

**LANNER ELECTRONICS INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2021 and 2020**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of LANNER ELECTRONICS INC. as of and for the year ended December 31, 2021 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, LANNER ELECTRONICS INC. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: LANNER ELECTRONICS INC.

Chairman: Chou I Wen

Date: March 17, 2022



安侯建業聯合會計師事務所
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Independent Auditors' Report

To the Board of Directors of LANNER ELECTRONICS INC.:

Opinion

We have audited the consolidated financial statements of LANNER ELECTRONICS INC. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Other Matter

We did not audit the financial statements of LANNER ELECTRONICS USA, INC.. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LANNER ELECTRONICS USA, INC. , is based solely on the report of another auditor. The financial statements of LANNER ELECTRONICS USA, INC. reflect 10% each constituting of its consolidated total assets, and 28% and 27% of the consolidated total operating revenues for both years ended December 31, 2021 and 2020, respectively.

The Company has prepared its parent company only financial statements as of and for the years ended December 31, 2021 and 2020, on which we have issued an unmodified opinion with other matter.

Key Audit Matters

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

1. Revenue recognition

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

2. Impairment of trade receivables

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

Description of key audit matter:

The trade receivables constituted 16% of the consolidated total assets of the Group as of December 31, 2021. Therefore, the management is required to establish a policy on its allowance for impairment in order to evaluate the customers' financial status, as well as the political and economic environment. Therefore, we consider the impairment of trade receivables as one of our key audit matters.

How the matter was addressed in our audit:

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

3. Inventory measurement

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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



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

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

KPMG

Taipei, Taiwan (Republic of China)
March 17, 2022

Notes to Readers

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

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

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

Consolidated Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2021		December 31, 2020			December 31, 2021		December 31, 2020			
	Amount	%	Amount	%		Amount	%	Amount	%		
Assets											
Current assets:											
1100	Cash and cash equivalents (note 6(a))	\$ 1,532,616	20	2,406,320	34	2100	Short-term borrowings (notes 6(l) and 8)	\$ 164,258	2	345,065	5
1110	Current financial assets at fair value through profit or loss (note 6(b))	591,481	8	544,425	7	2322	Current portion of long-term borrowings (notes 6(l) and 8)	313	-	-	-
1136	Current financial assets at amortised cost, net (note 6(c))	260,000	3	-	-	2120	Current financial liabilities at fair value through profit or loss (notes 6(b) and 6(g))	10,530	-	709	-
1150	Notes receivable, net (note 6(d))	19,060	-	6,476	-	2130	Current contract liabilities (note 6(u))	88,294	1	37,180	1
1170	Accounts receivable, net (note 6(d))	1,259,843	16	999,981	14	2170	Accounts payable	1,653,402	21	1,062,513	15
1180	Accounts receivable—related parties, net (notes 6(d) and 7)	-	-	26	-	2230	Current tax liabilities	199,446	3	133,313	2
1200	Other receivables (notes 6(e) and 7)	22,169	-	10,745	-	2219	Other payables (notes 6(p) and 6(v))	674,500	9	634,941	9
130x	Inventories (note 6(f))	2,532,830	32	1,739,242	24	2250	Provisions—current (note 6(m))	54,979	1	44,946	1
1476	Other financial assets—current (note 8)	3,590	-	2,811	-	2280	Current lease liabilities (notes 6(o) and 7)	37,165	-	32,093	-
1410	Prepayments	74,192	1	79,488	1	2399	Other current liabilities (note 6(u))	212,990	2	196,676	3
1479	Other current assets	125,198	2	81,713	1		Total current liabilities	3,095,877	39	2,487,436	36
	Total current assets	6,420,979	82	5,871,227	81		Non-Current liabilities:				
Non-current assets:											
1600	Property, plant and equipment (notes 6(i) and 8)	1,216,336	16	1,241,727	17	2530	Bonds payable (note 6(n))	885,443	11	877,942	12
1755	Right-of-use assets (notes 6(j) and 7)	102,939	1	108,158	1	2630	Long-term borrowings (notes 6(l) and 8)	566	-	-	-
1915	Prepayments for equipment	7,964	-	9,523	-	2570	Long-term deferred revenue (note 6(u))	36,232	-	34,185	-
1840	Deferred income tax assets (note 6(q))	100,007	1	73,369	1	2580	Deferred income tax liabilities (note 6(q))	216,706	3	193,686	3
1995	Other non-current assets (note 7)	26,032	-	17,591	-	2640	Non-current lease liabilities (notes 6(o) and 7)	65,828	1	76,753	1
	Total non-current assets	1,453,278	18	1,450,368	19	2670	Accrued pension liabilities (note 6(p))	39,777	1	39,600	1
							Other non-current liabilities	9,246	-	986	-
							Total non-current liabilities	1,253,798	16	1,223,152	17
							Total liabilities	4,349,675	55	3,710,588	53
Equity attributable to owners of parent (notes 6(g), 6(n), 6(r) and 6(s)):											
	Share capital:					3110	Common stock	1,170,034	15	1,180,044	16
						3200	Capital surplus	744,705	9	741,768	10
	Retained earnings:					3310	Legal reserve	417,739	5	358,912	5
						3320	Special reserve	128,464	2	92,949	-
						3350	Unappropriated retained earnings	1,198,582	16	1,187,707	16
								1,744,785	23	1,639,568	21
	Other equity:					3410	Financial statements translation differences for foreign operations	(135,875)	(2)	(128,464)	(2)
							Total equity attributable to owners of parent	3,523,649	45	3,432,916	45
						36xx	Non-controlling interests	933	-	178,091	2
							Total equity	3,524,582	45	3,611,007	47
	Total assets	\$ 7,874,257	100	7,321,595	100		Total liabilities and equity	\$ 7,874,257	100	7,321,595	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
LANNER ELECTRONICS INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	2021		2020	
	Amount	%	Amount	%
4000 Operating revenue (notes 6(u) and 7)	\$ 7,680,510	100	7,502,682	100
5000 Operating cost (notes 6(f), 6(i), 6(j), 6(o), 6(p), 6(s) and 6(v))	<u>5,642,502</u>	74	<u>5,296,244</u>	71
Gross profit, net	<u>2,038,008</u>	26	<u>2,206,438</u>	29
Operating expenses (notes 6(d), 6(e), 6(i), 6(j), 6(o), 6(p), 6(s), 6(v) and 7):				
6100 Selling expenses	458,697	6	586,751	8
6200 Administrative expenses	381,416	5	340,158	5
6300 Research and development expenses	565,456	7	563,449	7
6450 Impairment loss determined in accordance with IFRS9	<u>7,500</u>	-	<u>56,888</u>	1
Total operating expenses	<u>1,413,069</u>	18	<u>1,547,246</u>	21
Operating profit	<u>624,939</u>	8	<u>659,192</u>	8
Non-operating income and expenses (notes 6(h), 6(n), 6(o), 6(w) and 7):				
7100 Interest income	7,046	-	7,546	-
7010 Other income	42,283	-	38,593	1
7020 Other gains and losses	4,792	-	129,437	2
7050 Financial costs	<u>(16,178)</u>	-	<u>(6,991)</u>	-
Total non-operating income and expenses	<u>37,943</u>	-	<u>168,585</u>	3
Net Income before tax	662,882	8	827,777	11
7950 Less: income tax expenses (note 6(q))	<u>109,166</u>	1	<u>188,806</u>	2
Net income	<u>553,716</u>	7	<u>638,971</u>	9
8300 Other comprehensive income (loss) (note 6(p)):				
8310 Components of other comprehensive income that will not be reclassified to profit or loss				
8311 Gains (losses) on remeasurements of defined benefit plans	(798)	-	(1,348)	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	-	<u>-</u>	-
Components of other comprehensive income that will not be reclassified to profit or loss	<u>(798)</u>	-	<u>(1,348)</u>	-
8360 Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361 Exchange differences on translation of foreign financial statements	(7,370)	-	(39,295)	(1)
8399 Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	-	<u>-</u>	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>(7,370)</u>	-	<u>(39,295)</u>	(1)
8300 Other comprehensive income	<u>(8,168)</u>	-	<u>(40,643)</u>	(1)
Total comprehensive income	<u>\$ 545,548</u>	<u>7</u>	<u>\$ 598,328</u>	<u>8</u>
Net income attributable to:				
8610 Owners of parent	\$ 546,391	7	595,898	8
8620 Non-controlling interests	<u>7,325</u>	-	<u>43,073</u>	1
	<u>\$ 553,716</u>	<u>7</u>	<u>\$ 638,971</u>	<u>9</u>
Total comprehensive income attributable to:				
8710 Owners of parent	\$ 538,182	7	559,035	7
8720 Non-controlling interests	<u>7,366</u>	-	<u>39,293</u>	1
	<u>\$ 545,548</u>	<u>7</u>	<u>\$ 598,328</u>	<u>8</u>
9750 Basic earnings per share (New Taiwan Dollars) (note 6(t))	<u>\$ 4.65</u>		<u>\$ 5.05</u>	
9850 Diluted earnings per share (New Taiwan Dollars) (note 6(t))	<u>\$ 4.01</u>		<u>\$ 4.88</u>	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	Common stock	Capital surplus	Legal reserve	Retained earnings		Financial statements translation differences for foreign operations	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity	
				Special reserve	Unappropriated retained earnings						Total retained earnings
Balance at January 1, 2020	\$ 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	-	-	-	-	595,898	595,898	-	-	595,898	43,073	638,971
Other comprehensive income (loss)	-	-	-	-	(1,348)	(1,348)	(35,515)	-	(36,863)	(3,780)	(40,643)
Total comprehensive income (loss)	-	-	-	-	594,550	594,550	(35,515)	-	559,035	39,293	598,328
Due to recognition of equity component of convertible bonds (preference share) issued	-	22,680	-	-	-	-	-	-	22,680	-	22,680
Purchase of treasury share	-	-	-	-	-	-	-	(9,691)	(9,691)	-	(9,691)
Retirement of treasury share	(2,160)	(1,253)	-	-	(6,278)	(6,278)	-	9,691	-	-	-
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(123,864)	(123,864)
Remuneration cost of employee stock options	-	6,868	-	-	-	-	-	-	6,868	-	6,868
Non-controlling interests	-	-	-	-	-	-	-	-	-	2,036	2,036
Issuance of shares for exercise of employee stock options	2,120	3,509	-	-	-	-	-	-	5,629	-	5,629
Balance at December 31, 2020	1,180,044	741,768	358,912	92,949	1,187,707	1,639,568	(128,464)	-	3,432,916	178,091	3,611,007
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	58,827	-	(58,827)	-	-	-	-	-	-
Special reserve	-	-	-	35,515	(35,515)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(389,420)	(389,420)	-	-	(389,420)	-	(389,420)
Net income	-	-	-	-	546,391	546,391	-	-	546,391	7,325	553,716
Other comprehensive income (loss)	-	-	-	-	(798)	(798)	(7,411)	-	(8,209)	41	(8,168)
Total comprehensive income (loss)	-	-	-	-	545,593	545,593	(7,411)	-	538,182	7,366	545,548
Purchase of treasury shares	-	-	-	-	-	-	-	(59,355)	(59,355)	-	(59,355)
Retirement of treasury shares	(10,010)	(5,813)	-	-	(43,532)	(43,532)	-	59,355	-	-	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	-	(7,424)	(7,424)	-	-	(7,424)	(184,524)	(191,948)
Remuneration cost of employee stock options	-	8,750	-	-	-	-	-	-	8,750	-	8,750
Balance at December 31, 2021	\$ 1,170,034	744,705	417,739	128,464	1,198,582	1,744,785	(135,875)	-	3,523,649	933	3,524,582

