

**LANNER ELECTRONICS INC.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

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

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

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安侯建業聯合會計師事務所

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## Independent Auditors' Review Report

To the Board of Directors  
LANNER ELECTRONICS INC.:

### Introduction

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

### Scope of Review

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

### Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect the total assets amounting to \$283,696 thousand and \$519,660 thousand, constituting 5% and 9% of the consolidated total assets; the total liabilities amounting to \$16,697 thousand and \$62,435 thousand, constituting 1% and 2% of the consolidated total liabilities as of June 30, 2020 and 2019, respectively; and the total comprehensive income (loss) amounting to \$27,518 thousand, \$27,255 thousand, \$25,460 thousand and \$40,343 thousand, constituting 15%, 26%, 10% and 16% of the consolidated total comprehensive income (loss) for the three months and six months ended June 30, 2020 and 2019, respectively.

**Qualified Conclusion**

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

**Other Matter**

We did not review the financial statements of LANNER ELECTRONICS USA, INC. (LANNER (USA)), a subsidiary of the Group. Those financial statements were reviewed by another auditor, whose review report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for LANNER (USA) is based solely on the review report of another auditor. The financial statements of LANNER (USA) reflect the total assets amounting to \$638,217 thousand and \$623,479 thousand, each constituting 11% of the consolidated total assets as of June 30, 2020 and 2019, and the total revenues amounting to \$411,930 thousand, \$477,606 thousand, \$841,791 thousand and \$1,004,871 thousand, constituting 24%, 28%, 26% and 28% of the consolidated total revenues for the three months and six months ended June 30, 2020 and 2019, respectively.

KPMG

Taipei, Taiwan (Republic of China)  
August 13, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**Reviewed only, not audited in accordance with the generally accepted auditing standards as of June 30, 2020 and 2019**

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**June 30, 2020, December 31 and June 30, 2019**

**(Expressed in Thousands of New Taiwan Dollars)**

	June 30, 2020		December 31, 2019		June 30, 2019			June 30, 2020		December 31, 2019		June 30, 2019								
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%							
<b>Assets</b>													<b>Liabilities and Equity</b>							
<b>Current assets:</b>													<b>Current liabilities:</b>							
1100 Cash and cash equivalents (note 6(a))	\$	960,781	17	1,154,657	19	774,744	13	2100 Short-term borrowings (notes 6(j) and 8)	\$	226,831	4	250,944	4	47,441	1					
1110 Financial assets at fair value through profit or loss – current (note 6(b))		206,692	4	101,100	2	400,367	7	2322 Long-term borrowings, current portion (notes 6(j) and 8)		66	-	1,097	-	2,084	-					
1150 Notes receivable, net (note 6(c))		29,703	1	9,043	-	19,128	-	Financial liabilities at fair value through profit or loss – current (note 6(b))		-	-	-	-	359	-					
1170 Accounts receivable, net (note 6(e))		1,037,061	18	1,225,566	20	1,229,443	22	2130 Current contract liabilities (note 6(r))		110,689	2	35,212	1	25,255	-					
1200 Other receivables (notes 6(d), (f) and 7)		65,204	1	48,586	1	67,348	1	2170 Accounts payable		626,280	11	1,140,723	19	1,176,839	20					
130x Inventories (note 6(e))		1,822,780	32	1,900,134	31	1,681,787	29	2216 Dividend payable (note 6(o))		330,420	6	-	-	218,540	4					
1476 Other financial assets – current (note 8)		2,828	-	2,633	-	2,388	-	2230 Current tax liabilities		109,485	2	35,942	1	52,937	1					
1410 Prepayments		62,947	1	90,265	1	57,346	1	2219 Other payables (note 6(s))		511,167	8	592,043	9	511,365	8					
1479 Other current assets		101,633	2	98,887	2	93,236	2	2250 Provisions – current (note 6(k))		44,203	1	41,607	1	38,580	1					
<b>Total current assets</b>		<u>4,289,629</u>	<u>76</u>	<u>4,630,871</u>	<u>76</u>	<u>4,325,787</u>	<u>75</u>	2280 Current lease liabilities (notes 6(l) and 7)		22,899	-	24,807	-	34,831	1					
Non-current assets:													2399 Other current liabilities (note 6(r))		<u>197,697</u>	<u>3</u>	<u>224,785</u>	<u>4</u>	<u>218,513</u>	<u>4</u>
1600 Property, plant and equipment (notes 6(g) and 8)		1,260,148	22	1,311,084	22	1,322,320	23	<b>Total current liabilities</b>		<u>2,179,737</u>	<u>37</u>	<u>2,347,160</u>	<u>39</u>	<u>2,326,744</u>	<u>40</u>					
1755 Right-of-use assets (notes 6(h) and 7)		35,891	1	39,173	1	56,810	1	<b>Non-Current liabilities:</b>												
1915 Prepayments for equipment		10,571	-	12,799	-	17,071	-	2540 Long-term borrowings (notes 6(j) and 8)		-	-	-	-	205	-					
1780 Intangible assets (note 6(i))		-	-	4,342	-	4,553	-	2630 Long-term deferred revenue (note 6(r))		34,816	1	37,382	1	32,891	1					
1840 Deferred income tax assets		60,524	1	60,690	1	68,503	1	2570 Deferred income tax liabilities		175,114	3	175,145	3	144,363	2					
1960 Prepayments for investments in stocks		-	-	8,145	-	-	-	2580 Non-current lease liabilities (note 6(l))		14,086	-	15,670	-	21,982	-					
1995 Other non-current assets (note 7)		20,544	-	21,262	-	21,191	-	2640 Accrued pension liabilities		38,740	1	38,743	1	33,146	1					
<b>Total non-current assets</b>		<u>1,387,678</u>	<u>24</u>	<u>1,457,495</u>	<u>24</u>	<u>1,490,448</u>	<u>25</u>	2670 Other non-current liabilities		<u>1,012</u>	-	<u>1,026</u>	-	<u>1,059</u>	-					
								<b>Total non-current liabilities</b>		<u>263,768</u>	<u>5</u>	<u>267,966</u>	<u>5</u>	<u>233,646</u>	<u>4</u>					
								<b>Total liabilities</b>		<u>2,443,505</u>	<u>42</u>	<u>2,615,126</u>	<u>44</u>	<u>2,560,390</u>	<u>44</u>					
								<b>Equity attributable to shareholders of the company (notes 6(o) and 6(p)):</b>												
								Share capital:												
								3110 Common stock		1,181,804	21	1,180,084	19	1,089,934	19					
								3140 Advance receipts for share capital		-	-	-	-	2,730	-					
								3150 Stock dividend to be distributed		-	-	-	-	87,420	2					
										<u>1,181,804</u>	<u>21</u>	<u>1,180,084</u>	<u>19</u>	<u>1,180,084</u>	<u>21</u>					
								3200 Capital surplus		<u>715,347</u>	<u>13</u>	<u>709,964</u>	<u>12</u>	<u>709,964</u>	<u>12</u>					
								Retained earnings:												
								3310 Legal reserve		358,912	6	310,278	5	310,278	5					
								3320 Special reserve		92,949	2	57,366	1	57,366	1					
								3350 Unappropriated retained earnings		<u>858,798</u>	<u>15</u>	<u>1,014,072</u>	<u>17</u>	<u>730,262</u>	<u>13</u>					
										<u>1,310,659</u>	<u>23</u>	<u>1,381,716</u>	<u>23</u>	<u>1,097,906</u>	<u>19</u>					
								Other equity:												
								3410 Financial statements translation differences for foreign operations		<u>(128,921)</u>	<u>(2)</u>	<u>(92,949)</u>	<u>(2)</u>	<u>(43,551)</u>	<u>(1)</u>					
								3500 Treasury shares		<u>(9,691)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>					
								<b>Total equity attributable to shareholders of the company</b>		<u>3,069,198</u>	<u>55</u>	<u>3,178,815</u>	<u>52</u>	<u>2,944,403</u>	<u>51</u>					
								36xx <b>Non-controlling interests</b>		<u>164,604</u>	<u>3</u>	<u>294,425</u>	<u>4</u>	<u>311,442</u>	<u>5</u>					
								<b>Total equity</b>		<u>3,233,802</u>	<u>58</u>	<u>3,473,240</u>	<u>56</u>	<u>3,255,845</u>	<u>56</u>					
								<b>Total liabilities and equity</b>		<u>\$ 5,677,307</u>	<u>100</u>	<u>6,088,366</u>	<u>100</u>	<u>5,816,235</u>	<u>100</u>					

See accompanying notes to consolidated financial statements.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the three months and six months ended June 30, 2020 and 2019**

