foreign operation	(35,583)	(10,940)	(46,523)
Balance at December 31, 2019	<u><u>\$ (92,949)</u></u>	<u><u>(21,369)</u></u>	<u><u>(114,318)</u></u>
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, 2018	<u><u>\$ (57,366)</u></u>	<u><u>(10,429)</u></u>	<u><u>(67,795)</u></u>

(o) Share-based payment

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 subscriptions 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

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES
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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 was estimated to be \$1,463 thousand in 2018. The additional paid-in capital also increased due to the stock option plan.

The outstanding stock option rights as follows:

		2019	
		Units	Exercise price (dollars)
Employee stock options in 2015			
Outstanding balance as of January 1		485	\$ 29.7
Options granted	-	-	-
Options exercised	273		29.7
Options cancelled	-		-
Options expired	-		-
Outstanding balance as of December 31	<u>212</u>		26.8
Exercisable as of December 31	<u>212</u>		-
Exercisable shares per unit as of December 31 — adjusted	<u>1,000</u>		
Fair market value	<u>\$ 4.3</u>		
		2018	
		Units	Exercise price (dollars)
Employee stock options in 2015			
Outstanding balance as of January 1	2,780	\$	34.1
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>		

As of December 31, 2019, the expected duration of the employee stock option issued in 2015 was 0.71 years.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(p) Earnings per share

The calculation of the Group's basic earnings per share and diluted earnings per share for years ended December 31, 2019 and 2018 were as follows:

(i) Basic earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company	\$ <u><u>492,428</u></u>	<u><u>424,236</u></u>
Weighted-average number of ordinary shares	<u><u>117,930</u></u>	<u><u>117,077</u></u>
Basic earnings per share (in NT dollars)	\$ <u><u>4.18</u></u>	<u><u>3.62</u></u>

(ii) Diluted earnings per share

	2019	2018
Net income attributable to ordinary shareholders of the Company (diluted)	\$ <u><u>492,428</u></u>	<u><u>424,236</u></u>
Weighted-average number of ordinary shares (basic)	117,930	117,077
Impact of potential common shares		
Effect of employee stock bonus	1,410	1,920
Effect of employee stock option	<u>130</u>	<u>161</u>
Weighted-average number of ordinary shares (diluted)	<u><u>119,470</u></u>	<u><u>119,158</u></u>
Diluted earnings per share (in NT dollars)	\$ <u><u>4.12</u></u>	<u><u>3.56</u></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.

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	2019		
	Sale of Network Communication and other related products	Others	Total
Primary geographical markets:			
Asia	\$ 3,152,602	17,719	3,170,321
America	3,604,030	85,051	3,689,081
Europe	752,519	1,527	754,046
Others	<u>110,924</u>	<u>426</u>	<u>111,350</u>
	<u><u>\$ 7,620,075</u></u>	<u><u>104,723</u></u>	<u><u>7,724,798</u></u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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2019			
	Sale of Network Communication and other related products	Others	Total
Primary merchandises/services lines:			
Network communication apparatus	\$ 6,635,891	102,442	6,738,333
Others	<u>984,184</u>	<u>2,281</u>	<u>986,465</u>
	<u>\$ 7,620,075</u>	<u>104,723</u>	<u>7,724,798</u>
2018			
	Sale of Network Communication and other related products	Others	Total
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 the Group's amounted to \$6,532 thousand and \$(4,690) thousand for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, accumulated unearned revenue amounted to \$55,838 thousand and \$49,458 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(ii) Contract balance

	December 31, 2019	December 31, 2018	January 1, 2018
Current contract liabilities	<u>\$ 35,212</u>	<u>39,020</u>	<u>16,698</u>

For details on accounts receivable and allowance for impairment, please refer to note 6(c).

The amount of revenue recognized for the years ended December 31, 2019 and 2018 that was included in the contract liability balance at the beginning of the period was \$39,020 thousand and \$16,698 thousand, respectively.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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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.

(r) Employee compensation and directors' and supervisors' remuneration

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. The pervading target given via shares includes these dependent employees of the Company's subsidiaries under certain requirements.

For the years ended December 31, 2019 and 2018, the Company recognized its employee remuneration of \$82,353 thousand and \$72,462 thousand, respectively, and directors' and supervisors' remuneration of \$8,235 thousand and \$7,246 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 2019 and 2018.