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	2021	2020
Cash flows from (used in) operating activities:		
Consolidated net income before tax	\$ 662,882	827,777
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	132,731	139,380
Impairment loss determined in accordance with IFRS9	7,500	56,888
Net gain on financial assets or liabilities at fair value through profit or loss	(3,290)	(1,917)
Interest expense	16,178	6,991
Interest income	(7,046)	(7,546)
Share-based payment transactions	8,750	6,868
Loss (gain) on disposal of property, plant and equipment	(283)	465
Gain on disposal of investments	-	(139,344)
Total adjustments to reconcile profit	<u>154,540</u>	<u>61,785</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets or liabilities at fair value through profit or loss	(43,766)	(441,408)
Notes receivable	(12,584)	2,567
Accounts receivable	(267,362)	98,192
Accounts receivable due from related parties	26	(26)
Other receivables	(11,552)	(8,354)
Inventories	(793,588)	92,257
Prepayments	5,296	(75,906)
Other current assets	(43,485)	17,174
Other financial assets	121	1,613
Total changes in operating assets, net	<u>(1,166,894)</u>	<u>(313,891)</u>
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	(2,490)	709
Contract liabilities	51,114	1,968
Accounts payable	590,889	(62,188)
Other payables	41,872	63,603
Provisions	10,033	3,339
Other current liabilities	19,169	(25,730)
Net defined benefit liabilities	(621)	(491)
Deferred revenue	(808)	(3,100)
Total changes in operating liabilities, net	<u>709,158</u>	<u>(21,890)</u>
Total changes in operating assets and liabilities, net	<u>(457,736)</u>	<u>(335,781)</u>
Total adjustments	<u>(303,196)</u>	<u>(273,996)</u>
Cash provided by operating activities	359,686	553,781
Interest income received	6,146	5,755
Interest paid	(7,065)	(2,812)
Income taxes paid	(46,931)	(86,479)
Net cash used in operating activities	<u>311,836</u>	<u>470,245</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at amortised cost	(260,000)	-
Proceeds from disposal of subsidiaries (reduced the deduction of cash)	-	209,247
Acquisition of property, plant and equipment	(60,530)	(57,972)
Proceeds from disposal of property, plant and equipment	1,458	320
Decrease (increase) in refundable deposits	(134)	61
Net cash inflows from business combination	-	8,145
Decrease (increase) in other non-current assets	(8,307)	3,610
Decrease (increase) in prepayments for equipment	(6,679)	432
Net cash provided by (used in) investing activities	<u>(334,192)</u>	<u>163,843</u>
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	304,258	1,894,288
Decrease in short-term borrowings	(485,294)	(1,735,854)
Proceeds from issuing bonds	-	900,000
Proceeds from long-term debt	885	-
Repayments of long-term borrowings	-	(1,075)
Payment of lease liabilities	(39,458)	(43,129)
Decrease in other non-current liabilities	8,260	(40)
Cash dividends paid	(389,420)	(364,219)
Proceeds from exercise of employee stock options	-	5,629
Payments to acquire treasury shares	(59,355)	(9,691)
Acquisition of ownership interests in subsidiaries	(179,637)	-
Changes in non-controlling interests	-	2,036
Net cash provide by (used in) financing activities	<u>(839,761)</u>	<u>647,945</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(11,587)</u>	<u>(30,370)</u>
Net increase (decrease) in cash and cash equivalents	<u>(873,704)</u>	<u>1,251,663</u>
Cash and cash equivalents at beginning of period	<u>2,406,320</u>	<u>1,154,657</u>
Cash and cash equivalents at end of period	<u>\$ 1,532,616</u>	<u>2,406,320</u>

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

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

(1) Company history

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

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

The consolidated financial statements were authorized for issue by the Board of Directors and issued on March 17, 2022.

(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. which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from April 1, 2021:

- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

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

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2022, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

(Continued)

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

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

The following new and amended standards, which may be relevant to the Group, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

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

The Group does not expect the other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements.

(4) Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

- (a) Statement of compliance

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

- (b) Basis of preparation

- (i) Basis of measurement

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

(Continued)

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

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

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

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

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

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

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

(Continued)

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

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

(ii) List of subsidiaries included in the consolidated financial statements

List of subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership		Note
			December 31, 2021	December 31, 2020	
The Company	LANNER ELECTRONICS USA, INC. (LANNER (USA))	Trading of computer peripheral products	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS (MAURITIUS) INC. (LANNER (MAURITIUS))	Investing	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS CANADA LTD. (LCA)	Trading of computer peripheral products	100.00 %	100.00 %	Note 3
The Company	LANNER TECHNOLOGY JAPAN Co., Ltd. (LANNER (JAPAN))	Trading of computer peripheral products	80.00 %	80.00 %	
The Company	Whitebox Solutions Inc.	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	Note 1
The Company	Lanner Europe B.V. (LNL)	Trading of computer peripheral products	100.00 %	- %	Note 4
The Company	LannerTech electronics Inc.	Trading of computer peripheral products	100.00 %	- %	Note 5
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	
LANCOM	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral products	100.00 %	80.00 %	Note 2
LANCOM	Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	
L&S	Dongguan Lihua Haiwell Tech. Co., Ltd. (Haiwell)	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	

Note 1: The Group established a new Branch, Whitebox Solutions Inc., in September 2020, with investment amount of \$7,500 thousand.

Note 2: On March 4, 2021, the board of directors approved the Group's acquisition of 20% shares of Beijing L&S Lancom Platform Tech. Co., Ltd. The acquisition process was completed in May 2021.

Note 3: On May 25, 2021, LEI TECHNOLOGY CANADA LTD. filed to change its name to LEI ELECTRONICS CANADA LTD.

Note 4: The Group established a new Branch, LNL, in July 2021, with investment amount of \$28,006 thousand.

Note 5: The Group established a new Branch, LannerTech electronics Inc., in August 2021, with investment amount of \$6,000 thousand.