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

	For the three months ended June 30				For the six months ended June 30				
	2020		2019		2020		2019		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	<b>Operating revenue (note 6(r))</b>								
	\$	1,744,008	100	1,716,521	100	3,294,950	100	3,654,092	100
5000	<b>Operating cost (notes 6(e), 6(g), 6(h), 6(l), 6(m), 6(p) and 6(s))</b>								
		1,216,656	70	1,211,907	70	2,304,542	70	2,637,908	72
	<b>Gross profit, net</b>								
		527,352	30	504,614	30	990,408	30	1,016,184	28
	<b>Operating expenses (notes 6(c), 6(d), 6(g), 6(h), 6(l), 6(m), 6(p), 6(s) and 7):</b>								
6100	Selling expenses	122,565	7	148,904	9	274,499	8	288,883	8
6200	Administrative expenses	85,412	5	71,425	4	161,866	5	153,570	4
6300	Research and development expenses	133,182	7	152,901	9	260,533	8	292,375	8
6450	Impairment loss	46,298	3	3,044	-	45,911	1	6,787	-
	<b>Total operating expenses</b>	<b>387,457</b>	<b>22</b>	<b>376,274</b>	<b>22</b>	<b>742,809</b>	<b>22</b>	<b>741,615</b>	<b>20</b>
	<b>Operating profit</b>	<b>139,895</b>	<b>8</b>	<b>128,340</b>	<b>8</b>	<b>247,599</b>	<b>8</b>	<b>274,569</b>	<b>8</b>
	<b>Non-operating income and expenses (notes 6(f), 6(l), 6(t) and 7):</b>								
7100	Interest income	1,482	-	1,836	-	3,998	-	3,053	-
7010	Other income	7,922	-	14,236	-	15,981	-	22,193	1
7020	Other gains and losses	135,887	8	(2,699)	-	138,207	4	5,585	-
7050	Financial costs	(508)	-	(1,382)	-	(2,954)	-	(3,598)	-
	<b>Total non-operating income and expenses</b>	<b>144,783</b>	<b>8</b>	<b>11,991</b>	<b>-</b>	<b>155,232</b>	<b>4</b>	<b>27,233</b>	<b>1</b>
	<b>Net Income before tax</b>	<b>284,678</b>	<b>16</b>	<b>140,331</b>	<b>8</b>	<b>402,831</b>	<b>12</b>	<b>301,802</b>	<b>9</b>
7950	<b>Less: Income tax expenses (note 6(n))</b>	<b>68,986</b>	<b>4</b>	<b>29,121</b>	<b>2</b>	<b>108,614</b>	<b>3</b>	<b>66,674</b>	<b>2</b>
	<b>Net income</b>	<b>215,692</b>	<b>12</b>	<b>111,210</b>	<b>6</b>	<b>294,217</b>	<b>9</b>	<b>235,128</b>	<b>7</b>
8300	<b>Other comprehensive income (loss).net (note 6(l)):</b>								
8360	<b>Components of other comprehensive income (loss) that will be reclassified to profit or loss</b>								
8361	Exchange differences on translation of foreign financial statements	(27,103)	(2)	(7,691)	-	(45,020)	(1)	16,447	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-	-	-	-
	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>	<b>(27,103)</b>	<b>(2)</b>	<b>(7,691)</b>	<b>-</b>	<b>(45,020)</b>	<b>(1)</b>	<b>16,447</b>	<b>-</b>
8300	<b>Other comprehensive income</b>	<b>(27,103)</b>	<b>(2)</b>	<b>(7,691)</b>	<b>-</b>	<b>(45,020)</b>	<b>(1)</b>	<b>16,447</b>	<b>-</b>
	<b>Total comprehensive income</b>	<b>\$ 188,589</b>	<b>10</b>	<b>103,519</b>	<b>6</b>	<b>249,197</b>	<b>8</b>	<b>251,575</b>	<b>7</b>
	<b>Net income attributable to:</b>								
8610	Shareholders of the parent company	\$ 186,796	10	98,514	5	259,363	8	202,530	6
8620	Non-controlling interests	28,896	2	12,696	1	34,854	1	32,598	1
		<b>\$ 215,692</b>	<b>12</b>	<b>111,210</b>	<b>6</b>	<b>294,217</b>	<b>9</b>	<b>235,128</b>	<b>7</b>
	<b>Total comprehensive income attributable to:</b>								
8710	Shareholders of the parent company	\$ 164,870	9	94,939	6	223,391	7	216,345	6
8720	Non-controlling interests	23,719	1	8,580	-	25,806	1	35,230	1
		<b>\$ 188,589</b>	<b>10</b>	<b>103,519</b>	<b>6</b>	<b>249,197</b>	<b>8</b>	<b>251,575</b>	<b>7</b>
9750	<b>Basic earnings per share (in New Taiwan Dollars) (note 6(q))</b>	<b>\$ 1.58</b>		<b>0.84</b>		<b>2.20</b>		<b>1.72</b>	
9850	<b>Diluted earnings per share (in New Taiwan Dollars) (note 6(q))</b>	<b>\$ 1.56</b>		<b>0.83</b>		<b>2.15</b>		<b>1.70</b>	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent												Non-controlling interests	Total equity
	Share capital				Retained earnings					Financial statements translation differences for foreign operations	Treasury shares	Total equity attributable to owners of parent		
	Common stock	Advance receipts for share capital	Stock dividend to be distributed	Total share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings					
<b>Balance at January 1, 2019</b>	\$ 1,089,934	-	-	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)	-	(218,540)
Stock dividends	-	-	87,420	87,420	-	-	-	(87,420)	(87,420)	-	-	-	-	-
Net income	-	-	-	-	-	-	-	202,530	202,530	-	-	202,530	32,598	235,128
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	13,815	-	13,815	2,632	16,447
Total comprehensive income (loss)	-	-	-	-	-	-	-	202,530	202,530	13,815	-	216,345	35,230	251,575
Stock options exercised by employees	-	2,730	-	2,730	5,379	-	-	-	-	-	-	8,109	-	8,109
<b>Balance at June 30, 2019</b>	\$ 1,089,934	2,730	87,420	1,180,084	709,964	310,278	57,366	730,262	1,097,906	(43,551)	-	2,944,403	311,442	3,255,845
<b>Balance at January 1, 2020</b>	\$ 1,180,084	-	-	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
Appropriation and distribution of retained earnings:														
Legal reserve	-	-	-	-	-	48,634	-	(48,634)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	35,583	(35,583)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(330,420)	(330,420)	-	-	(330,420)	(33,799)	(364,219)
Net income	-	-	-	-	-	-	-	259,363	259,363	-	-	259,363	34,854	294,217
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	(35,972)	-	(35,972)	(9,048)	(45,020)
Total comprehensive income (loss)	-	-	-	-	-	-	-	259,363	259,363	(35,972)	-	223,391	25,806	249,197
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(9,691)	(9,691)	-	(9,691)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(123,864)	(123,864)
Remuneration cost of employee stock options	-	-	-	-	2,493	-	-	-	-	-	-	2,493	-	2,493
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	2,036	2,036
Stock options exercised by employees	1,720	-	-	1,720	2,890	-	-	-	-	-	-	4,610	-	4,610
<b>Balance at June 30, 2020</b>	\$ 1,181,804	-	-	1,181,804	715,347	358,912	92,949	858,798	1,310,659	(128,921)	(9,691)	3,069,198	164,604	3,233,802

See accompanying notes to consolidated financial statements.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the six months ended June 30, 2020 and 2019**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Consolidated net income before tax	\$ 402,831	301,802
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit and loss:</b>		
Depreciation expense	71,470	71,545
Amortization expense	-	254
Expected credit loss	45,911	6,787
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(2,402)	104
Interest expense	2,954	3,598
Interest income	(3,998)	(3,053)
Remuneration cost of employee stock options	2,493	-
Loss (gains) on disposal of property, plant and equipment, net	69	(61)
Gain on disposal of investments	(138,767)	-
Total adjustments to reconcile profit and loss	<u>(22,270)</u>	<u>79,174</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets or liabilities at fair value through profit or loss	(103,190)	(400,359)
Notes receivable	(20,660)	37,463
Accounts receivable	71,892	121,129
Other receivables	1,551	(3,248)
Inventories	8,719	314,953
Prepayments	(59,365)	11,820
Other current assets	(2,746)	(29,740)
Other financial assets	(23)	(22)
Total changes in operating assets, net	<u>(103,822)</u>	<u>51,996</u>
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	-	359
Contract liabilities	75,477	(13,765)
Accounts payable	(498,421)	(225,740)
Other payables	(59,479)	(61,335)
Provisions	2,596	(8,325)
Other current liabilities	(26,442)	19,469
Net defined benefit liability	(3)	8
Deferred revenue	(736)	3,514
Total changes in operating liabilities, net	<u>(507,008)</u>	<u>(285,815)</u>
Total changes in operating assets and liabilities, net	<u>(610,830)</u>	<u>(233,819)</u>
Total adjustments	<u>(633,100)</u>	<u>(154,645)</u>
Cash provided by (used in) operating activities	(230,269)	147,157
Interest income received	3,826	3,060
Interest paid	(2,011)	(3,112)
Income taxes paid	(35,071)	(56,404)
<b>Net cash provided by (used in) operating activities</b>	<u>(263,525)</u>	<u>90,701</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of subsidiaries (reduced the deduction of cash)	145,232	-
Acquisition of property, plant and equipment	(34,822)	(29,565)
Proceeds from disposal of property, plant and equipment	339	118
Decrease in refundable deposits	813	3,917
Net cash inflows from business combination	8,145	-
Decrease (increase) in other non-current assets	(95)	801
Decrease (increase) in prepayments for equipment	1,968	(16,297)
<b>Net cash provided by (used in) investing activities</b>	<u>121,580</u>	<u>(41,026)</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	162,338	95,478
Decrease in short-term loans	(120,110)	(302,150)
Repayments of long-term debt	(1,030)	(17,471)
Payment of lease liabilities	(18,055)	(21,027)
Decrease in other non-current liabilities	(14)	(1,811)
Cash dividends paid	(33,799)	-
Exercise of employee share options	4,610	8,109
Payments to acquire treasury shares	(9,691)	-
Change in non-controlling interests	2,036	-
<b>Net cash used in financing activities</b>	<u>(13,715)</u>	<u>(238,872)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(38,216)</u>	<u>8,070</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(193,876)</u>	<u>(181,127)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>1,154,657</u>	<u>955,871</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 960,781</u>	<u>774,744</u>