(s) Non-operating income and expenses

(i) Other income

The details of the Group's other income were as follows:

	2019	2018
Interest income	\$ 6,233	7,711
Rent income	5,458	5,067
Other	36,362	49,885
Total other income	<u>\$ 48,053</u>	<u>62,663</u>

(ii) Other gains and losses

The details of the Group's other gains and losses were as follows:

	2019	2018
Gains (losses) on disposal of property, plant and equipment	\$ 60	(42)
Losses on foreign exchange, net	(7,672)	(9,649)
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	2,100	395
Other	(960)	(1,445)
Net other gains and losses	<u>\$ (6,472)</u>	<u>(10,741)</u>

(Continued)

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

(iii) Finance costs

The details of the Group's finance costs were as follows:

	2019	2018
Interest expense	\$ <u>7,865</u>	<u>3,203</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, 8% and 13% of the Group's total sales were derived from a single client in 2019 and 2018, respectively. Region wise, approximately 89% and 88% of the sales were significantly concentrated in Asia and America in 2019 and 2018, respectively.

(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
December 31, 2019						
Non-derivative financial liabilities						
Short-term debts	\$ 250,944	256,652	256,652	-	-	-
Accounts payable	1,140,723	1,130,361	1,130,361	-	-	-
Other payables	131,701	131,701	131,701	-	-	-
Long-term debts (including due within a year)	1,097	1,120	1,120	-	-	-
Lease liabilities	40,477	42,301	28,542	12,325	1,434	-
Guarantee deposits received	1,026	1,026	-	-	-	1,026
	<u>\$ 1,565,968</u>	<u>1,563,161</u>	<u>1,548,376</u>	<u>12,325</u>	<u>1,434</u>	<u>1,026</u>
December 31, 2018						
Non-derivative financial liabilities						
Short-term debts	\$ 253,528	255,454	255,454	-	-	-
Accounts payable (including related parties)	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>\$ 1,822,618</u>	<u>1,825,857</u>	<u>1,804,251</u>	<u>18,933</u>	<u>-</u>	<u>2,673</u>

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
December 31, 2019			
Financial assets:			
Monetary items:			
USD (note)	\$ 45,610	29.9860	1,367,665
Financial liabilities:			
Monetary items:			
USD (note)	\$ 32,534	29.9860	975,564
December 31, 2018			
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

Note: Amounts are designated before consolidation.

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, 2019 and 2018 would have increased or decreased the net income by \$10,462 thousand and \$11,018 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, 2019 and 2018, foreign exchange gain (loss) (including realized and unrealized abortions) amounted to \$7,672 thousand and \$9,649 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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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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 \$2,016 thousand and \$2,185 thousand, respectively, for the years ended December 31, 2019 and 2018, 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.

	Carrying amount	December 31, 2019			
		Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 778	-	778	-	778
Financial assets mandatorily measured at fair value through profit or loss	100,322	100,322	-	-	100,322
Total	\$ 101,100	100,322	778	-	101,100
	Carrying amount	December 31, 2018			
		Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 112	-	112	-	112

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.

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

(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.

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.

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

(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 86% and 84% of the total amount of the receivables as of December 31, 2019, and 2018, 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.

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, 2019 and 2018, the Group did not provide any endorsement and guarantees.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(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.

(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.

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

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

	December 31, 2019	December 31, 2018
Total liabilities	\$ 2,615,126	2,786,459
Less: cash and cash equivalents	<u>1,154,657</u>	<u>955,871</u>
Net debt	<u>\$ 1,460,469</u>	<u>1,830,588</u>
Total equity	<u>\$ 3,473,240</u>	<u>3,214,701</u>
Debt-to-adjusted-capital ratio	<u>42 %</u>	<u>57 %</u>

The reduction of the debt to capital equity ratio as of December 31, 2019 was due to the decrease in accounts payable.

As of December 31, 2019, no changes have been made on the capital management.

(w) Investment and financing activities of non-cash transactions

The Group's investing and financing activities which did not affect the current cash flow for the year ended December 31, 2019 was acquisition of right-of-use assets by leasing. There was no investing and financing activities which did not affect the current cash flow for the year ended December 31, 2018.

(x) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities for the years ended December 31, 2019 and 2018 were as follows:

	January 1, 2019	Cash flows	Foreign exchange movement	Non-cash changes Amortization of commercial paper discount	Others	December 31, 2019
Short-term borrowings	\$ 253,528	2,192	(4,776)	-	-	250,944
Long-term borrowings (including current portion)	19,583	(18,552)	66	-	-	1,097
Lease liabilities	<u>80,951</u>	<u>(37,560)</u>	<u>570</u>	<u>2,021</u>	<u>(5,505)</u>	<u>40,477</u>
Total liabilities from financing activities	<u>\$ 354,062</u>	<u>(53,920)</u>	<u>(4,140)</u>	<u>2,021</u>	<u>(5,505)</u>	<u>292,518</u>