(Continued)

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

(d) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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

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

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

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

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

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

(Continued)

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

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

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

(f) Cash and cash equivalents

Cash and cash equivalents comprised cash, cash in banks and short-term investments with high liquidity that are subject to an insignificant risk of changes in their fair value. Time deposits which meet the above definition and are held for the purpose of meeting shortterm cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(g) Financial instruments

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

(i) Financial assets

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

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

(Continued)

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

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

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

3) Fair value through profit or loss (FVTPL)

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

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

(Continued)

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

4) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

5) Derecognition of financial assets

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Treasury shares

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

4) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

(Continued)

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

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

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

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

5) Financial liabilities

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

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

6) Derecognition of financial liabilities

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

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

7) Offsetting of financial assets and liabilities

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

8) Financial guarantee contract

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

(Continued)

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

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

(iii) Derivative financial instruments

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

(h) Inventories

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

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

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(Continued)

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

(iii) Depreciation

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

Land is not depreciated.

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

1) buildings	31~51 years
2) machinery	2~10 years
3) other equipment	1~15 years

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

(j) Leases

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

(i) As a lessee

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

(Continued)

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

(ii) As a lessor

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

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

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

(k) Impairment – non-financial assets

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

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

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

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

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

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

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

(l) Provisions

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

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

(m) Revenue from contracts with customers

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

(i) Sale of goods

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

The Group's obligation to provide a refund for faulty electronic components under the standard warranty terms is recognized as a provision for warranty; please refer to note 6(m).

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

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

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(ii) Financing components

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

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

(iii) Short-term employee benefits

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

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

(o) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

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

(p) Income tax

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

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

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

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

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

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

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

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

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

(q) Earnings per share

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

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

(r) Operating segments

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

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

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

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

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

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

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

(a) Impairment assessment of account receivable

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

(b) Inventory measurement

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

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash	\$ 360	362
Demand deposits	542,579	1,030,472
Checking deposits	8,902	28,811
Time deposits	147,400	989,400
Foreign currency deposits	<u>833,375</u>	<u>357,275</u>
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 1,532,616</u>	<u>2,406,320</u>

Please refer to note 6(x) for the credit risk, exchange rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

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

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

	December 31, 2021	December 31, 2020
Mandatorily measured at fair value through profit or loss:		
Derivative instruments not used for hedging – forward exchange contracts	\$ 1,945	2,047
Non-derivative financial assets – open end funds	572,246	520,901
Non-derivative financial assets – financing products	17,290	21,477
Total	\$ 591,481	544,425
	December 31, 2021	December 31, 2020
Financial liabilities held for trading:		
Derivative instruments not used for hedging – forward exchange contracts	\$ -	709

Please refer to note 6(u) 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:

	December 31, 2021		
	Contract amount (thousand dollars)	Currency	Maturity dates
Forward exchange sold	USD 19,000 /	USD/TWD	January 7, 2021~
	TWD 527,825		April 7, 2021
	December 31, 2020		
	Contract amount (thousand dollars)	Currency	Maturity dates
Forward exchange sold	USD 13,000 /	USD/TWD	January 7, 2021~
	TWD 367,749		April 28, 2021

The Group had not provided any financial assets mentioned above as collateral as of December 31, 2021 and 2020.

(c) Financial assets measured at amortized cost

	December 31, 2021	December 31, 2020
Time deposits	\$ 260,000	-

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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The Group has assessed that these financial assets are held-to-maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost.

During the year ended December 31, 2021, the Group held domestic time deposits, with the effective interest rates ranging from 0.53%~0.55%, with the maturity month from February, 2022 to June, 2022.

As of December 31, 2021, none of the financial assets measured at amortized cost of the Group had been pledged as collateral.

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Notes receivable	\$ 19,060	6,476
Accounts receivable	1,301,929	1,034,724
Accounts receivable—related parties	-	26
Less: allowance for impairment	<u>42,086</u>	<u>34,743</u>
	<u>\$ 1,278,903</u>	<u>1,006,483</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. 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:

	<u>December 31, 2021</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 1,037,583	0.13%~1.93%	1,358
1 to 30 days past due	32,560	1.95%~15.00%	638
31 to 60 days past due	8,152	16.05%~18.00%	1,308
61 to 90 days past due	32	18.75%~30%	6
91 to 120 days past due	1,662	30%~100%	501
More than 121 days past due	<u>21,088</u>	100%	<u>21,088</u>
	<u>\$ 1,101,077</u>		<u>24,899</u>

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

	December 31, 2020		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 725,535	0.11%~1.57%	782
1 to 30 days past due	27,571	2.91%~5.13%	1,416
31 to 60 days past due	17,147	5.75%~32.04%	986
61 to 90 days past due	1,011	36.51%~45.75%	369
91 to 120 days past due	522	53.08%~70.84%	391
More than 121 days past due	<u>12,950</u>	100%	<u>12,950</u>
	<u>\$ 784,736</u>		<u>16,894</u>

The loss allowance provision in China was determined as follows:

	December 31, 2021		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 192,633	0.90%~0.98%	1,753
1 to 30 days past due	4,152	1.24%~1.32%	51
31 to 60 days past due	7,152	1.04%~1.93%	138
61 to 90 days past due	748	2.36%~2.45%	18
91 to 120 days past due	-	2.00%	-
121 to 150 days past due	-	6.25%	-
151 to 180 days past due	-	25.00%	-
More than 181 days past due	<u>15,227</u>	100%	<u>15,227</u>
	<u>\$ 219,912</u>		<u>17,187</u>

	December 31, 2020		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 245,816	1.01%	8,119
1 to 30 days past due	220	1.13%	2
31 to 60 days past due	-	1.41%	-
61 to 90 days past due	721	3.48%	25
91 to 120 days past due	-	3.45%	-
121 to 150 days past due	-	12.99%	-
151 to 180 days past due	-	51.98%	-
More than 181 days past due	<u>9,703</u>	100%	<u>9,703</u>
	<u>\$ 256,460</u>		<u>17,849</u>

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

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

	<u>2021</u>	<u>2020</u>
Balance on January 1	\$ 34,743	29,691
Impairment losses recognized	7,500	11,062
Foreign exchange gains	(157)	(388)
Disposal of a subsidiary	-	(5,622)
Balance on December 31	<u>\$ 42,086</u>	<u>34,743</u>

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(x).

(e) Other receivables

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other receivables – related parties	\$ 479	3,926
Other	59,729	53,208
Less Loss allowance	<u>38,039</u>	<u>46,389</u>
	<u>\$ 22,169</u>	<u>10,745</u>

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

	<u>2021</u>	<u>2020</u>
Balance on January 1	\$ 46,389	-
Impairment losses recognized	-	45,826
Impairment losses reversed	(8,660)	-
Foreign exchange losses	310	563
Balance on December 31	<u>\$ 38,039</u>	<u>46,389</u>

For other credit risk information, please refers to note 6(x).

(f) Inventories

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Merchandise	\$ 338	261
Finished goods	1,070,913	863,188
Work in process	352,158	239,297
Raw material	<u>1,109,421</u>	<u>636,496</u>
Total	<u>\$ 2,532,830</u>	<u>1,739,242</u>

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

As of December 31, 2021 and 2020, the Group's inventories had not pledged as collateral.

Aside from charging operating costs through the ordinary sale of inventories, other gains and losses directly recorded under operating costs in the years 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Loss on market value of inventory	\$ 36,115	30,899
Loss from scrapped inventory	14,622	24,941
Loss (gain) on physical count	<u>11</u>	<u>(779)</u>
Total	<u>\$ 50,748</u>	<u>55,061</u>

(g) Changes in a parent's ownership interest in a subsidiary – Acquisitions of NCI

In May of 2021, the Group acquired equity interest in Beijing L&A Lancome Platform of Technology Co. Ltd. for \$179,637 thousand in cash, increasing its ownership from 80% to 100%. The Group's ownership of the subsidiary did not change in 2020.

The effects of the changes in shareholdings were as follows:

Carrying amount of non-controlling interest on acquisition	\$ 184,524
Consideration paid to non-controlling interests	(179,637)
Contingent consideration – measured at fair value through profit and loss – current	<u>(12,311)</u>
Unappropriated retained earning – Differences between consideration and carrying amounts of subsidiary acquired	<u>\$ (7,424)</u>

(h) Loss control of subsidiaries

The Group disposes of all the shares of Beijing HDZX Technology Co., Ltd. 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 \$139,344 thousand (RMB32,852 thousand).