See accompanying notes to consolidated financial statements.



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

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

(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.

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

The consolidated financial statements were authorized for issue by the Board of Directors on August 13, 2020.

#### (3) New standards, amendments and interpretations adopted:

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

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

<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
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”	January 1, 2022

(Continued)

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023

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

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

Except for the following, the significant accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2019. For related information, please referred to note 4 of the consolidated financial statement for the year ended December 31, 2019.

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IAS 34 "Interim Financial Reporting", which was endorsed by the FSC. These consolidated financial statements do not include all of the information required by the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC) for the year-end consolidated financial statements.

**(b) Basis of consolidation**

The basis for consolidation applied in these consolidated financial statements is consistent with that applied in the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to note 4(c) to the consolidated financial statements for the year ended December 31, 2019.

List of subsidiaries included in the consolidated financial statements:

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Scope of business</u>	<u>Percentage of ownership</u>			<u>Note</u>
			<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>	
The Company	LANNER ELECTRONICS USA, INC. (LANNER (USA))	Trading of computer peripheral products	100.00 %	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS (MAURITIUS) INC. (LANNER (MAURITIUS))	Investing	100.00 %	100.00 %	100.00 %	
The Company	LEI TECHNOLOGY CANADA INC. (LEI)	Trading of computer peripheral products	100.00 %	100.00 %	100.00 %	Note 4
The Company	LANNER TECHNOLOGY JAPAN Co., Ltd. (LANNER (JAPAN))	Trading of computer peripheral products	80.00 %	-	-	Notes 3 and 4

(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
			June 30, 2020	December 31, 2019	June 30, 2019	
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	100.00 %	
LANCOM	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral products	80.00 %	80.00 %	80.00 %	
LANCOM	Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	100.00 %	
L&S	Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	- %	100.00 %	100.00 %	Note 5
L&S	Dongguan Lihua Haiwell Tech. Co., Ltd. (Haiwell)	Manufacture and trading of computer peripheral products	100.00 %	- %	- %	Note 2
L&S	Beijing HDZX Technology Co., Ltd. (HDZX)	Trading of computer peripheral products	- %	- %	- %	Notes 1, 2, 4 and 6
Beijing LSZC Investment Co., Ltd.	Dongguan Lihua Haiwell Tech. Co., Ltd. (Haiwell)	Manufacture and trading of computer peripheral products	- %	100.00 %	100.00 %	
Beijing LSZC Investment Co., Ltd.	Beijing HDZX Technology Co., Ltd. (HDZX)	Trading of computer peripheral products	- %	39.90 %	39.90 %	Notes 1, 2 and 4

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.

Note 2: Due to the restructuring of investment structure in January 2020, the Group sold all the shares of Haiwell and HDZX that originally held by the Group through LSZC, to L&S, this is viewed as restructuring of the Group, and is recognized as an equity transaction.

Note 3: The Group established a new branch company LANNER (JAPAN) in January 2020, with investment amount of \$8,145 thousand.

Note 4: It is an insignificant subsidiary, and its financial statements have not been reviewed.

Note 5: LSZC has been canceled the business registration in April 2020.

Note 6: The Group has disposed of all the shares of HDZC in June 2020.

(c) Financial instruments

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

(d) Employee benefits

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

(Continued)

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

(e) Government grants

The Group recognizes an unconditional government grant in profit or loss as other income when the grant becomes receivable. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(f) Income tax

Income tax expense for the period is best estimated by multiplying pretax income of the reporting period by the effective annual tax rate which was forecasted by the management. This should be recognized fully as tax expense for the current period and allocated to current and deferred taxes based on its proportionate size.

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

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

The preparation of the consolidated financial statements is in conformity with IAS 34 "Interim Financial Reporting" endorsed by FSC. The standard requires management to make judgments, estimations 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.

During the preparation of the consolidated financial statements, except for additional information, the management adopts similar method used in accounting policy judgements and assumptions which are in conformity with note 5 of the consolidated financial statements for the year ended December 31, 2019.

**(6) Explanation of significant accounts**

Except for the following disclosures, there are no significant differences in description of significant accounts from financial statements as of December 31, 2019. For the related information, please refer to note 6 of the consolidated financial statements for the year ended December 31, 2019.

(a) Cash and cash equivalents

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Cash	\$ 360	1,224	5,947
Demand deposits	391,310	376,922	445,246
Checking deposits	24,333	5,391	8,532
Time deposits	482,000	548,500	6,746
Foreign currency deposits	62,778	222,620	308,273
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 960,781</u>	<u>1,154,657</u>	<u>774,744</u>

(Continued)

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

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

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Mandatorily measured at fair value through profit or loss:			
Derivative instruments not used for hedging	\$ 2,157	778	-
Non-derivative financial assets	<u>204,535</u>	<u>100,322</u>	<u>400,367</u>
Total	<u>\$ 206,692</u>	<u>101,100</u>	<u>400,367</u>
	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Financial liabilities held for trading:			
Derivative instruments not used for hedging	<u>\$ -</u>	<u>-</u>	<u>359</u>

Please refer to note 6(t) 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 the exposures due to fluctuations of foreign exchange risk from its operating activities. The Group reported the following mandatorily measured at fair value through profit or loss and derivative instruments not used for hedging without the application of hedge accounting:

	<u>June 30, 2020</u>		
	<u>Contract amount (thousand)</u>	<u>Currency</u>	<u>Maturity dates</u>
Forward exchange sold	USD 8,000 / TWD 238,149	USD/TWD	July 10, 2020~ August 28, 2020
	<u>December 31, 2019</u>		
	<u>Contract amount (thousand)</u>	<u>Currency</u>	<u>Maturity dates</u>
Forward exchange sold	USD 5,500 / TWD 166,199	USD/TWD	January 3, 2020~ February 7, 2020

(Continued)

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

	<b>June 30, 2019</b>		
	<b>Contract amount (thousand)</b>	<b>Currency</b>	<b>Maturity dates</b>
Forward exchange sold	USD 4,300 / TWD 132,964	USD/TWD	July 1, 2019~ September 16, 2020

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

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Notes receivable	\$ 29,703	9,043	19,128
Accounts receivable	1,060,707	1,255,257	1,252,211
Less: allowance for impairment	23,646	29,691	22,768
	<b>\$ 1,066,764</b>	<b>1,234,609</b>	<b>1,248,571</b>

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:

	<b>June 30, 2020</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 766,821	0.04%~0.11%	2,045
1 to 30 days past due	139,105	1.11%~1.47%	1,753
31 to 60 days past due	16,188	1.71%~33.34%	1,296
61 to 90 days past due	429	17.10%~78.15%	139
91 to 120 days past due	3,457	54.02%~100%	2,624
More than 121 days past due	9,422	100%	9,422
	<b>\$ 935,422</b>		<b>17,279</b>
	<b>December 31, 2019</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
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
	<b>\$ 937,153</b>		<b>16,849</b>

(Continued)

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

	<b>June 30, 2019</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 832,405	0.06%~0.18%	499
1 to 30 days past due	45,784	0.47%~1.11%	215
31 to 60 days past due	3,859	1.71%~27.12%	66
61 to 90 days past due	14,203	17.10%~47.82%	2,493
91 to 120 days past due	5,577	54.02%~100%	3,013
More than 121 days past due	6,986	100%	6,986
	<b><u>\$ 908,814</u></b>		<b><u>13,272</u></b>

The loss allowance provision in China was determined as follows:

	<b>June 30, 2020</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 130,882	0%~1.55%	763
1 to 30 days past due	13,645	0.27%~4.78%	37
31 to 60 days past due	5,055	5.09%~9.93%	258
61 to 90 days past due	110	11.72%~20.20%	13
More than 181 days past due	5,296	100%	5,296
	<b><u>\$ 154,988</u></b>		<b><u>6,367</u></b>

	<b>December 31, 2019</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
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
	<b><u>\$ 327,147</u></b>		<b><u>12,842</u></b>

(Continued)

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

	<b>June 30, 2019</b>		
	<b>Gross carrying amount</b>	<b>Weighted-average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 285,555	0%~0.75%	2,142
1 to 30 days past due	53,053	1.41%~3.19%	796
31 to 60 days past due	14,002	4.44%~6.10%	622
61 to 90 days past due	2,463	7.32%~9.03%	180
91 to 120 days past due	416	17.77%~37.57%	74
121 to 150 days past due	1,993	37.62%~60%	750
151 to 180 days past due	325	65.89%~80%	214
More than 181 days past due	4,718	100%	4,718
	<b><u>\$ 362,525</u></b>		<b><u>9,496</u></b>

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

	<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Balance on January 1	\$ 29,691	15,973
Impairment losses recognized	282	6,787
Foreign exchange losses	(705)	8
Disposal of a subsidiary	(5,622)	-
Balance on June 30	<b><u>\$ 23,646</u></b>	<b><u>22,768</u></b>

The Group has not provided the notes and accounts receivable as collateral or factored them for cash. For other credit risk information, please refers to note 6(u).

(d) Other receivables

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
	Other receivables — related parties	\$ 36,776	-
Other	73,342	48,586	67,348
Less Loss allowance	44,914	-	-
	<b><u>\$ 65,204</u></b>	<b><u>48,586</u></b>	<b><u>67,348</u></b>

The movement in the allowance for other receivables was as follows:

	<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Balance on January 1	\$ -	-
Impairment losses recognized	45,629	-
Foreign exchange losses	(715)	-
Balance on June 30	<b><u>\$ 44,914</u></b>	<b><u>-</u></b>

(Continued)



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

As of December 31 and June 30, 2019, 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(u).

(e) Inventories

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Merchandise	\$ 555	549	683
Finished goods	743,764	814,751	715,433
Work in process	316,911	347,705	325,383
Raw material	<u>761,550</u>	<u>737,129</u>	<u>640,288</u>
Total	<u>\$ 1,822,780</u>	<u>1,900,134</u>	<u>1,681,787</u>

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

As of June 30, 2020, December 31 and June 30, 2019, 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 were as follows:

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Loss on market value of inventory	\$ 9,231	14,893	32,194	8,137
Loss on physical count	-	-	-	7,432
Loss from scrapped inventory	<u>-</u>	<u>114</u>	<u>-</u>	<u>114</u>
Total	<u>\$ 9,231</u>	<u>15,007</u>	<u>32,194</u>	<u>15,683</u>

(f) Loss control of subsidiaries

The Group disposes of all the shares of HDZX and loses the control of it in June 2020. The consideration amount and gain on disposal through the transaction are respectively \$218,771 thousand (RMB52,606 thousand) and \$138,797 thousand (RMB32,852 thousand). As of June 30, 2020, the disposal receivable arising from the above transaction is \$64,015 thousand, which is recorded under other receivable.

(Continued)

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

The carrying amount of assets and liabilities of HDZX on the date of disposal were as follow:

Cash and cash equivalents	\$	9,524
Inventories		68,635
Accounts receivable and other receivables		117,264
Prepayments		86,683
Property, plant and equipment		21,391
Right-of-use assets		998
Intangible assets		4,209
Short-term debts		(62,381)
Accounts payable		(16,022)
Other payable and other current liabilities		(24,288)
Carrying amount of net assets	<b>\$</b>	<b><u>206,013</u></b>

(g) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Total</u>
Cost or deemed cost:					
Balance at January 1, 2020	\$ 509,258	684,491	174,423	583,501	1,951,673
Additions	12,095	9,631	321	12,775	34,822
Disposals	-	-	(3,643)	(25,029)	(28,672)
Disposal of a subsidiary	-	(17,894)	-	(5,079)	(22,973)
Reclassification	-	-	-	260	260
Effect of changes in exchange rates	(436)	(7,575)	(824)	(5,407)	(14,242)
Balance at June 30, 2020	<b>\$ 520,917</b>	<b>668,653</b>	<b>170,277</b>	<b>561,021</b>	<b>1,920,868</b>
Balance at January 1, 2019	\$ 509,882	456,266	155,594	516,477	1,638,219
Additions	-	-	5,625	23,940	29,565
Disposals	-	-	(4,356)	(24,879)	(29,235)
Reclassification	-	223,285	239	47,168	270,692
Effect of changes in exchange rates	328	(2,040)	103	1,113	(496)
Balance at June 30, 2019	<b>\$ 510,210</b>	<b>677,511</b>	<b>157,205</b>	<b>563,819</b>	<b>1,908,745</b>

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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, 2020	\$ -	118,364	127,816	394,409	640,589
Depreciation	-	12,258	5,331	35,826	53,415
Disposal	-	-	(3,643)	(24,621)	(28,264)
Disposal of a subsidiary	-	(428)	-	(1,154)	(1,582)
Effect of changes in exchange rates	-	(464)	(187)	(2,787)	(3,438)
Balance at June 30, 2020	<u>\$ -</u>	<u>129,730</u>	<u>129,317</u>	<u>401,673</u>	<u>660,720</u>
Balance at January 1, 2019	\$ -	100,436	123,816	340,657	564,909
Depreciation	-	6,956	5,201	37,124	49,281
Disposal	-	-	(4,356)	(24,821)	(29,177)
Effect of changes in exchange rates	-	103	92	1,217	1,412
Balance at June 30, 2019	<u>\$ -</u>	<u>107,495</u>	<u>124,753</u>	<u>354,177</u>	<u>586,425</u>
Carrying value:					
January 1, 2020	<u>\$ 509,258</u>	<u>566,127</u>	<u>46,607</u>	<u>189,092</u>	<u>1,311,084</u>
June 30, 2020	<u>\$ 520,917</u>	<u>538,923</u>	<u>40,960</u>	<u>159,348</u>	<u>1,260,148</u>
June 30, 2019	<u>\$ 509,882</u>	<u>355,830</u>	<u>31,778</u>	<u>175,820</u>	<u>1,073,310</u>
January 1, 2019	<u>\$ 510,210</u>	<u>570,016</u>	<u>32,452</u>	<u>209,642</u>	<u>1,322,320</u>

Please refer to note 8 for the information of the pledged property, plant and equipment, as of June 30, 2020, December 31 and June 30, 2019.

(h) 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, 2020	\$ 69,122	7,976	77,098
Additions	9,131	7,063	16,194
Lease modification	(4,575)	-	(4,575)
Disposal of a subsidiary	(2,311)	-	(2,311)
Effect of changes in foreign exchange rates	(1,342)	-	(1,342)
Balance at June 30, 2020	<u>\$ 70,025</u>	<u>15,039</u>	<u>85,064</u>
Balance at January 1, 2019	71,613	6,498	78,111
Additions	1,532	1,478	3,010
Lease modification	(4,002)	-	(4,002)
Effect of changes in foreign exchange rates	721	-	721
Balance at June 30, 2019	<u>69,864</u>	<u>7,976</u>	<u>77,840</u>

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

	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2020	\$ 35,356	2,569	37,925
Depreciation	15,709	2,346	18,055
Lease modification	(4,575)	-	(4,575)
Disposal of a subsidiary	(1,313)	-	(1,313)
Effect of changes in foreign exchange rates	(919)	-	(919)
Balance at June 30, 2020	<u>\$ 44,258</u>	<u>4,915</u>	<u>49,173</u>
Balance at January 1, 2019	-	-	-
Depreciation	19,928	1,203	21,131
Effect of changes in foreign exchange rates	(101)	-	(101)
Balance at June 30, 2019	<u>19,827</u>	<u>1,203</u>	<u>21,030</u>
Carrying value:			
January 1, 2020	<u>\$ 33,766</u>	<u>5,407</u>	<u>39,173</u>
June 30, 2020	<u>\$ 25,767</u>	<u>10,124</u>	<u>35,891</u>
January 1, 2019	<u>71,613</u>	<u>6,498</u>	<u>78,111</u>
June 30, 2019	<u>50,037</u>	<u>6,773</u>	<u>56,810</u>

## (i) Intangible assets

	<u>Goodwill</u>	<u>Customer relation</u>	<u>Total</u>
Carrying value:			
January 1, 2020	<u>\$ 4,342</u>	<u>-</u>	<u>4,342</u>
June 30, 2020	<u>\$ -</u>	<u>-</u>	<u>-</u>
January 1, 2019	<u>\$ 4,502</u>	<u>249</u>	<u>4,751</u>
June 30, 2019	<u>\$ 4,553</u>	<u>-</u>	<u>4,553</u>

The intangible assets of the Group were derecognized, due to the disposal of subsidiary between January 1 and June 30, 2020. For the six months ended June 30, 2019, the Group did not have any significant purchase, disposal, impairment or reversal on intangible assets. For amortization expense, please refer to note 12. For other relative information, please refer to note 6(h) to the consolidated financial statements for the year ended December 31, 2019.