	January 1, 2018	Cash flows	Foreign exchange movement	Non-cash changes Amortization of commercial paper discount	December 31, 2018
Short-term borrowings	\$ 125,307	128,748	(527)	-	253,528
Long-term borrowings (including current portion)	<u>20,071</u>	<u>(1,809)</u>	<u>1,321</u>	<u>-</u>	<u>19,583</u>
Total liabilities from financing activities	<u>\$ 145,378</u>	<u>126,939</u>	<u>794</u>	<u>-</u>	<u>273,111</u>

(7) Related-party transactions

(a) Parent Company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

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

(b) Related-party and relationship between the Company

The Group has transactions with its related parties as follows:

<u>Related-parties</u>	<u>Relationship between the Company</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

(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 assets. Rent for the year ended December 31, 2018 amounted to \$1,320 thousand. There were no outstanding balance as of December 31, 2018. At the date of initial application of IFRS 16, the Company recognized right-of-use asset and lease liability of both \$1,855 thousand, respectively, because of the aforementioned lease transaction. The Group recognized interest expenses of \$10 thousand for the year ended 2019. As of December 31, 2019, the lease liability was \$546 thousand.

(ii) Contribution

With the approval from the broad of directors, the Group agreed to contribute \$3,700 thousand and \$3,500 thousand to Lanner Foundation for the years ended December 31, 2019 and 2018, recorded under operating expenses — administrative expenses.

(d) Key management personnel compensations

Key management personnel compensation comprised:

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 111,694	96,964
Post-employment benefits	<u>780</u>	<u>816</u>
	<u>\$ 112,474</u>	<u>97,780</u>

(8) Pledged assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Certificate of deposits (recorded under other financial assets — current)	Guarantee for customs	\$ 2,371	2,349
Land	Guarantee for long and short-term debts	413,815	414,439
Building	Guarantee for long and short-term debts	240,853	252,000
		<u>\$ 657,039</u>	<u>668,788</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(9) Significant Commitments and Contingencies

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

	December 31, 2019	December 31, 2018
Acquisition of property, plant and equipment	\$ <u>-</u>	<u>112,673</u>

(b) Operating lease commitments

As of and 2018, the Group had signed unconcealable 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
Under a year	\$ 45,597
Over 1 year but under 5 years	37,134
Over 5 years	<u>6,058</u>
	\$ <u>88,789</u>

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

(12) Other

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

By nature	By function	Years ended December 31, 2019			Years ended December 31, 2018		
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits							
Salary		230,552	849,413	1,079,965	214,655	804,660	1,019,315
Labor and health insurance		22,589	52,466	75,055	21,470	49,637	71,107
Pension		9,518	29,822	39,340	8,970	28,884	37,854
Remuneration of directors		-	7,082	7,082	-	6,368	6,368
Others		14,956	34,675	49,631	13,164	39,355	52,519
Depreciation		48,411	94,775	143,186	32,431	69,117	101,548
Amortization		-	247	247	-	1,511	1,511

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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	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	-	-	5.6%	2	-	Operating capital	-		-	635,763 (Note 2)	1,271,526 (Note 1)
2	Lancom Holding Co., Ltd.	Beijing L&S Lancom Platform Tech Co., Ltd. (L&S)	Other receivables — related parties	Yes	57,838	-	-	5.6%	2	-	Operating capital	-		-	158,392 (Note 4)	316,783 (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"

Note 7: The transactions within the Group were eliminated in the consolidated financial statements

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

(iii) Information regarding securities held at the reporting date (subsidiaries, associates and joint ventures not included):

Unit: thousand dollars/thousand shares

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	December 31, 2019				Maximum investment in 2019	Remarks
				Number of shares	Book value	Holding percentage	Market value		
The Company	Mutual fund: Capital Money Market Fund	—	Financial assets at fair value though profit or loss — current	6,194	100,322	- %	100,322	200,000	-

(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 — Point Gold Pool 7007	Financial assets at fair value though profit or loss — current	China Merchants Bank	-	-	-	-	248,797	-	248,797	248,797	-	-	-

(v) Information on acquisition of real estate with purchase amount exceeding 300 million or 20% of the Company's paid-in capital: None.