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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 borrowings		(62,381)
Accounts payable		(16,022)
Other payables and other current liabilities		(24,288)
Carrying amount of net assets	<u>\$</u>	<u>206,013</u>

(i) 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, 2021	\$ 519,553	673,526	172,560	553,444	1,919,083
Additions	-	-	3,677	56,853	60,530
Disposals	-	-	(12,329)	(45,657)	(57,986)
Reclassification	-	-	-	8,238	8,238
Effect of changes in exchange rates	(386)	821	37	267	739
Balance at December 31, 2021	<u>\$ 519,167</u>	<u>674,347</u>	<u>163,945</u>	<u>573,145</u>	<u>1,930,604</u>
Balance at January 1, 2020	\$ 509,258	684,491	174,423	583,501	1,951,673
Additions	12,096	9,631	2,748	33,497	57,972
Disposals	-	-	(4,138)	(59,016)	(63,154)
Disposal of a subsidiary	-	(17,894)	-	(5,079)	(22,973)
Reclassification	-	-	-	2,844	2,844
Effect of changes in exchange rates	(1,801)	(2,702)	(473)	(2,303)	(7,279)
Balance at December 31, 2020	<u>\$ 519,553</u>	<u>673,526</u>	<u>172,560</u>	<u>553,444</u>	<u>1,919,083</u>
Depreciation and impairment loss:					
Balance at January 1, 2021	\$ -	141,669	133,897	401,790	677,356
Depreciation	-	24,423	9,907	59,574	93,904
Disposal	-	-	(12,329)	(44,482)	(56,811)
Effect of changes in exchange rates	-	(111)	(64)	(6)	(181)
Balance at December 31, 2021	<u>\$ -</u>	<u>165,981</u>	<u>131,411</u>	<u>416,876</u>	<u>714,268</u>
Balance at January 1, 2020	\$ -	118,364	127,816	394,409	640,589
Depreciation	-	24,413	10,545	68,015	102,973
Disposal	-	-	(4,115)	(58,254)	(62,369)
Disposal of a subsidiary	-	(428)	-	(1,154)	(1,582)
Effect of changes in exchange rates	-	(680)	(349)	(1,226)	(2,255)
Balance at December 31, 2020	<u>\$ -</u>	<u>141,669</u>	<u>133,897</u>	<u>401,790</u>	<u>677,356</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Total</u>
Carrying value:					
December 31, 2021	\$ <u>519,167</u>	<u>508,366</u>	<u>32,534</u>	<u>156,269</u>	<u>1,216,336</u>
January 1, 2020	\$ <u>509,258</u>	<u>566,127</u>	<u>46,607</u>	<u>189,092</u>	<u>1,311,084</u>
December 31, 2020	\$ <u>519,553</u>	<u>531,857</u>	<u>38,663</u>	<u>151,654</u>	<u>1,241,727</u>

Please refer to note 8 for the information of the pledged property, plant and equipment, as of December 31, 2021 and 2020.

(j) 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, 2021	\$ 134,474	15,039	149,513
Additions	29,551	5,771	35,322
Write-off	(32,875)	(1,685)	(34,560)
Lease modification	(2,716)	(2,923)	(5,639)
Effect of changes in foreign exchange rates	<u>258</u>	<u>-</u>	<u>258</u>
Balance at December 31, 2021	\$ <u>128,692</u>	<u>16,202</u>	<u>144,894</u>
Balance at January 1, 2020	\$ 69,122	7,976	77,098
Additions	92,579	7,063	99,642
Write-off	(30,585)	-	(30,585)
Lease modification	6,427	-	6,427
Disposal of a subsidiary	(2,311)	-	(2,311)
Effect of changes in foreign exchange rates	<u>(758)</u>	<u>-</u>	<u>(758)</u>
Balance at December 31, 2020	\$ <u>134,474</u>	<u>15,039</u>	<u>149,513</u>

(Continued)

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, 2021	\$ 33,896	7,459	41,355
Depreciation	34,028	4,799	38,827
Write-off	(32,875)	(1,685)	(34,560)
Lease modification	(2,317)	(1,218)	(3,535)
Effect of changes in foreign exchange rates	(132)	-	(132)
Balance at December 31, 2021	<u>\$ 32,600</u>	<u>9,355</u>	<u>41,955</u>
Balance at January 1, 2020	\$ 35,356	2,569	37,925
Depreciation	31,517	4,890	36,407
Write-off	(30,585)	-	(30,585)
Disposal of a subsidiary	(1,313)	-	(1,313)
Effect of changes in foreign exchange rates	(1,079)	-	(1,079)
Balance at December 31, 2020	<u>\$ 33,896</u>	<u>7,459</u>	<u>41,355</u>
Carrying value:			
December 31, 2021	<u>\$ 96,092</u>	<u>6,847</u>	<u>102,939</u>
January 1, 2020	<u>\$ 33,766</u>	<u>5,407</u>	<u>39,173</u>
December 31, 2020	<u>\$ 100,578</u>	<u>7,580</u>	<u>108,158</u>

(k) Intangible assets

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

	<u>Goodwill</u>	<u>Customer relation</u>	<u>Total</u>
Costs:			
Balance at January 1, 2020	\$ 4,342	4,290	8,632
Disposals	(4,209)	(4,290)	(8,499)
Effect of changes in exchange rates	(133)	-	(133)
Balance at December 31, 2020	<u>\$ -</u>	<u>-</u>	<u>-</u>
Amortization:			
Balance at January 1, 2020	\$ -	4,290	4,290
Disposals	-	(4,290)	(4,290)
Balance at December 31, 2020	<u>\$ -</u>	<u>-</u>	<u>-</u>
Carrying value:			
January 1, 2020	<u>\$ 4,342</u>	<u>-</u>	<u>4,342</u>

The intangible assets of the Group were derecognized, due to the disposal of subsidiary on 2020.

(Continued)

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

(l) Short-term and long-term borrowings

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

(i) Short-term borrowings

	December 31, 2021			Amount
	Currency	Interest rate (%)	Maturity year	
Secured loans	RMB	3.85	2022	\$ 164,258
	December 31, 2020			Amount
	Currency	Interest rate (%)	Maturity year	
Secured loans	RMB	3.85	2021	\$ 64,430
Unsecured loans	USD	0.80~4.99	2021	280,635
Total				\$ 345,065

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

As of December 31, 2021 and 2020, the unused credit facilities of the Group's short-term borrowings amounted to \$1,593,779 thousand and \$1,409,064 thousand, respectively.

(ii) Long-term borrowings

	December 31, 2021			Amount
	Currency	Interest rate (%)	Maturity year	
Secured loans	USD	2.49	2024	\$ 879
Current				\$ 313
Non-current				566
Total				\$ 879

Please refer to note 6(x) 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.

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

(m) Provisions

	Warranty provision
Balance at January 1, 2021	\$ 44,946
Provisions made during the year	41,724
Provisions used during the year	(28,888)
Reversal of provisions during the year	(2,730)
Effect of changes in exchange rates	(73)
Balance at December 31, 2021	<u>\$ 54,979</u>
Balance at January 1, 2020	\$ 41,607
Provisions made during the year	34,899
Provisions used during the year	(28,786)
Reversal of provisions during the year	(2,320)
Effect of changes in exchange rates	(454)
Balance at December 31, 2020	<u>\$ 44,946</u>

(n) Bonds payable

(i) The information of unsecured convertible bonds issued by the Group was as follows:

	December 31, 2021	December 31, 2020
Total amount of convertible bonds upon issuance	\$ 900,000	900,000
Unamortized discount on bonds payable	(14,557)	(22,058)
Ending balance of bonds payable	<u>\$ 885,443</u>	<u>877,942</u>
Equity component – conversion options (recorded as capital surpluses – share options)	<u>\$ 22,680</u>	<u>22,680</u>
	2021	2020
Interest expenses	<u>\$ 7,501</u>	<u>622</u>

(ii) On June 19, 2020, the first domestic unsecured convertible bonds issued by the Group were approved at the shareholders' meeting under private placement and fully funded on the November 19, 2020. The primary terms and conditions of the bonds are as below.

- 1) Principal amount: \$900,000 thousand.
- 2) Issue price: 100% of the principal amount of the bonds, with a par value of \$100 thousand.
- 3) Coupon rate: 0%.
- 4) Repayment method: The Group may redeem the bonds in cash at 100% par value of the bonds upon maturity, with the exception of those converted into ordinary shares of the Group by the private bondholders in accordance with Article 10 of the issuance and conversion method.

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

5) Issue period: 3 years (December 4, 2020 to December 4, 2023).

6) Conversion Period:

The private bondholders shall convert the convertible bonds 3 months after the issuance date (March 5, 2021) to 10 days before the maturity date (November 24, 2023), with the exceptions of the following: (1) the closing period in accordance with the applicable laws, (2) the period starting from the fifteen business days prior to the date of record for determination wherein the shareholders are entitled to receive the distributions or rights to subscribe for new shares from a capital increase for cash, and ends on the date of record for the distribution of the right/benefits (3) the period starting from the date of record of the capital decrease and ends one day prior to the re issuance of the trading of shares after the capital decrease .

7) Conversion price and adjustment:

The conversion price was set at \$55.62 per share. On August 10, 2021, the adjustment conversion price was \$52.44. After the issuance of the converted bonds, if the Group issue additional common share (included but not limited to capital increase by issuing additional stock shares through public or private placement, capital increased out of retained earnings, capitalization of reserves, company merged or issuance of new shares due to acquisition of shares of another company, stock split or cash capital increase through issue overseas depositary receipt) apart from common shares that entitled to conversion rights or stock options to exchange for common shares or when new shares are issued for employee compensation, the conversion price shall be adjusted according to the formula in the issuance terms as follows. Adjustment price will be based on the Ex-date of the new issuance share and be disclosed on the Taiwan Market Observation Post System. However, if there is a scheduled payment date then the adjustment price will be based on the date when payment fully received. If the price changed after the Ex-date then the price per share shall be adjusted according to the formula. If the adjustment price after the calculation is lower than the Ex-date price then the price will be re-announced.