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

(j) 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

<b>June 30, 2020</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	1.19	2020	\$ 44,274
Unsecured loans	RMB	4.05	2021	62,381
Unsecured loans	USD	0.96~1.30	2020	120,176
Total				<b>\$ 226,831</b>
<b>December 31, 2019</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Unsecured loans	RMB	5.22	2020	\$ 128,688
Unsecured loans	USD	2.75~4.18	2020	122,256
Total				<b>\$ 250,944</b>
<b>June 30, 2019</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Unsecured loans	RMB	5.046	2020	\$ 44,973
Unsecured loans	USD	4.4569	2019	2,468
Total				<b>\$ 47,441</b>

In June 2020, the Group applied to the bank for a no-cash-out-refinance loan with a total amount of \$62,381 thousand (RMB15,000 thousand). The borrowing rate is 4.05%, and the loan period is extended to 10 months.

Please refer to note 6(u) for the disclosures on the Group's risk exposure to interest rates and liquidity risks.

As of June 30, 2020, December 31 and June 30, 2019, the unused credit facilities of the Group's short-term borrowings amounted to \$1,628,847 thousand, \$1,317,790 thousand and \$868,000 thousand, respectively.

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

(ii) Long-term borrowings

<b>June 30, 2020</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	4.18	2020	\$ <b>66</b>
Current				\$ 66
Non-current				-
Total				\$ <b>66</b>
<b>December 31, 2019</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	4.9326	2020	\$ <b>1,097</b>
Current				\$ 1,097
Non-current				-
Total				\$ <b>1,097</b>
<b>June 30, 2019</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	4.9326	2020	\$ <b>2,289</b>
Current				\$ 2,084
Non-current				205
Total				\$ <b>2,289</b>

Please refer to note 6(u) 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.

(k) Provisions

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Warranty	\$ <b>44,203</b>	<b>41,607</b>	<b>38,580</b>

The Group did not have any significant change in the provisions for the six months ended June 30, 2020 and 2019. Please refer to note 6(j) of the consolidated financial statements for the year ended December 31, 2019 for relative information.

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

## (l) Lease liabilities

The Group's lease liabilities were as follow:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Current	<u>\$ 22,899</u>	<u>24,807</u>	<u>34,831</u>
Non-current	<u>\$ 14,086</u>	<u>15,670</u>	<u>21,982</u>

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

The amounts recognized in profit or loss were as follows:

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Interest on lease liabilities	<u>\$ 223</u>	<u>540</u>	<u>528</u>	<u>1,189</u>
Expenses relating to short-term leases	<u>\$ 567</u>	<u>1,598</u>	<u>957</u>	<u>1,598</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 564</u>	<u>2,624</u>	<u>1,308</u>	<u>3,137</u>

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

	<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Total cash outflow for leases	<u>\$ 20,848</u>	<u>26,951</u>

## (m) Employee benefits

## (i) Defined benefit plans

Since prior fiscal year, there was no material volatility of the market, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying consolidated financial statements was measured and disclosed according to the actual report as of December 31, 2019 and 2018.

The Group's expenses recognized in profit or loss were as follows:

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Operating costs	\$ 93	100	187	203
Selling expenses	54	66	108	122
Administrative expenses	85	101	171	176
Research and development expenses	54	55	109	101
Total	<u>\$ 286</u>	<u>322</u>	<u>575</u>	<u>602</u>

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

(ii) Defined contribution plans

The Group's expenses under the pension plan cost to the Bureau of Labour Insurance and the local government were as follows:

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Operating costs	\$ 1,598	2,255	3,796	4,526
Selling expenses	274	1,671	2,042	3,373
Administrative expenses	1,334	1,457	2,660	2,701
Research and development expenses	1,822	3,837	5,934	7,744
<b>Total</b>	<b>\$ 5,028</b>	<b>9,220</b>	<b>14,432</b>	<b>18,344</b>

(n) Income tax

Income tax expense was best estimated by multiplying pretax income for the interim reporting period by the effective tax rate which was forecasted by the management.

The Group's income tax expenses were as follows:

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Current tax expense				
Current period	\$ 71,664	30,311	111,292	67,864
Adjustment for prior periods	(2,678)	(1,190)	(2,678)	(1,190)
<b>Income tax expense from continuing operations</b>	<b>\$ 68,986</b>	<b>29,121</b>	<b>108,614</b>	<b>66,674</b>

The tax returns of the Company were examined and approved by the tax authorities through 2017. Due to the impact of coronavirus pandemic, the Company applied for postponement of the payment of Profit-seeking Enterprise Income Tax for the year 2019, and undistributed surplus earning tax paid voluntarily for the year 2018, and the National Taxation Bureau of the Northern Area agreed to the postponement of the payment for twelve months.

(o) Capital and other equity

As of June 30, 2020, December 31 and June 30, 2019, the ordinary shares with par value of \$10 per share, amounted to \$1,500,000 thousand; also, 118,008 thousand, 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**  
**Notes to the Consolidated Financial Statements**

A reconciliation of the Company's outstanding shares for the six months ended June 30, 2020 and 2019 were as follows:

	Unit: thousands shares	
	<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	118,008	108,993
Exercise of employee share options	172	-
Balance at June 30	<b>118,180</b>	<b>108,993</b>

(i) Issue of common stock

Upon the approval of the Annual Shareholders' Meeting held on June 19, 2019, the Company withdrew \$87,420 thousand from distributable earnings to issue dividends stocks of 8,742 thousand shares, with a face value of \$10 per share. As of June 30, 2019, the shares recorded under stock dividend to be distributed.

For the six months ended June 30, 2020 and 2019, the Company issued 172 thousand shares and 273 thousand shares of common stocks, as its employees exercised their stock option at \$26.8 per share and \$29.7 per share. However, 273 thousand shares of common stocks as of June 30, 2019 has not yet been completed since the registration process, the amount of money obtained through the issuance of stocks if recorded under advance receipts for share capital.

(ii) Capital surplus

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

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Share premium from issuance	\$ 685,601	681,333	681,333
Changes in equity of associates and joint ventures accounted for using equity method	17,539	17,539	17,539
Employee share options	2,815	1,700	1,700
Employee share options expired	9,392	9,392	9,392
	<b>\$ 715,347</b>	<b>709,964</b>	<b>709,964</b>

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

(iii) Retained earnings – 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 June 30, 2020, December 31 and June 30, 2019 the special earnings reserve amounted to \$92,949 thousand, \$57,366 thousand and \$57,366 thousand, respectively.

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

On May 7, 2020, the Company's Board of Directors resolved to appropriate the 2019 earnings. On June 19, 2019, the shareholders' meeting resolved to distribute the 2018 earnings. These earnings were appropriated as follows:

	<u>2019</u>	<u>2018</u>
Dividends distributed to common shareholders:		
Cash	\$ 330,420	218,540
Stock	-	87,420
Total	<u>\$ 330,420</u>	<u>305,960</u>

(iv) Treasury stock

For the six months ended June 30, 2020, in accordance with the requirements under section 28(2) of the Securities and Exchange Act, the Company repurchased 216 shares as treasury shares in order to protect the Company's integrity and shareholders' equity. As of June 30, 2020, a total of 216 shares were not yet cancelled.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

(v) Other equities (net of tax)

	<b>Foreign exchange differences arising from foreign operation</b>	<b>Non-controlling interests</b>	<b>Total</b>
Balance at January 1, 2020	\$ (92,949)	(21,369)	(114,318)
Foreign exchange differences arising from net assets of foreign operation	(35,972)	(9,048)	(45,020)
Balance at June 30, 2020	<u>\$ (128,921)</u>	<u>(30,417)</u>	<u>(159,338)</u>
Balance at January 1, 2019	\$ (57,366)	(10,429)	(67,795)
Foreign exchange differences arising from net assets of foreign operation	13,815	2,632	16,447
Balance at June 30, 2019	<u>\$ (43,551)</u>	<u>(7,797)</u>	<u>(51,348)</u>

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

(p) 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

The Company estimates the compensation to be \$20,657 thousand based on the above assumptions. The compensation will be amortized over three years. The additional paid-in capital also increased due to the stock option plan.

