

Stock Code: 3533

Lotes Co., LTD

AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS

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

Notice to Readers

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

Independent Auditor's Report

To the Board of Directors, Lotes Co., Ltd.:

Audit opinion

We have audited the Consolidated Balance Sheet of Lotes Co., Ltd. and its subsidiaries (hereinafter referred to as Lotes Group) as of December 31, 2019 and 2018, the Consolidated Statement of Comprehensive Income as of January 1 to December 31, 2019 and 2018 as well as the Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements (including important accounting policies summary).

In our opinions, the compilation of the above consolidated financial statements present fairly, in all material respects, of the financial status of December 31, 2019 and 2018 in Lotes Group and the financial performance and consolidated cash flow of January 1 to December 31, 2019 and 2018 prepared in accordance with 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 of the audit opinion

The audit of the consolidated financial statements for the year ended on December 31, 2019 was conducted by us in accordance with "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants", "CHIN-KUAN-CHENG-SHEN-TZU No. 1090360805 Letter" and the auditing standards generally accepted in the Republic of China; the audit of the consolidated financial statements for the year ended on December 31, 2018 was conducted by us in accordance with "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under these standards will be further explained in the responsibility paragraph of the accountant's audit on the consolidated financial statements. The personnel regulated by independence at the accounting firm that we work with have been managed according to Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code") from Lotes Group as well as perform other responsibilities addressed on the Code. Based on the audit results of us, we believe we have obtained sufficient and appropriate auditing evidence as the basis to express our audit opinions.

Key audit matters

Key audit matters refer to the most important matters on the audits to Lotes Group's consolidated financial statements for the year ended on December 31, 2019 based on our professional judgment. The matters have been responded on the whole audited consolidated financial statements and during the process of the expression of the audit opinions. There, we won't express opinions separately towards the matters. Based on the judgment of the accountants, the following key audit matters that should be communicated on the audit report are as follows:

I. Recognition of income

Please refer to Note IV (XV) to the consolidated financial statements for the accounting policy in terms of income recognition. Please refer to Note V (II) to the consolidated financial statements for the refund liability in terms of accounting estimates and assumed uncertainties. Please refer to Note VI (XIV) to the consolidated financial statements for the description of refund liability.

Description of the key audit matters:

The operating income is the most critical factor when determining the operational performance of Lotes Group. Users of the statements are cautiously concerned about the performance of the operating income. In response to the market conditions and business needs, discounts were provided for parts of the sales of goods agreed with the customers. Based on experiences and agreements with the customers, the management would estimate the refund liability and include it as a deduction of operating income. Thus, the income recognition evaluation is one of the fundamental evaluation items for accountants in the execution of financial report audit for Lotes Group.

Corresponding audit procedure:

The primary audit procedure conducted by the accountants for the aforementioned key audit matters included the understanding and evaluation of the relevant control procedures and methods in the estimation of refund liabilities in terms of the sales procedure and the effectiveness of the design and execution of the control procedure. Regarding the sampling testing for sales close to the balance sheet date, external certification documents were reviewed to assess the adequacy of the income recognition timings. The management's method to estimate and list refund liabilities were also obtained to assess whether the evaluation is based on the agreed conditions with customers and historical experiences. A retrospective test was conducted to analyze the adequacy of the refund liability estimate based on the experiences with historical estimates of differences and the actual situation afterward.

II. Evaluation of inventory

Please refer to Note IV (VIII) for the accounting policy of inventory evaluation. Please refer to Note V (I) in the consolidated financial statements for the accounting estimates and assumed uncertainties of the inventory evaluation. Please refer to Note VI (IV) in the consolidated financial statements for the information on the losses from the price drop of inventory.

Description of the key audit matters:

Due to the impacts of rapid changes in the market demand and the development of production technology, the existing products are at risk to become outdated inventory or non-compliant with market demand. Parts of the inventory may become obsolete or have the market prices dropped. Thus, the inventory evaluation is one of the fundamental evaluation items for the accountants in the execution of financial report audit for Lotes Group.

Corresponding audit procedure:

The primary audit procedure conducted by the accountants for the aforementioned key audit matters included the understanding and evaluation of the basis and methods used by the management to assess the net realizable value of inventory. Review and audit were conducted in terms of the data used by the management as the basis and to estimate the net realizable value, and an evaluation was conducted on the estimated sales price to the latest sales record by sampling. To evaluate the adequacy of the drop in prices, the accuracy of the inventory aging report was checked, and the changes in the inventory aging of each period were analyzed.