(o) Lease liabilities

The Group's lease liabilities were as follows:

	December 31, 2021	December 31, 2020
Current	<u>\$ 37,165</u>	<u>32,093</u>
Non-current	<u>\$ 65,828</u>	<u>76,753</u>

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

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

The amounts recognized in profit or loss were as follows:

	<u>2021</u>	<u>2020</u>
Interest on lease liabilities	\$ <u>3,925</u>	<u>2,450</u>
Expenses relating to short-term leases	\$ <u>4,632</u>	<u>3,174</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>2,021</u>	<u>2,179</u>

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

	<u>2021</u>	<u>2020</u>
Total cash outflow for leases	\$ <u>50,036</u>	<u>50,932</u>

(p) Employee benefits

(i) Defined benefit plans

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

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
The present value of the defined benefit obligations	\$ 63,221	63,324
Fair value of plan assets	<u>(23,444)</u>	<u>(23,724)</u>
The net defined benefit liability	\$ <u>39,777</u>	<u>39,600</u>

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

1) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$23,444 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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

2) Movements in present value of the defined benefit obligations

The movements in present value of the Group's defined benefit plan obligation for the years ended December 31, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Defined benefit obligation at 1 January	\$ 63,324	62,755
Current service costs and interest	676	874
Remeasurements of the net defined benefit liability (asset)		
– Return on plan assets (excluding amounts included in net interest expense)	294	755
– Due to changes in financial assumption of actuarial (losses) gains	798	1,348
Benefits paid by the plan	<u>(1,871)</u>	<u>(2,408)</u>
Defined benefit obligation at 31 December	<u><u>\$ 63,221</u></u>	<u><u>63,324</u></u>

3) Movement of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Fair value of plan assets, January 1	\$ 23,724	24,012
Expected return	130	211
Remeasurements of the net defined benefit liability (asset)		
– Return on plan assets (excluding amounts included in net interest expense)	294	755
Contributions made	1,167	1,154
Benefits paid by the plan	<u>(1,871)</u>	<u>(2,408)</u>
Fair value of plan assets, December 31	<u><u>\$ 23,444</u></u>	<u><u>23,724</u></u>

4) Expenses recognized in profit or loss

The expenses recognized on profit or loss for the years ended December 31, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Current service cost	\$ 303	281
Net interest on the defined benefit liability (asset)	<u>243</u>	<u>382</u>
	<u><u>\$ 546</u></u>	<u><u>663</u></u>

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

	<u>2021</u>	<u>2020</u>
Operating costs	\$ 389	392
Operating expenses	<u>157</u>	<u>271</u>
	<u>\$ 546</u>	<u>663</u>

5) Actuarial assumptions

The principal actuarial assumption used to determine the present value of the defined benefit obligation on December 31, 2021 and 2020 is as follows:

	<u>2021.12.31</u>	<u>2020.12.31</u>
Discount rate	0.625 %	0.625 %
Future salary increases rate	3.300 %	3.300 %

The Group expects to make contributions of \$1,169 thousand to the defined benefit plans in the next year starting from the reporting date of 2021.

The weighted average duration of the defined benefit obligation is 11.98 years.

6) Sensitivity analysis

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

As of December 31, 2021 and 2020, the present value of defined benefit obligation impact was as follow:

	The impact of defined benefit obligation	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2021		
Discount rate	\$ (1,178)	1,225
Future salary increase rate	1,163	(1,134)
December 31, 2020		
Discount rate	(1,261)	1,306
Future salary increase rate	1,247	(1,208)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2021 and 2020.

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

(ii) Defined contribution plans

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

The Group's pension costs under the defined contribution method were \$37,059 thousand and \$27,618 thousand for 2021 and 2020, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

(iii) Short-term employee benefit

	December 31, 2021	December 31, 2020
Annual leave benefit	\$ <u>30,752</u>	<u>27,250</u>

(q) Income tax

(i) Income tax expenses

The amount of income tax for 2021 and 2020 were as follows:

	2021	2020
Current tax expense		
Current period	\$ 135,151	178,538
Adjustment for prior periods	<u>(22,087)</u>	<u>5,312</u>
	<u>113,064</u>	<u>183,850</u>
Deferred income tax expense		
Origination and reversal of temporary differences	<u>(3,898)</u>	<u>4,956</u>
Income tax expense from continuing operations	<u>\$ 109,166</u>	<u>188,806</u>

Reconciliation of the Company's income tax expense (benefit) and the profit before tax for 2021 and 2020 were as follows:

	2021	2020
Net income before tax	\$ <u>662,882</u>	<u>827,777</u>
Income tax using the Company's domestic tax rate	\$ 162,410	196,717
Previously underestimate (overestimate) income tax	(22,087)	5,312
Non-deductible expenses	153	5,755
R&D tax credits utilized	(20,471)	(20,881)
Others	<u>(10,839)</u>	<u>1,903</u>
Total	<u>\$ 109,166</u>	<u>188,806</u>

Due to the impact of coronavirus pandemic, the Company applied for postponement of the payment of the 2020 Profit-seeking Enterprise Income Tax and 2019 undistributed surplus earning tax, wherein the National Taxation Bureau of the Northern Area has agreed to the postponement of the payment for twelve months.

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

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

Changes in the amount of deferred income tax assets and liabilities for 2021 and 2020 were as follows:

Deferred income tax assets:

	Unrealized profit from sales	Tax differences from sales	Others	Total
Balance at January 1, 2021	\$ 21,522	10,812	41,035	73,369
Recognized in profit or loss and other	13,450	(99)	13,287	26,638
Balance at December 31, 2021	<u>\$ 34,972</u>	<u>10,713</u>	<u>54,322</u>	<u>100,007</u>
Balance at January 1, 2020	\$ 18,031	10,942	31,717	60,690
Recognized in profit or loss and other	3,491	(130)	9,318	12,679
Balance at December 31, 2020	<u>\$ 21,522</u>	<u>10,812</u>	<u>41,035</u>	<u>73,369</u>

Deferred income tax liabilities:

	Foreign investment income accounted for using equity method	Others	Total
Balance at January 1, 2021	\$ (193,494)	(192)	(193,686)
Recognized in profit or loss and other	(23,119)	99	(23,020)
Balance at December 31, 2021	<u>\$ (216,613)</u>	<u>(93)</u>	<u>(216,706)</u>
Balance at January 1, 2020	\$ (173,136)	(2,009)	(175,145)
Recognized in profit or loss and other	(20,358)	1,817	(18,541)
Balance at December 31, 2020	<u>\$ (193,494)</u>	<u>(192)</u>	<u>(193,686)</u>

- (iii) Assessment of tax

The tax returns of the Company have been assessed by the tax authorities through 2019.

- (r) Capital and other equity

As of December 31, 2021 and 2020, the ordinary shares with par value of \$10 per share, amounted to \$1,500,000 thousand; also, 117,003 thousand and 118,004 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 years ended December 31, 2021 and 2020 were as follows:

	Unit: thousands shares	
	2021	2020
Balance at January 1	118,004	118,008
Exercise of employee share options	-	212
Retirement of treasury share	(1,001)	(216)
Balance at December 31	<u>117,003</u>	<u>118,004</u>

(i) Issue of common stock

For the years ended December 31, 2020, the Company issued 212 thousand shares of common stocks, as its employees exercised their stock option at \$25.5 per share and \$26.8 per share. For the years ended December 31, 2021, there are no employee options exercised.

(ii) Capital surplus

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

	December 31, 2021	December 31, 2020
Share premium from issuance	\$ 679,476	685,289
Changes in equity of associates and joint ventures accounted for using equity method	17,539	17,539
Employee share options	15,510	6,760
Share options	22,680	22,680
Employee share options expired	9,500	9,500
	<u>\$ 744,705</u>	<u>741,768</u>

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

(iii) Retained earnings

1) Legal reserve

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

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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2) Special earnings reserve

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

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

3) Earnings distribution

In accordance with the Company's articles of incorporation 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.

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

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

In accordance with Rule No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. The amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. As of December 31, 2021 and 2020 the special earnings reserve amounted to \$128,464 thousand and \$92,949 thousand, respectively.

The amount of cash dividends on the appropriations of earning for 2020 and 2019 had been approved during the board meeting on May 6, 2021 and May 7, 2020, as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Amount per share (NTD)</u>	<u>Total Amount</u>	<u>Amount per share (NTD)</u>	<u>Total Amount</u>
Dividends distributed to ordinary stockholders:				
Cash (earnings)	\$ 3.30	<u><u>389,420</u></u>	2.80	<u><u>330,420</u></u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(iv) Treasury stock

In accordance with the requirements under section 28(2) of the Securities and Exchange Act, the Company repurchased 1,001 thousand shares and 216 thousand shares for the years ended December 31, 2021 and 2020 in order to maintain the Company's integrity and shareholders' equity. The board of directors has approved to retire the treasury share in full which result in debiting additional paid-in capital of \$5,813 thousand dollar and \$1,253 thousand dollar and retained earnings of \$43,532 thousand dollar and \$6,278 thousand dollar on August 12, 2021 and August 13, 2020. The Board of Director has approved the proposal of the capital reduction record date as of August 11, 2021 and August 14, 2020 and the registration has been completed on September 7, 2021 and September 16, 2020.