The outstanding stock option rights as follows:

<u>Employee stock options in 2015</u>	<u>For the six months ended June 30, 2020</u>	
	<u>Units</u>	<u>Exercise price (dollars)</u>
Outstanding balance as of January 1	212	\$ 26.8
Options granted	-	-
Options exercised	172	26.8
Options cancelled	-	-
Options expired	-	-
Outstanding balance as of June 30	<u>40</u>	26.8
Exercisable as of June 30	<u>40</u>	-
Exercisable shares per unit as of June 30—adjusted	<u>1,000</u>	
Fair market value	<u>\$ 4.3</u>	

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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<b>Employee stock options in 2015</b>	<b>For the six months ended June 30, 2019</b>	
	<b>Units</b>	<b>Exercise price (dollars)</b>
Outstanding balance as of January 1	485	\$ 29.7
Options granted	-	-
Options exercised	273	29.7
Options cancelled	-	-
Options expired	-	-
Outstanding balance as of June 30	<u>212</u>	26.8
Exercisable as of June 30	<u>212</u>	-
Exercisable shares per unit as of June 30 – adjusted	<u>1,000</u>	
Fair market value	<u>\$ 4.3</u>	

As of June 30, 2020, the expected duration of the employee stock option issued in 2015 was 0.21 years.

On December 9, 2019, 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 March 19, 2020 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	25.78	%
Risk-free interest rate	0.4750	%
Expected life	5	years

The Company estimates the compensation to be \$22,105 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 \$2,493 thousand for the six months ended June 30, 2020. The additional paid-in capital also increased due to the stock option plan.

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

<b>Employee stock options in 2015</b>	<b>For the six months ended June 30, 2020</b>	
	<b>Units</b>	<b>Exercise price (dollars)</b>
Outstanding balance as of January 1	-	\$ -
Options granted	3,000	36.45
Options exercised	-	-
Options cancelled	-	-
Options expired	-	-
Outstanding balance as of June 30	<u>3,000</u>	36.45
Exercisable as of June 30	<u>-</u>	-
Exercisable shares per unit as of June 30—adjusted	<u>-</u>	
Fair market value	<u>\$ 8.6</u>	

As of June 30, 2020, the expected duration of the employee stock option issued in 2019 was 4.72 years.

(q) Earnings per share

(i) Basic earnings per share

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net income attributable to ordinary shareholders of the Company	<u>\$ 186,796</u>	<u>98,514</u>	<u>259,363</u>	<u>202,530</u>
Weighted-average number of ordinary shares	<u>117,964</u>	<u>117,966</u>	<u>117,992</u>	<u>117,852</u>
Basic earnings per share (in NT dollars)	<u>\$ 1.58</u>	<u>0.84</u>	<u>2.20</u>	<u>1.72</u>

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

## (ii) Diluted earnings per share

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net income attributable to ordinary shareholders of the Company (diluted)	\$ <u>186,796</u>	<u>98,514</u>	<u>259,363</u>	<u>202,530</u>
Weighted-average number of ordinary shares (basic)	117,964	117,966	117,992	117,852
Impact of potential common shares				
Effect of employee stock bonus	704	466	1,576	884
Effect of employee stock option	<u>1,082</u>	<u>127</u>	<u>1,096</u>	<u>121</u>
Weighted-average number of ordinary shares (diluted)	<u>119,750</u>	<u>118,559</u>	<u>120,664</u>	<u>118,857</u>
Diluted earnings per share (in NT dollars)	\$ <u>1.56</u>	<u>0.83</u>	<u>2.15</u>	<u>1.70</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.

## (r) Revenue from contracts with customers

## (i) Disaggregation of revenue

	<b>For the three months ended June 30, 2020</b>		
	<b>Sale of Network Communication and other related products</b>	<b>Others</b>	<b>Total</b>
Primary geographical markets:			
Asia	\$ 622,513	7,190	629,703
America	825,840	8,761	834,601
Europe	272,521	967	273,488
Others	<u>6,174</u>	<u>42</u>	<u>6,216</u>
	<u>\$ 1,727,048</u>	<u>16,960</u>	<u>1,744,008</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 1,415,067	16,695	1,431,762
Others	<u>311,981</u>	<u>265</u>	<u>312,246</u>
	<u>\$ 1,727,048</u>	<u>16,960</u>	<u>1,744,008</u>

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

<b>For the three months ended June 30, 2019</b>			
	<b>Sale of Network Communication and other related products</b>	<b>Others</b>	<b>Total</b>
Primary geographical markets:			
Asia	\$ 709,092	1,913	711,005
America	766,275	2,470	768,745
Europe	204,572	224	204,796
Others	<u>31,852</u>	<u>123</u>	<u>31,975</u>
	<b><u>\$ 1,711,791</u></b>	<b><u>4,730</u></b>	<b><u>1,716,521</u></b>
Primary merchandises/services lines:			
Network communication apparatus	\$ 1,456,836	4,287	1,461,123
Others	<u>254,955</u>	<u>443</u>	<u>255,398</u>
	<b><u>\$ 1,711,791</u></b>	<b><u>4,730</u></b>	<b><u>1,716,521</u></b>
<b>For the six months ended June 30, 2020</b>			
	<b>Sale of Network Communication and other related products</b>	<b>Others</b>	<b>Total</b>
Primary geographical markets:			
Asia	\$ 1,315,819	16,312	1,332,131
America	1,522,597	24,281	1,546,878
Europe	405,232	1,319	406,551
Others	<u>9,279</u>	<u>111</u>	<u>9,390</u>
	<b><u>\$ 3,252,927</u></b>	<b><u>42,023</u></b>	<b><u>3,294,950</u></b>
Primary merchandises/services lines:			
Network communication apparatus	\$ 2,708,063	39,916	2,747,979
Others	<u>544,864</u>	<u>2,107</u>	<u>546,971</u>
	<b><u>\$ 3,252,927</u></b>	<b><u>42,023</u></b>	<b><u>3,294,950</u></b>

(Continued)



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

	<b>For the six months ended June 30, 2019</b>		
	<b>Sale of Network Communication and other related products</b>	<b>Others</b>	<b>Total</b>
Primary geographical markets:			
Asia	\$ 1,517,264	7,819	1,525,083
America	1,735,174	49,110	1,784,284
Europe	289,409	333	289,742
Others	54,809	174	54,983
	<b>\$ 3,596,656</b>	<b>57,436</b>	<b>3,654,092</b>
Primary merchandises/services lines:			
Network communication apparatus	\$ 3,133,226	56,892	3,190,118
Others	463,430	544	463,974
	<b>\$ 3,596,656</b>	<b>57,436</b>	<b>3,654,092</b>

Unearned revenue, net for the Group's amounted to \$(706) thousand, \$5,874 thousand, \$(12) thousand and \$3,367 thousand for the three months and six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, December 31 and June 30, 2019, accumulated unearned revenue amounted to \$55,071 thousand, \$55,838 thousand and \$52,972 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(ii) Contract balance

	<b>June 30, 2020</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
Current contract liabilities	<b>\$ 110,689</b>	<b>35,212</b>	<b>25,255</b>

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

The amount of revenue recognized for the six months ended June 30, 2020 and 2019 that was included in the contract liability balance at the beginning of the period was \$35,212 thousand and \$39,020 thousand, respectively.

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.

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

(s) 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 three months and six months ended June 30, 2020 and 2019, the Company recognized its employee remuneration of \$31,509 thousand, \$16,526 thousand, \$43,678 thousand and \$33,776 thousand, respectively, and directors' and supervisors' remuneration of \$3,151 thousand, \$2,685 thousand, \$4,368 thousand and \$3,378 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 2020 and 2019.

For the years ended December 31, 2019 and 2018, the Company estimated its employees' compensation were \$82,353 thousand and \$72,462 thousand, respectively, and the estimated amounts of directors' and supervisors' remuneration were \$8,235 thousand and \$7,246 thousand, respectively. There are no differences between the amounts of remuneration to employees, directors and supervisors approved by the Board of Directors. Related information would be available at the Market Observation Post System website.

(t) Non-operating income and expenses

(i) Interest income

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Interest income from bank deposits	<u>\$ 1,482</u>	<u>1,836</u>	<u>3,998</u>	<u>3,053</u>

(ii) Other income

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

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Rent income	\$ 1,461	1,372	2,895	2,738
Other	<u>6,461</u>	<u>12,864</u>	<u>13,086</u>	<u>19,455</u>
Total other income	<u>\$ 7,922</u>	<u>14,236</u>	<u>15,981</u>	<u>22,193</u>

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

(iii) Other gains and losses

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

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Gains (losses) on disposal of property, plant and equipment	\$ (189)	43	(69)	61
Gain on disposal of investments	138,767	-	138,767	-
Gains (losses) on foreign exchange, net	(4,934)	(2,834)	(1,737)	6,586
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	2,288	93	2,402	(104)
Other	(45)	(1)	(1,156)	(958)
Net other gains and losses	<u>\$ 135,887</u>	<u>(2,699)</u>	<u>138,207</u>	<u>5,585</u>

(iv) Finance costs

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

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Interest expense	<u>\$ 508</u>	<u>1,382</u>	<u>2,954</u>	<u>3,598</u>

(u) Financial instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(t) of the consolidated financial statements for the year ended December 31, 2019.