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

(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)	(1,743,068)	(32)	90 days	-	-	319,510	30 %	

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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)	
LANNER ELECTRONICS USA, INC.	The Company	Subsidiary	Purchase	1,743,068	94	%90 days	-		(319,510)	(96)	%
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	(Sales)	(606,362)	(11)	%60 days	-		176,907	16	%
Dongguan Lihua Haiwell Tech. Co., Ltd.	The Company	Subsidiary	Purchase	606,362	36	%60 days	-		(176,907)	(36)	%
The Company	LEI Technology Canada Ltd.	Subsidiary	(Sales)	(538,616)	(10)	%90 days	-		114,282	11	%
LEI Technology Canada Ltd.	The Company	Subsidiary	Purchase	538,616	80	%90 days	-		(114,282)	(92)	%
Dongguan Lihua Haiwell Tech. Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Subsidiary	(Sales)	(1,219,945)	(68)	%60 days	-		-	-	%
Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Purchase	1,219,945	99	%60 days	-		-	-	%
Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	Associated company	(Sales)	(358,096)	(20)	%60 days	-		-	-	%
Beijing HDZX Technology CO., Ltd.	Dongguan Lihua Haiwell Technology Co., Ltd.	Associated company	Purchase	358,096	95	%60 days	-		-	-	%

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:

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	319,510	5.12	-		291,896 (Until March 19, 2020)	-
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	176,907	3.78	-		106,118 (Until March 19, 2020)	-
The Company	LEI Technology Canada Ltd.	Subsidiary	114,282	5.16	-		98,674 (Until March 19, 2020)	-

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, 2019:

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
0	The Company	LANNER ELECTRONICS USA, INC.	1	Sales	1,743,068	No significant differences	22.56%
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	606,362	No significant differences	7.85 %
0	The Company	LEI Technology Canada Ltd.	1	Sales	538,616	No significant differences	6.97 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	319,510	No significant differences	5.25 %

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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
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	176,907	No significant differences	2.91 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	114,282	No significant differences	1.88 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	1,219,945	No significant differences	15.79%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	83,132	No significant differences	1.37 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Sales	358,096	No significant differences	4.64 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Advance sales receipts	66,494	No significant differences	1.09 %

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, 2019 (excluding information on investees in Mainland China):

Name of investor	Investor investee	Address	Scope of business	Original cost		Ending balance			Maximum investment in 2019	Net income of investee	Investment income (losses)	Remarks
				December 31, 2019	December 31, 2018	Shares	Ratio of shares	Book value				
The Company	LANNER ELECTRONICS USA, INC	USA	Trading of computer peripheral equipment	248,819	248,819	7,850	100 %	277,626	248,819	27,007	27,007	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	755,857	84,990	101,540	101,540	(Note 1)
The Company	LEI Technology Canada Ltd	Canada	Trading of computer peripheral equipment	92,282	92,282	3,105	100 %	90,153	92,282	13,419	13,419	(Note 1)
Lanner Electronics (Mauritius) Inc	Lancom Holding Co., Ltd	Samoa	Investing	78,251	78,251	2,623	100 %	791,958	78,251	101,665	101,665	(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, 2019	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2019	Net income on investee	Direct / indirect investment holding percentage	Maximum investment in 2019	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 (L&S)	Trading of computer peripheral equipment	118,388	(3)	75,982	-	-	75,982	132,848	80.00 %	75,982	106,278	726,179	-
Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	103,663	(4)a	-	-	-	-	43,488	80.00 %	103,663	34,790	172,997	-
Dongguan Lihua Haiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	48,777	(4)b	-	-	-	-	15,905	80.00 %	48,777	12,724	79,874	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	70,358	(4)b	-	-	-	-	69,749	31.92 %	70,358	22,066	59,884	-
Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral equipment	15,617	(1)	-	-	-	-	(5,945)	100.00 %	15,617	(5,945)	1,654	-

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

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.

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 equipment. 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.

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

(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>2019</u>	<u>2018</u>
Revenue from external customers:		
United States	\$ 2,873,302	2,927,775
China	2,240,822	1,775,958
Canada	793,851	588,374
Israel	614,424	677,386
Other countries	<u>1,202,399</u>	<u>1,491,287</u>
Total	<u><u>\$ 7,724,798</u></u>	<u><u>7,460,780</u></u>
	<u>December 31,</u>	<u>December 31,</u>
<u>Geographical information</u>	<u>2019</u>	<u>2018</u>
Non-current assets:		
Taiwan	\$ 940,640	968,523
United States	88,284	78,561
China	335,759	340,000
Canada	<u>2,715</u>	<u>2,514</u>
Total	<u><u>\$ 1,367,398</u></u>	<u><u>1,389,598</u></u>

Non-current assets include property, plant and equipment, right-of-use assets, prepayments for equipment and intangible assets. They do not include financial instruments, deferred income tax assets and refundable deposit.

(c) Information about major customers

	<u>2019</u>	<u>2018</u>
Customer A	<u><u>\$ 594,458</u></u>	<u><u>953,501</u></u>