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)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2021	\$ (128,464)	(25,149)	(153,613)
Foreign exchange differences arising from net assets of foreign operation	(7,411)	41	(7,370)
Balance at December 31, 2021	<u>\$ (135,875)</u>	<u>(25,108)</u>	<u>(160,983)</u>
Balance at January 1, 2020	\$ (92,949)	(21,369)	(114,318)
Foreign exchange differences arising from net assets of foreign operation	(35,515)	(3,780)	(39,295)
Balance at December 31, 2020	<u>\$ (128,464)</u>	<u>(25,149)</u>	<u>(153,613)</u>

(s) 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

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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The Company estimates the compensation to be \$20,657 thousand based on the above assumptions. The compensation has been amortized from 2015 to 2018.

The outstanding stock option rights as follows:

<u>Employee stock options in 2015</u>	<u>2020</u>	
	<u>Units</u>	<u>Exercise price (dollars)</u>
Outstanding balance as of January 1	212	\$ 26.8
Options granted	-	-
Options exercised	212	26.8 / 25.5
Options cancelled	-	-
Options expired	-	-
Outstanding balance as of December 31	<u>-</u>	<u>-</u>
Exercisable as of December 31	<u>-</u>	<u>-</u>
Exercisable shares per unit as of December 31 — adjusted	<u>1,000</u>	
Fair market value	<u>\$ 4.3</u>	

The Group established a share option program that entitles the employee to purchase shares in the company on 2015. The option has been granted on September 17, 2020.

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 were estimated to be \$8,750 thousand and \$6,868 thousand for the year ended December 31, 2021 and 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:

<u>Employee stock options in 2019</u>	2021	
	Units	Exercise price (dollars)
Outstanding balance as of January 1	2,940	\$ 34.70
Options granted	-	-
Options exercised	-	-
Options cancelled	-	-
Options expired	-	-
Outstanding balance as of December 31	<u>2,940</u>	32.70
Exercisable as of December 31	<u>-</u>	-
Exercisable shares per unit as of December 31 – adjusted	<u>-</u>	
Fair market value	<u>\$ 8.6</u>	

<u>Employee stock options in 2019</u>	2020	
	Units	Exercise price (dollars)
Outstanding balance as of January 1	-	\$ -
Options granted	3,000	36.45
Options exercised	-	-
Options cancelled	-	-
Options expired	60	-
Outstanding balance as of December 31	<u>2,940</u>	34.70
Exercisable as of December 31	<u>-</u>	-
Fair market value	<u>\$ 8.6</u>	

As of December 31, 2021, the expected duration of the employee stock option issued in 2019 was 3.22 years.

(t) Earnings per share

The calculation of the Group's basic earnings per share and diluted earnings per share for years ended December 31, 2021 and 2020 were as follows:

(i) Basic earnings per share

	<u>2021</u>	<u>2020</u>
Net income attributable to ordinary shareholders of the Company	<u>\$ 546,391</u>	<u>595,898</u>
Weighted-average number of ordinary shares	<u>117,499</u>	<u>117,990</u>
Basic earnings per share (in NTD)	<u>\$ 4.65</u>	<u>5.05</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(ii) Diluted earnings per share

	<u>2021</u>	<u>2020</u>
Net income of the company	\$ 546,391	595,898
Effect of after tax interest expense of conversion bonds	<u>6,001</u>	<u>498</u>
Net income attributable to ordinary shareholders of the Company (diluted)	<u>\$ 552,392</u>	<u>596,396</u>
Weighted-average number of ordinary shares (basic)	117,499	117,990
Effect of dilutive potential ordinary shares		
Effect of employee stock bonus	1,826	1,900
Effect of employee stock option	1,295	1,216
Effect of conversion of convertible bonds	<u>17,162</u>	<u>1,197</u>
Weighted-average number of ordinary shares (diluted)	<u>137,782</u>	<u>122,303</u>
Diluted earnings per share (in NTD)	<u>\$ 4.01</u>	<u>4.88</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.

(u) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2021</u>		
	<u>Sale of Network Communication and other related products</u>	<u>Others</u>	<u>Total</u>
Primary geographical markets:			
America	3,686,905	99,679	3,786,584
Asia	\$ 2,720,203	35,253	2,755,456
Europe	1,017,503	6,069	1,023,572
Others	<u>114,399</u>	<u>499</u>	<u>114,898</u>
	<u>\$ 7,539,010</u>	<u>141,500</u>	<u>7,680,510</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 6,858,790	139,217	6,998,007
Others	<u>680,220</u>	<u>2,283</u>	<u>682,503</u>
	<u>\$ 7,539,010</u>	<u>141,500</u>	<u>7,680,510</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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	2020		
	Sale of Network Communication and other related products	Others	Total
Primary geographical markets:			
America	3,541,218	57,602	3,598,820
Asia	\$ 2,783,982	57,562	2,841,544
Europe	986,575	3,961	990,536
Others	71,574	208	71,782
	<u>\$ 7,383,349</u>	<u>119,333</u>	<u>7,502,682</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 6,153,648	111,439	6,265,087
Others	1,229,701	7,894	1,237,595
	<u>\$ 7,383,349</u>	<u>119,333</u>	<u>7,502,682</u>

Unearned revenue, net for the Group's amounted to \$(673) thousand and \$(2,561) thousand for the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, accumulated unearned revenue amounted to \$51,930 thousand and \$52,738 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(ii) Contract balance

	December 31, 2021	December 31, 2020	January 1, 2020
Current contract liabilities	<u>\$ 74,173</u>	<u>37,180</u>	<u>35,212</u>

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

The amount of revenue recognized for the years ended December 31, 2021 and 2020 that was included in the contract liability balance at the beginning of the period was \$37,180 thousand and \$35,212 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.

(v) Remuneration to employees, directors and supervisors

According to the Articles of Association, once the Company has annual profit, it should appropriate 10%~20% of the profit to its employees and 2% or less to its directors and supervisors as remuneration. The pervading target given via shares includes those dependent employees of the Company's subsidiaries under certain requirements.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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For the years ended December 31, 2021 and 2020, the Company recognized its employee remuneration of \$87,068 thousand and \$101,146 thousand, respectively, and directors' and supervisors' remuneration of \$8,707 thousand and \$10,115 thousand, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year.

The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2021 and 2020.

(w) Non-operating income and expenses

(i) Interest income

	<u>2021</u>	<u>2020</u>
Interest income from bank deposits	\$ <u>7,046</u>	<u>7,546</u>

(ii) Other income

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

	<u>2021</u>	<u>2020</u>
Rent income	\$ 5,678	5,790
Other	<u>36,605</u>	<u>32,803</u>
Total other income	\$ <u>42,283</u>	<u>38,593</u>

(iii) Other gains and losses

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

	<u>2021</u>	<u>2020</u>
Losses on disposal of property, plant and equipment	\$ 283	(465)
Gain on disposal of investments	-	139,344
Gains (losses) on foreign exchange, net	14,267	(5,470)
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	3,290	1,917
Other losses	<u>(13,048)</u>	<u>(5,889)</u>
Net other gains and losses	\$ <u>4,792</u>	<u>129,437</u>

(iv) Finance costs

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

	<u>2021</u>	<u>2020</u>
Interest expense	\$ <u>16,178</u>	<u>6,991</u>

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

(x) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

Approximately, 11% each constituting of the Group's total sales were derived from a single client in 2021 and 2020, respectively. Region wise, approximately 85% and 86% of the sales were significantly concentrated in Asia and America in 2021 and 2020, respectively.

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	3-5 years	Over 5 years
December 31, 2021						
Non-derivative financial liabilities						
Short-term borrowings	\$ 164,258	165,614	165,614	-	-	-
Accounts payable	1,653,402	1,653,402	1,653,402	-	-	-
Other payables	674,500	674,500	674,500	-	-	-
Long-term borrowings (including due within a year)	879	941	335	344	262	-
Bonds payable	885,443	900,000	-	900,000	-	-
Lease liabilities	102,993	109,596	40,363	31,445	37,788	-
Guarantee deposits received	957	957	-	-	-	957
Contingent consideration	10,530	10,530	10,530	-	-	-
	<u>\$ 3,492,962</u>	<u>3,515,540</u>	<u>2,544,744</u>	<u>931,789</u>	<u>38,050</u>	<u>957</u>
December 31, 2020						
Non-derivative financial liabilities						
Short-term borrowings	\$ 345,065	345,399	345,399	-	-	-
Accounts payable	1,062,513	1,062,513	1,062,513	-	-	-
Other payables	634,941	634,941	634,941	-	-	-
Bonds payable	877,942	900,000	-	-	900,000	-
Lease liabilities	108,846	117,370	35,762	25,475	56,133	-
Guarantee deposits received	986	986	-	-	-	986
Derivative financial liabilities						
Other forward exchange contracts:						
Outflow	709	709	709	-	-	-
	<u>\$ 3,031,002</u>	<u>3,061,918</u>	<u>2,079,324</u>	<u>25,475</u>	<u>956,133</u>	<u>986</u>

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
December 31, 2021			
Financial assets:			
Monetary items:			
USD (note)	\$ 80,213	27.6300	2,216,295
Financial liabilities:			
Monetary items:			
USD (note)	\$ 44,873	27.6300	1,239,848
December 31, 2020			
Financial assets:			
Monetary items:			
USD (note)	\$ 48,545	28.0450	1,361,444
Financial liabilities:			
Monetary items:			
USD (note)	\$ 39,840	28.0450	1,117,323

Note: Amounts are designated before consolidation.