Other matters

Lotes Co., Ltd. prepared the parent company only financial statements for 2019 and 2018, and we also issued auditor's report with unqualified opinion for the financial statements as reference.

Responsibility from the management and governing unit towards the consolidated financial statements

The management's responsibility is to prepare the consolidated financial statements present fairly according to Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and to maintain necessary internal control related to the preparation of the consolidated financial statements in order to ensure there is no major untrue expression on the financial statements due to fraud or error.

When preparing the consolidated financial statements, the responsibility of the management also includes evaluating Lotes Group's capability of continuous operation, disclosure of relevant matters and the application of continuous operation accounting model unless the management intends to liquidate Lotes Group or suspend its business operation or there is no alternative practical and feasible solution other than liquidation or business suspension.

The governing unit (including supervisors) at Lotes Group is responsible for supervising the process of financial reports.

Responsibility of accountants' audit on the consolidated financial statements

The purpose of the consolidated financial statements audited by us is to obtain reasonable assurance on whether the significant untrue expression exists on the whole consolidated financial statements due to fraud or error as well as issue the audit report. The reasonable assurance is the high certainty; however, it won't be able to guarantee that the significant untrue expression will definitely be able to be detected by auditing standards generally accepted in the Republic of China, and the untrue expression might be caused from fraud or error. It is regarded as with significance if the consolidated amount or the aggregation number of the untrue expression can reasonably predict that it will affect the economic decisions made by the users of the consolidated financial statements.

When we conduct the audit according to generally accepted auditing standards, we use professional judgment and maintain our professional suspicion. We also executed the following tasks:

1. Identifying and evaluating the risk of major untrue expression on the consolidated financial statements due to fraud or error; designing and implementing proper responding strategies towards the risk evaluated; and obtaining sufficient and appropriate audit evidence as the basis of audit opinions. Due to fraud might be involving with collusion, counterfeiting, malicious omission untrue declaration, or going out of the internal control, the risk of not detecting the major untrue expression due to fraud will be higher than that due to error.
2. Obtaining necessary understanding of internal control related to audit in order to design proper audit procedure under the situation of the case. However, its purpose is not to express opinion toward the effectiveness of the internal control in Lotes Group.
3. Evaluating the adequacy of the accounting policies used by the the management and the rationality of the accounting evaluation and relevant disclosure concluded.
4. Based on the audit evidence obtained, conclusion towards the appropriateness of continuous operation accounting basis that the the management adopts and the existence of major uncertainty on events or situations with major concerns affecting Lotes Group's capability in continuous operation are made. If we believe major uncertainty existed on the event or situation, we must remind the users of Consolidated financial statements on the audit report to pay attention on the relevant disclosure or modify audit opinion when the disclosure is not appropriate. The conclusion that we made is based on the audit evidence obtained up to the audit report day, but future events or situations might cause Lotes Group not capable in continuous operation.
5. Evaluating the overall expression, structure and content of the consolidated financial statements (including relevant notes) as well as whether the consolidated financial statements present fairly, in all material respects, relevant transaction and events.
6. Obtaining sufficient and appropriated audit evidence of the financial information from the investee companies accounted for using equity method as well as express opinions towards the consolidated financial statements. We are in charge of the directing, supervision and execution on the audit cases as well as concluding audit opinions towards the consolidated financial statements of Lotes Group.

The communication between us and the governing unit includes the audit scope and time planned and major audit findings (including the significant defects on the internal control identified during the auditing process).

We have also provided information to the governing unit that the personnel of the firm—under

which we are working—who are subject to independence requirements have complied with the statement of independence in the CPA code of professional ethics and communicated to the governing unit all relationships and other matters (including relevant safeguards) that may be considered to affect the independence of CPAs.

We determined the key audit matters that we would like to execute on Lotes Group's Consolidated financial statements for the year ended on December 31, 2019 from the communication with the governing unit. We clearly stated the related matters on the audit report unless it is the specific matter that is not allowed to be disclosed to the public according to laws, or under a very rare situation that we decided not to communicate specific matters on the audit report because we can reasonably anticipate the negative influence generated by the communication will be greater than the public interests increased.