(i) Credit risk

As of June 30, 2020, December 31 and June 30, 2019, the major client contributed approximately 14%, 12% and 13% of total receivables, respectively. The other four clients contributed no more than 33%, 22% and 26% of total receivables, respectively.

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

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	3-5 years	Over 5 years
<b>June 30, 2020</b>						
Non-derivative financial liabilities						
Short-term borrowings	\$ 226,831	228,771	228,771	-	-	-
Accounts payable	626,280	626,280	626,280	-	-	-
Dividends payable	330,420	330,420	330,420	-	-	-
Other payables	511,167	511,167	511,167	-	-	-
Long-term borrowings (including due within a year)	66	66	66	-	-	-
Lease liabilities	36,985	39,167	19,695	13,717	5,755	-
Guarantee deposits received	1,012	1,012	-	-	-	1,012
	<u>\$ 1,732,761</u>	<u>1,736,883</u>	<u>1,716,399</u>	<u>13,717</u>	<u>5,755</u>	<u>1,012</u>
<b>December 31, 2019</b>						
Non-derivative financial liabilities						
Short-term borrowings	\$ 250,944	256,652	256,652	-	-	-
Accounts payable	1,140,723	1,130,361	1,130,361	-	-	-
Other payables	592,043	592,043	592,043	-	-	-
Long-term borrowings (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>\$ 2,026,310</u>	<u>2,023,503</u>	<u>2,008,718</u>	<u>12,325</u>	<u>1,434</u>	<u>1,026</u>
<b>June 30, 2019</b>						
Non-derivative financial liabilities						
Short-term borrowings	\$ 47,441	49,344	49,344	-	-	-
Accounts payable (including related parties)	1,176,839	1,176,839	1,176,839	-	-	-
Dividends payable	218,540	218,540	218,540	-	-	-
Other payables	106,552	106,552	106,552	-	-	-
Long-term borrowings (including due within a year)	2,289	2,391	2,391	-	-	-
Lease liabilities	56,813	58,709	36,331	22,214	164	-
Guarantee deposits received	1,059	1,059	-	-	-	1,059
Derivative financial liabilities						
Other forward exchange contracts:						
Outflow	359	359	359	-	-	-
	<u>\$ 1,609,892</u>	<u>1,613,793</u>	<u>1,590,356</u>	<u>22,214</u>	<u>164</u>	<u>1,059</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>
<b>June 30, 2020</b>			
Financial assets:			
Monetary items:			
USD (note)	\$ 39,085	29.5160	1,153,634
Financial liabilities:			
Monetary items:			
USD (note)	\$ 20,440	29.5160	603,308
<b>December 31, 2019</b>			
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
<b>June 30, 2019</b>			
Financial assets:			
Monetary items:			
USD (note)	\$ 40,720	31.0120	1,262,796
Financial liabilities:			
Monetary items:			
USD (note)	\$ 18,847	31.0120	584,490

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 June 30, 2020 and 2019 would have increased or decreased the net income by \$14,917 thousand and \$17,498 thousand, respectively. The analysis is performed on the same basis for both periods.

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

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 three months and six months ended June 30, 2020 and 2019, foreign exchange gain (loss) (including realized and unrealized abortions) amounted to \$(4,934) thousand, \$(2,834) thousand, \$(1,737) thousand and \$6,586 thousand, respectively.

(iv) Interest rate analysis

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

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

If the interest rate increases or decreases by 1%, the Group's net income will increase or decrease by \$908 thousand and \$199 thousand, respectively, for the six months ended June 30, 2020 and 2019, 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.

	<b>June 30, 2020</b>				
	<b>Carrying amount</b>	<b>Fair value</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 2,157	-	2,157	-	2,157
Financial assets mandatorily measured at fair value through profit or loss	<u>204,535</u>	<u>100,567</u>	<u>103,968</u>	<u>-</u>	<u>204,535</u>
<b>Total</b>	<b><u>\$ 206,692</u></b>	<b><u>100,567</u></b>	<b><u>106,125</u></b>	<b><u>-</u></b>	<b><u>206,692</u></b>

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

	<b>December 31, 2019</b>				
	<b>Carrying amount</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
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	<u>100,322</u>	<u>100,322</u>	<u>-</u>	<u>-</u>	<u>100,322</u>
<b>Total</b>	<b>\$ <u>101,100</u></b>	<b><u>100,322</u></b>	<b><u>778</u></b>	<b><u>-</u></b>	<b><u>101,100</u></b>
	<b>June 30, 2019</b>				
	<b>Carrying amount</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	<u>\$ 400,367</u>	<u>400,367</u>	<u>-</u>	<u>-</u>	<u>400,367</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	<u>\$ 359</u>	<u>-</u>	<u>359</u>	<u>-</u>	<u>359</u>

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.

(v) Financial risk management

The objective and policies of the consolidated company are identical to those disclosed in note 6(u) of the consolidated financial statements for the year ended December 31, 2019.

(w) Capital management

The disclosure of objectives, policies and procedures of the Group's capital management are the same as those specified in the consolidated financial statements for the year ended December 31, 2019; and there were no significant changes in the Group's collective quantitative information from those disclosed in the consolidated financial statements for the year ended December 31, 2019. For related information, please refer to note 6(v) of the consolidated financial statements for the year ended December 31, 2019.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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(x) 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 six months ended June 30, 2020 and 2019 was acquisition of right-of-use assets by leasing.

(y) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities for the six months ended June 30, 2020 and 2019 were as follows:

	January 1, 2020	Cash flows	Non-cash changes			June 30, 2020
			Foreign exchange movement	Amortization of commercial paper discount	Others	
Short-term borrowings	\$ 250,944	42,228	(3,960)	-	(62,381)	226,831
Long-term borrowings (including current portion)	1,097	(1,030)	(1)	-	-	66
Lease liabilities	40,477	(18,055)	1,786	528	12,249	36,985
Total liabilities from financing activities	<u>\$ 292,518</u>	<u>23,143</u>	<u>(2,175)</u>	<u>528</u>	<u>(50,132)</u>	<u>263,882</u>

  

	January 1, 2019	Cash flows	Non-cash changes			June 30, 2020
			Foreign exchange movement	Amortization of commercial paper discount	Others	
Short-term borrowings	\$ 253,528	(206,672)	585	-	-	47,441
Long-term borrowings (including current portion)	19,583	(17,471)	177	-	-	2,289
Lease liabilities	80,951	(21,027)	(670)	1,189	(3,630)	56,813
Total liabilities from financing activities	<u>\$ 354,062</u>	<u>(245,170)</u>	<u>92</u>	<u>1,189</u>	<u>(3,630)</u>	<u>106,543</u>

**(7) Related-party transactions**

(a) 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
Beijing HDZX Technology Co., Ltd. (HDZX)	Related party
Mr. Zhang Jun Hai	Key management of Consolidated Company

(b) Significant related party transactions

(i) Advance receipts (recorded under current contract liabilities)

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Other related-party HDZC	<u>\$ 81,564</u>	<u>-</u>	<u>-</u>

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

(ii) Leases

Lease contracts with the period from June 2015 to May 2020 and June 2020 to May 2025 were signed with other related party on April 2015 and April 2020. In accordance with the contract, the Group provided \$175 thousand as deposit and booked the same amount under non-current assets. There were no outstanding balance as of June 30, 2019. At the date of initial application of IFRS 16, the Company recognized right-of-use asset \$1,855 thousand and lease liability \$1,855 thousand, respectively, because of the aforementioned lease transaction. For the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019, the Group recognized the amount of \$1 thousand, \$2 thousand, \$5 thousand and \$5 thousand as interest expense, respectively. As of June 30, 2020, December 31 and June 30, 2019, the balance of lease liabilities amounted to \$6,427 thousand, \$546 thousand and \$1,201 thousand, respectively.

(iii) Contribution

With the approval from the broad of directors, the Group agreed to contribute \$1,591 thousand, \$1,500 thousand, \$2,500 thousand and \$1,500 thousand to Lanner Foundation for the three months and six months ended June 30, 2020 and 2019, recorded under operating expenses – administrative expenses.

(iv) Property translation auditor

The main management personnel of the Group purchased part of the shares of HDZC, the amount of the shares transaction was \$61,728 thousand (RMB14,843 thousand). As of June 30, 2020, according to the agreement, \$36,776 thousand has not yet been received, which is recorded under other receivable.