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade receivables and trade and other payables that are denominated in foreign currency. A 1 dollar appreciation (depreciation) of the NTD against the USD as of December 31, 2021 and 2020 would have increased or decreased the net income by \$28,272 thousand and \$6,964 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on Monetary items is disclosed by total amount. For the years ended December 31, 2021 and 2020, foreign exchange gains (loss) (including realized and unrealized abortions) amounted to \$14,267 thousand and \$(5,470) thousand, respectively.

(iv) Interest rate analysis

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

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

If the interest rate increases or decreases by 1%, the Group's net income will increase or decrease by \$1,321 thousand and \$2,761 thousand, respectively, for the years ended December 31, 2021 and 2020, with all other variable factors remain constant. This is mainly due to the Group's borrowing in variable rates.

(v) Information of fair value

1) Categories and fair value of financial instruments

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

	Carrying amount	December 31, 2021			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 1,945	-	1,945	-	1,945
Financial assets mandatorily measured at fair value through profit or loss	589,536	572,246	17,290	-	589,536
Total	\$ 591,481	572,246	19,235	-	591,481
Financial liabilities at fair value through profit or loss					
Contingent consideration assumed in a business combination	\$ 10,530	-	-	10,530	10,530
Financial liabilities measured at amortized cost					
Bonds payable	885,443	-	835,443	-	835,443
Total	\$ 895,973	-	835,443	10,530	845,973

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	December 31, 2020				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 2,047	-	2,047	-	2,047
Financial assets mandatorily measured at fair value through profit or loss	542,378	520,901	21,477	-	542,378
Total	<u>\$ 544,425</u>	<u>520,901</u>	<u>23,524</u>	<u>-</u>	<u>544,425</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ <u>709</u>	<u>-</u>	<u>709</u>	<u>-</u>	<u>709</u>
Financial liabilities measured at amortized cost					
Bonds payable	877,942	-	877,942	-	877,942
Total	<u>\$ 878,651</u>	<u>-</u>	<u>878,651</u>	<u>-</u>	<u>878,651</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. Contingent consideration assumed in a business combination is measured at fair value using discounted cash flow methodology and incorporates the probability of occurrence.

(y) Financial risk management

(i) Overview

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

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

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

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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(ii) Risk management framework

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

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

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

(iii) Credit risk

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

1) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by each customer's condition. However, management also considers the demographics of the customers, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances. The Group's Accounts Receivable and Notes Receivable are mainly due from customers in Asia and America, accounting 88% and 92% of the total amount of the receivables as of December 31, 2021, and 2020, respectively.

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

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

2) Investments

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

3) Guarantees

The consolidated company policy provides endorsements and assurances to be offered only to companies who it has business relationship with, as well as to those companies who hold more than 50% of the voting rights of the consolidated company, either directly or indirectly. As of December 31, 2021 and 2020, the Group did not provide any endorsement and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of the expected cash flows on financial liabilities (other than trade payables) over the succeeding 60 days. The Group also monitors the level of expected cash outflows on trade and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As of December 31, 2021 and 2020, the Group's unused credit line were amounted to \$1,593,779 thousand and \$1,409,064 thousand, respectively.

(v) Market Risk

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

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

1) Currency risk

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

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

2) Interest rate risk

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

(z) Capital management

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

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

	December 31, 2021	December 31, 2020
Total liabilities	\$ 4,349,675	3,710,588
Less: cash and cash equivalents	<u>1,532,616</u>	<u>2,406,320</u>
Net debt	\$ 2,817,059	1,304,268
Total equity	\$ 3,524,582	3,611,007
Debt-to-adjusted-capital ratio	<u><u>80 %</u></u>	<u><u>36 %</u></u>

The addition of the debt to capital equity ratio as of December 31, 2021 was due to the increase in accounts payable.

As of December 31, 2021, no changes have been made on the capital management.

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(aa) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities for the years ended December 31, 2021 and 2020 were as follows:

	January 1, 2021	Cash flows	Non-cash changes			December 31, 2021
			Foreign exchange movement	Amortization of commercial paper discount	Others	
Short-term borrowings	\$ 345,065	(181,036)	229	-	-	164,258
Long-term borrowings (including current portion)	-	885	(6)	-	-	879
Lease liabilities	108,846	(39,458)	386	3,925	29,294	102,993
Bonds payable	877,942	-	-	7,501	-	885,443
Total liabilities from financing activities	<u>\$ 1,331,853</u>	<u>(219,609)</u>	<u>609</u>	<u>11,426</u>	<u>29,294</u>	<u>1,153,573</u>

	January 1, 2020	Cash flows	Non-cash changes			December 31, 2020
			Foreign exchange movement	Amortization of commercial paper discount	Others	
Short-term borrowings	\$ 250,944	158,434	(1,932)	-	(62,381)	345,065
Long-term borrowings (including current portion)	1,097	(1,075)	(22)	-	-	-
Lease liabilities	40,477	(43,129)	2,979	2,450	106,069	108,846
Bonds payable	-	900,000	-	622	(22,680)	877,942
Total liabilities from financing activities	<u>\$ 292,518</u>	<u>1,014,230</u>	<u>1,025</u>	<u>3,072</u>	<u>21,008</u>	<u>1,331,853</u>

(7) **Related-party transactions**

(a) Parent Company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Related-party and relationship between the Company

The Group has transactions with its related parties as follows:

<u>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
Haiwell Lancom Electronic Co., Ltd.	Related party
Beijing HDZX Technology Co., Ltd. (HDZX)	Originally accounted for as a subsidiary in the consolidated financial statement. The Group disposed of the subsidiary's shares in June, 2020 but the subsidiary remained to be a related party because the president of HDZX and the general manager of the Group's subsidiary are the same person. As of December 25, 2020, HDZX was no longer a related party to the Group.
Mr. Zhang Jun Hai	Mr. Zhang Jun Hai had been a member of key management of the Group but was no longer regarded as a related party since April, 2021.

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(c) Significant related party transactions

(i) Operating revenue

The amounts of significant sales transactions between the Group and related parties were as follows:

	<u>2021</u>	<u>2020</u>
Other related parties	\$ -	<u>112,253</u>

There were no significant differences between the pricing of sale transactions and receipts condition with related parties and other customers. Receipts in advance is used for transactions.

(ii) Receivables from related parties

The details of the Group's receivables from related parties were as follow:

<u>Accounts</u>	<u>Type of related parties</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Accounts receivable	Other related parties	\$ -	26
Other receivable	Other related parties	479	3,926
		<u>\$ 479</u>	<u>3,952</u>

(iii) Payables to related parties

The payables due to related parties were as follows:

<u>Accounts</u>	<u>Type of related parties</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other payable	Kay managemnt of Consolidated Company	<u>\$ 54,582</u>	<u>40,231</u>

(iv) Leases

1) Lessee

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. 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 years ended December 31, 2021 and 2020, the Group recognized the amount of \$35 thousand and \$16 thousand as interest expense, respectively. As of December 31, 2021 and 2020, the balance of lease liabilities amounted to \$4,392 thousand and \$5,677 thousand, respectively.

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2) Lessor

	2021	2020
Other related parties	\$ 386	1,443

The amount of rent is based on neighboring rent, and the rental is collected monthly from other related parties.

(v) Contribution

With the approval from the broad of directors, the Group agreed to contribute \$5,000 thousand to Lanner Foundation for the year ended December 31, 2021 and 2020.

(vi) Property translation auditor

The main management personnel of the Group purchased part of the shares of HDZX, the amount of the shares transaction was \$61,728 thousand (RMB14,843 thousand). As of December 31, 2020, the related payments have been fully received.

In March 2021, the Group acquired 20% shares of Beijing L&S Lancom Platform Tech. Co., Ltd, at a value of \$179,637 thousand (RMB44,701 thousand), from Mr. Zhang Jun Hai. The share transfer registration was completed in May 2021. Except for the contingent consideration of \$10,530 thousand, all payments related to the acquisition were paid in full as of December 31, 2021.