KPMG Taiwan

CPAs:

Competent : (88) TAI-TSAI-CHENG (VI)
Authority of : No. 18311
Securities
Approval
Certificate No.
March 25, 2020

Notes to Readers

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

Lotes Co., Ltd. and Its Subsidiaries

Consolidated Balance Sheet

December 31, 2019 and 2018

Unit: 1,000 TWD

Assets		Dec. 31, 2019		Dec. 31, 2018						Dec. 31, 2019		Dec. 31, 2018	
		Amount	%	Amount	%					Amount	%	Amount	%
Current assets:								Liabilities and equity					
1100	Cash and cash equivalents (Note VI (I) and (XXV))	\$ 2,845,994	17	1,448,071	11	2100	Short-term loan (Note VI (XII), (XXV), (XXVIII), VIII and IX)	\$	29,980	-		919,643	7
1110	Financial assets measured at FVTPL - current (Note VI (II) and (XXV))	240,034	1	96,119	1	2130	Contract liabilities - current (Note VI (XXII))		19,947	-		6,160	-
1120	Other comprehensive income measured by fair value	6,438	-	22,541	-	2150	Notes payable (Note VI (XXV))		19,000	-		45,396	-
	Financial assets - current (Note VI (II) and (XXV))					2170	Accounts payable (Note VI (XXV))		1,885,062	12		1,743,472	13
1150	Notes receivable (Note VI (III) and (XXV))	15,257	-	16,115	-	2200	Other payables (Note VI (XXV))		964,415	6		830,541	6
1170	Net accounts receivable(Note VI (III) and (XXV))	5,949,268	37	5,291,833	38	2230	Tax liabilities (Note VI (XVIII))		436,898	3		226,720	2
1200	Other accounts receivable (Note VI (III) and (XXV))	219,031	1	226,751	2	2280	Lease liabilities - current (Note VI (XIII), (XXV) and (XXVIII))		94,851	1		-	-
1220	Income tax assets in the year (Note VI (XVIII))	758	-	33	-	2365	Refund liabilites - current (Note VI (XIV))		157,256	1		86,883	-
130X	Inventory (Note VI (IV))	1,976,021	12	2,227,827	16	2300	Other current liabilities		23,337	-		17,663	-
1410	Advance payment	137,348	1	90,814	1				3,630,746	23		3,876,478	28
1476	Other financial assets - current (Note VI (XI) and (XXV))	-	-	134,255	1		Non-current liabilities:						
1479	Other current assets - others	10,563	-	12,630	-	2550	Provisions- non-current (Note VI (XV))		41,729	-		40,522	-
		11,400,712	69	9,566,989	70	2580	Lease liabilities - non-current (Note VI (XIII) and (XXV) and (XXVIII))		60,560	-		-	-
						2600	Other non-current liabilities		1,932	-		1,726	-
									104,221	-		42,248	-
									3,734,967	23		3,918,726	28
Non-current assets:							Total of liabilities						
1600	Property, plant and equipment (Note VI (VII) and VIII)	3,514,714	22	3,350,160	24		Equity to the owner of parent company:						
1755	Right-of-use assets (Note VI (VIII))	383,426	2	-	-	3110	Ordinary share capital (Note VI (XIX))		1,034,779	6		934,779	7
1760	Investment property (Note VI (IX))	283,002	2	242,495	2	3140	Share capital received in advance (Note VI (XIX))		-	-		125,638	1
1780	Intangible assets (Note VI (X))	99,789	1	59,527	-	3200	Capital reserves (Note VI (V) and (XIX))		3,959,560	24		2,466,109	18
1840	Deferred tax assets (Note VI (XVIII))	123,925	1	97,922	1	3300	Retained earnings (Note VI (XIX))		7,471,519	46		6,296,652	46
1980	Other financial assets- non-current (Note VI (XI) and (XXV))	85,923	1	-	-	3400	Other equity (Note VI (XIX))		(650,532)	(4)		(317,020)	(2)
1900	Other non-current assets	388,701	2	473,115	3		Total equity attributable to owners of the parent		11,815,326	72		9,506,158	70
		4,879,480	31	4,223,219	30								
						36XX	Non-control equity (Note VI (VI))		729,899	5		365,324	2
							Total of equity		12,545,225	77		9,871,482	72
Total of assets		\$ 16,280,192	100	13,790,208	100		Total of liabilities and equity		\$ 16,280,192	100		13,790,208	100

Lotes Co., Ltd. and Its Subsidiaries
Consolidated Statement of Comprehensive Income
January 1 to December 31, 2019 and 2018