(c) Key management personnel compensations

Key management personnel compensation comprised:

	<b>For the three months ended June 30</b>		<b>For the three months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Short-term employee benefits	\$ 29,236	20,244	52,101	46,667
Post-employment benefits	186	206	394	398
	<b><u>\$ 29,422</u></b>	<b><u>20,450</u></b>	<b><u>52,495</u></b>	<b><u>47,065</u></b>

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

**(8) Pledged assets**

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Certificate of deposits (recorded under other financial assets – current)	Guarantee for customs	\$ 2,394	2,371	2,371
Land	Guarantee for long and short-term borrowings	302,670	413,815	414,767
Building	Guarantee for long and short-term borrowings	139,799	240,853	246,049
		<u>\$ 444,863</u>	<u>657,039</u>	<u>663,187</u>

**(9) Commitments and contingencies: None.****(10) Losses Due to Major Disasters: None.****(11) Subsequent Events: None.****(12) Other**

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

By function	Three months ended June 30, 2020			Three months ended June 30, 2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	51,142	190,473	241,615	55,598	190,812	246,410
Labor and health insurance	5,453	11,232	16,685	5,340	12,014	17,354
Pension	1,691	3,623	5,314	2,355	7,187	9,542
Others	3,482	7,908	11,390	3,592	9,139	12,731
Depreciation	10,967	24,759	35,726	9,356	14,382	23,738
Amortization	-	-	-	-	371	371

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

By function By nature	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	103,037	385,265	488,302	108,863	406,505	515,368
Labor and health insurance	11,468	26,065	37,533	12,086	25,413	37,499
Pension	3,983	11,024	15,007	4,729	14,217	18,946
Others	7,097	14,226	21,323	7,216	19,253	26,469
Depreciation	22,643	48,827	71,470	22,143	49,402	71,545
Amortization	-	-	-	-	254	254

(b) Operating and seasonality

The Group operations were not affected by seasonal and cyclical factors.

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

No.	Name of company	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for one party (Note 2)	Highest balance for guarantees and endorsements during the year	Ending balance of guarantees and endorsements	Amount actually drawn	Property pledged on guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum allowable amount for guarantees and endorsements (Note 2)	Parent company endorsement / guarantees to third parties on behalf of subsidiary	Subsidiary endorsement / guarantees to third parties on behalf of parent company	Endorsements / guarantees to third parties on behalf of company in Mainland China
		Name	Relationship with the Company (Note 1)										
0	The Company	Beijing L&S Lancom Platform Tech. Co., Ltd.	(2)	613,725	96,738	96,738	-	-	3.15 %	1,534,313	Y		Y
0	The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	(2)	613,725	63,090	63,090	-	-	2.06 %	1,534,313	Y		Y

Unit: thousand dollars/thousand shares

Note 1: The guarantee's relationship with the guarantor is as follows:

- (1) A company with which it does business.
- (2) A company in which the public company directly and indirectly holds more than 50 percent of the voting shares.
- (3) A company that directly and indirectly holds more than 50 percent of the voting shares in the public company.
- (4) A company in which the public company holds, directly and indirectly, 50 percent or more of voting shares.
- (5) A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
- (6) A company that all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages.

Note 2: The aggregate amount of guarantee by the Company is limited to 50 percent of total equity.

Note 3: The guaranteed amount is limited to 20 percent for one party.

Note 4: The Company endorses others due to business relationships, and the amount of the endorsement guarantee shall not exceed the amount of the company's business transactions with it.

Note 5: The transactions within the Group were eliminated in the consolidated interim financial statements.

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

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	June 30, 2020				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	100,567	- %	100,567	
Beijing L & S Lancom Platform of Technology CO., Ltd.	China Merchants Bank Financial Products - 7007 Point	—	Financial assets at fair value though profit or loss – current	-	103,968	- %	103,968	

Unit: thousand dollars/thousand shares

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

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.	China Merchants Bank Financial Products – Point Gold Pool 7007	Financial assets at fair value though profit or loss – current	China Merchants Bank	-	-	-	-	325,319	-	221,351	221,351	-	-	103,968

(In Thousands of New Taiwan Dollars)

- (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.

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

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

Unit: thousand dollars

Name of Company	Counter-party	Relationship	Transaction details				The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	(Sales)	(714,975)	(29)	%90 days	-	-	280,797	28 %	
LANNER ELECTRONICS USA, INC.	The Company	Subsidiary	Purchase	714,975	90	%90 days	-	-	(280,797)	(95) %	
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	(Sales)	(126,652)	(5)	%60 days	-	-	40,286	4 %	
Dongguan Lihua Haiwell Tech. Co., Ltd.	The Company	Subsidiary	Purchase	126,652	34	%60 days	-	-	(40,286)	(44) %	
The Company	LEI Technology Canada Ltd.	Subsidiary	(Sales)	(278,414)	(11)	%90 days	-	-	185,615	18 %	
LEI Technology Canada Ltd.	The Company	Subsidiary	Purchase	278,414	87	%90 days	-	-	(185,615)	(99) %	
Dongguan Lihua Haiwell Tech. Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd.	Subsidiary	(Sales)	(306,332)	(61)	%60 days	-	-	-	- %	
Beijing L&S Lancom Platform Tech. Co., Ltd.	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Purchase	306,332	100	%60 days	-	-	-	- %	
Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	Associated company/ Related parties	(Sales)	(124,934)	(22)	%60 days	-	-	-	- %	
Beijing HDZX Technology CO., Ltd.	Dongguan Lihua Haiwell Technology Co., Ltd.	Associated company/ Related parties	Purchase	124,934	99	%60 days	-	-	-	- %	

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

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

Unit: thousand dollars

Name of related party	Counter-party	Relationship	Balance of receivables from related party (Note)	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	280,797	4.76	-		218,418 (Until August 13, 2020)	-
The Company	LEI Technology Canada Ltd.	Subsidiary	185,615	3.71	-		82,347 (Until August 13, 2020)	-

Note: The transactions within the Group were eliminated in the consolidated interim 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 for the six months ended June 30, 2020:

Unit: thousand dollars

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			Percentage of the total consolidated revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	LANNER ELECTRONICS USA, INC.	1	Sales	714,975	No significant differences	21.70%
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	126,652	No significant differences	3.84 %
0	The Company	LEI Technology Canada Ltd.	1	Sales	278,414	No significant differences	8.45 %

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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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	Accounts receivable	280,797	No significant differences	4.95 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	40,286	No significant differences	0.71 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	185,615	No significant differences	3.27 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	306,332	No significant differences	9.30 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	203,798	No significant differences	3.59 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Sales	124,934	No significant differences	3.79 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Advance sales receipts	81,564	No significant differences	1.44 %

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.

Note 3: The transactions within the Group were eliminated in the consolidated interim financial statements.

(b) Information on investees:

The following are the information on investees for the six months ended June 30, 2020 (excluding information on investees in Mainland China):

Name of investor	Investor investee	Address	Scope of business.	Original cost		Ending balance			Net income of investee	Investment income (losses)	Remarks
				June 30, 2020	December 31, 2019	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 %	263,848	8,162	8,162	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	808,568	80,489	80,489	(Note 1)
The Company	LEI Technology Canada Ltd.	Canada	Trading of computer peripheral equipment	92,282	92,282	3,105	100 %	72,685	2,561	2,561	(Note 1)
The Company	Lanner Technology JAPAN Co., Ltd.	Japan	Trading of computer peripheral equipment	8,145	-	3	80 %	6,666	(1,491)	(1,193)	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	78,251	78,251	2,623	100 %	847,853	80,489	80,489	(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, 2020	Investment flow during current period		Cumulative investment (amount) from Taiwan as of June 30, 2020	Net income on investee	Direct / indirect investment holding percentage	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.	Trading of computer peripheral equipment	118,388	(3)	75,982	-	-	75,982	102,614	80.00 %	82,091 (2)	651,747	-
Beijing LSZC Investment Co., Ltd.	investing	103,663	(4)a	-	-	-	-	(8,077)	80.00 %	(6,462) (2)	(Note 5)	-
Dongguan Lihua Haiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	92,037	(4)b	-	-	-	-	(9,841)	80.00 %	(7,873) (2)	87,110	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	70,358	(4)b	-	-	-	-	24,390	31.92 %	7,785 (1)	(Note 4)	-
Lanner Technology (Dongguan) Co., Ltd. Lanner Technology	Trading of computer peripheral equipment	15,617	(1)	-	-	-	-	(2,090)	100.00 %	(2,090) (2)	5,784	-

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**  
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- 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: Amounts of investment income (loss) was recognized base on:
- (1) The gain (loss) of the investee were not reviewed and were recognized as investment income (loss) under the equity method.
  - (2) The interim financial statements of the investee are reviewed by the auditors of the parent company.
- Note 3: Aforementioned amounts have been eliminated upon consolidated interim financial statements.
- Note 4: The Group has disposed of all the shares in June 2020.
- Note 5: LSZC has been canceled the business registration in April 2020.

(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 note 13(a)(j) for details.

(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Yi-Wen Chou		10,050,089	8.50 %
Fubon Life Insurance Co., Ltd.		8,250,000	6.98 %
Delta Electronics, Inc.		6,763,845	5.72 %

**(14) Segment 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.