(d) Key management personnel compensations

Key management personnel compensation comprised:

	2021	2020
Short-term employee benefits	128,050	141,034
Post-employment benefits	864	819
	128,914	141,853

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2021	December 31, 2020
Certificate of deposits (recorded under other financial assets – current)	Guarantee for customs	\$ 3,416	2,394
Other equipment	Guarantee for long-term borrowings	1,635	-
		\$ 5,051	2,394

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES
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- (9) **Commitments and contingencies: None.**
- (10) **Losses Due to Major Disasters: None.**
- (11) **Subsequent Events: None.**
- (12) **Other**

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

By nature	Years ended December 31, 2021			Years ended December 31, 2020		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	224,063	802,528	1,026,591	215,984	861,432	1,077,416
Labor and health insurance	23,035	55,266	78,301	22,341	52,569	74,910
Pension	9,942	27,663	37,605	7,796	20,485	28,281
Others	14,057	32,472	46,529	15,544	30,101	45,645
Depreciation	43,810	88,921	132,731	45,965	93,415	139,380
Amortization	-	-	-	-	-	-

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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:

Unit: thousand dollars/thousand shares

No.	Name of company	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for one party	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	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										
0	The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	(2)	695,351	129,717	64,839	64,839	-	1.84 %	1,761,825	Y	N	Y
0	The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	(2)	695,351	50,035	49,734	4,164	-	1.41 %	1,761,825	Y	N	Y
0	The Company	Beijing L&S Lancom Platform Tech. Co., Ltd.	(2)	695,351	198,899	99,420	99,420	-	2.82 %	1,761,825	Y	N	Y

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, 90 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.
- (7) Companies in the same industry provide among themselves joint and several securities for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

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.

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

Unit: thousand dollars/thousand shares

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	December 31, 2021				Maximum investment in 2021	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	14,206	231,523	-	231,523	440,639	
The Company	Taishin 1699 Money Market Fund	—	Financial assets at fair value though profit or loss — current	10,259	140,329	-	140,329	140,000	
The Company	First Financial Holding	—	Financial assets at fair value though profit or loss — current	6,476	100,194	-	100,194	100,000	
The Company	Franklin Templeron Sinoam Money Market Fund	—	Financial assets at fair value though profit or loss — current	9,585	100,200	-	100,200	100,000	
Beijing L & S Lancom Platform of Technology CO., Ltd.	China Merchants Bank Financial Products – Point Gold Pool 7007	—	Financial assets at fair value though profit or loss — current	-	17,290	-	17,290	95,097	

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

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Beijing L&S Lancom Platform Tech. Co., Ltd.	China Merchants Bank Financial Products – Point Gold Pool 7007	Financial assets at fair value though profit or loss — current	China Merchants Bank	-	-	-	337,163	-	319,873	319,873	-	-	-	17,290

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (v) Information on acquisition of real estate with purchase amount exceeding 300 million or 20% of the Company's paid-in capital: None.
- (vi) Information regarding receivables from disposal of real estate exceeding 300 million or 20% of the Company's paid-in capital: None.
- (vii) Information regarding related-parties purchases and/or sales exceeding 100 million or 20% of the Company's paid-in capital:

Unit: thousand dollars

Name of Company	Counter-party	Relationship	Transaction details				The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	(Sales)	(1,980,261)	(33)	%90 days	-	-	422,734	32 %	
LANNER ELECTRONICS USA, INC.	The Company	Subsidiary	Purchase	1,980,261	98	%90 days	-	-	(422,734)	(94) %	
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	(Sales)	(323,446)	(5)	%60 days	-	-	66,121	5 %	
Dongguan Lihua Haiwell Tech. Co., Ltd.	The Company	Subsidiary	Purchase	323,446	20	%60 days	-	-	(66,121)	(19) %	
The Company	LEI TECHNOLOGY CANDA INC.	Subsidiary	(Sales)	(526,139)	(9)	%90 days	-	-	169,757	13 %	
LEI TECHNOLOGY CANDA INC.	The Company	Subsidiary	Purchase	526,139	87	%90 days	-	-	(169,757)	(94) %	
Dongguan Lihua Haiwell Tech. Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd.	Subsidiary	(Sales)	(1,142,048)	(72)	%60 days	-	-	-	- %	
Beijing L&S Lancom Platform Tech. Co., Ltd.	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Purchase	1,142,048	100	%60 days	-	-	-	- %	

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

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

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 (USA)	Subsidiary	422,734	5.23	-		292,565 (Until March 17, 2022)	-
The Company	LCA	Subsidiary	169,757	3.41	-		105,880 (Until March 17, 2022)	-

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

- (ix) Information regarding trading in derivative financial instruments: Please refer to Notes 6(b).
- (x) Significant transactions and business relationship between the parent company and its subsidiaries in December 31, 2021:

Unit: thousand dollars

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	LANNER ELECTRONICS USA, INC.	1	Sales	1,980,261	No significant differences	25.78%
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	323,446	No significant differences	4.21 %

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	LEI Technology Canada Ltd.	1	Sales	526,139	No significant differences	6.85 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	422,734	No significant differences	5.37 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	66,121	No significant differences	0.84 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	169,757	No significant differences	2.16 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	1,142,048	No significant differences	14.87%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Current contract liabilities	149,938	No significant differences	1.90 %

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 financial statements.

(b) Information on investees:

The following are the information on investees for the years ended December 31, 2021 (excluding information on investees in Mainland China):

Name of investor	Investor investee	Address	Scope of business.	Original cost		Ending balance			Maximum investment in 2021	Net income of investee	Investment income (losses)	Remarks
				December 31, 2021	December 31, 2020	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 %	254,418	248,819	19,366	19,366	(Note 1)
The Company	LANNER ELECTRONICS (MAURITIUS) INC.	Mauritius	Investing	119,282	84,990	2,653	100 %	988,847	119,282	94,731	94,731	(Note 1)
The Company	LEI TECHNOLOGY CANADA LTD.	Canada	Trading of computer peripheral equipment	153,926	153,926	5,105	100 %	121,816	153,926	9,434	9,434	(Note 1)
The Company	LANNER TECHNOLOGY JAPAN CO., LTD.	Japan	Trading of computer peripheral equipment	8,145	8,145	3	80 %	3,730	8,145	(2,115)	(1,692)	(Note 1)
The Company	Whitebox Solutions Inc.	Taiwan	Manufacture and trading of computer peripheral products	7,500	7,500	750	100 %	7,414	7,500	(29)	(29)	(Note 1)
The Company	Lanner Europe B.V	Netherlands	Trading of computer peripheral equipment	28,006	-	1	100 %	24,470	28,006	(2,060)	(2,060)	(Note 1)
The Company	LannerTech electronics Inc.	Taiwan	Trading of computer peripheral equipment	6,000	-	600	100 %	3,433	6,000	(2,567)	(2,567)	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	112,543	78,251	2,623	100 %	1,024,899	112,543	95,086	95,086	(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, 2021	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2021	Net income on investee	Direct / indirect investment holding percentage	Maximum investment in 2021	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	34,292	-	110,274	102,558	100.00 %	118,388	94,810	990,904	-
Dongguan Lihua Haiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	92,037	(4)	-	-	-	-	29,520	100.00 %	92,037	27,552	145,598	-
Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral equipment	22,099	(1)	-	-	-	-	(650)	100.00 %	22,099	(650)	7,947	-

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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 — Investing in Mainland China through Beijing L & S Lancom Platform of Technology Co., Ltd.

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

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

(ii) **Limitation on investment in Mainland China:**

Company name	Accumulated investment amount remitted from Taiwan to Mainland China at the end of the period	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	110,274	369,086	- (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. 11020425720, and the certification is valid from 2021 to 2024. The Company has no limitation on investment in Mainland China during the abovementioned period.

(iii) **Significant transactions with investees in Mainland China:**

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

(d) **Major shareholders:**

Shareholder's Name	Shareholding	Shares	Percentage
Yi-Wen Chou		10,161,089	8.68 %
Fubon Life Insurance Co., Ltd.		6,958,000	5.94 %
Delta Electronics, Inc.		6,763,845	5.78 %
The business department of Standard Chartered International Commercial Bank Fiduciary Investment Account of Swedbank's Robur global fund investment		6,000,000	5.12 %

(14) Segment information

(a) **General information**

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

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

(b) Geographic information

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

<u>Geographic information</u>	<u>2021</u>	<u>2020</u>
Revenue from external customers:		
United States	\$ 3,116,287	2,908,856
China	1,716,048	1,790,910
Canada	670,296	689,964
Israel	594,753	676,848
Other countries	<u>1,583,126</u>	<u>1,436,104</u>
Total	<u>\$ 7,680,510</u>	<u>7,502,682</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2021</u>	<u>2020</u>
Non-current assets:		
Taiwan	\$ 924,883	922,339
United States	65,588	69,071
China	332,296	361,697
Canada	<u>4,472</u>	<u>6,301</u>
Total	<u>\$ 1,327,239</u>	<u>1,359,408</u>

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

(c) Information about major customers

	<u>2021</u>	<u>2020</u>
Customer A	<u>\$ 809,660</u>	<u>790,664</u>