Unit: 1,000 TWD

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (Note VI (XIV), (XXII))	\$ 15,088,872	100	13,311,518	100
5000	Operating cost (Note VI (IV), (X) and XII)	9,620,962	64	8,962,649	67
	Gross profit	5,467,910	36	4,348,869	33
	Operating expense (Note VI (X), (XVI), (XVII), (XXV), VII and XII):				
6100	Promotion Expenses	562,701	4	585,617	4
6200	Administration Expenses	1,049,810	7	873,990	7
6300	R&D expenses	1,104,315	7	903,890	7
6450	Expected credit losses	460	-	2,932	-
	Total operating expenses	2,717,286	18	2,366,429	18
	Net operating profit	2,750,624	18	1,982,440	15
	Non-operating income/expenses (Note VI (XXIII)):				
7010	Other income	212,040	2	201,729	2
7020	Other gains and/or losses	(105,785)	(1)	(12,191)	-
7050	Financial costs	(22,711)	-	(18,468)	-
7055	Losses from expected credit impairment	(2,407)	-	787	-
	Total of non-operating income and expenses	81,137	1	171,857	2
	Net profit before tax from continuing operations	2,831,761	19	2,154,297	17
7950	Less: Income tax expenses (Note VI (XVIII))	687,293	5	445,998	3
	Net profit in the year	2,144,468	14	1,708,299	14
8300	Other comprehensive income:				
8310	Reclassification				
8311	Defined benefit plan Amount of Remeasurement	(1,148)	-	2,187	-
8316	Unrealized Other comprehensive income in fair value	(16,103)	-	(2,459)	-
8349	Income Tax of Reclassification items	230	-	(463)	-
	Total of items that will not be reclassified to profit or loss	(17,021)	-	(735)	-
8360	Potential gain/loss of Reclassification items				
8361	Exchange difference between foreign operating office's statement	(320,897)	(2)	(55,575)	-
8399	Less: Income tax related to the items that may be reclassified	-	-	-	-
	Total of items that may be reclassified to profit or loss	(320,897)	(2)	(55,575)	-
8300	Other comprehensive gain/loss (net amount after tax)	(337,918)	(2)	(56,310)	-
	Comprehensive gain/loss	\$ 1,806,550	12	1,651,989	14
	Net profit allocated to:				
8610	Owner of parent company	2,076,043	13	1,608,567	13
8620	Non-control equity	68,425	1	99,732	1
		2,144,468	14	1,708,299	14
	Consolidated loss/gain allocated to:				
8710	Owner of parent company	1,741,613	12	1,553,091	13
8720	Non-control equity	64,937	-	98,898	1
		1,806,550	12	1,651,989	14
	Basic earnings per share (Unit: TWD) (Note VI (XXI))	\$ 20.11		17.21	
	Diluted earnings per share (Unit: TWD) (Note VI (XXI))	\$ 20.06		17.15	

Lotes Co., Ltd. and Its Subsidiaries
Consolidated Statement of Changes in Equity
January 1 to December 31, 2019 and 2018

Unit: 1,000 TWD

	Equity allocated to the owner of the parent company											
							Other equity items					
							Exchange difference between foreign operating office’s statement	Unrealized gain or loss on Financial assets measured at FVTOCI	Unrealized Financial assets for sale	Equity attributable to owners of the parent	Non-control equity	Total equity
	Share capital		Retained earnings									
	Ordinary Share Capital	Share capital received in advance	Capital reserves	Legal reserve	Special reserve	Undistribute d earnings						
Balance on Jan. 1, 2018	\$ 934,779	-	2,410,168	835,452	37,613	4,322,806	(259,820)	-	4,618	8,285,616	146,173	8,431,789
Adjustments for the retrospective application of new standards	-	-	-	-	-	4,618	-	-	(4,618)	-	-	-
Balance after restatement on Jan. 1, 2018	934,779	-	2,410,168	835,452	37,613	4,327,424	(259,820)	-	-	8,285,616	146,173	8,431,789
Net income	-	-	-	-	-	1,608,567	-	-	-	1,608,567	99,732	1,708,299
Other comprehensive income	-	-	-	-	-	1,724	(54,741)	(2,459)	-	(55,476)	(834)	(56,310)
Total of comprehensive income	-	-	-	-	-	1,610,291	(54,741)	(2,459)	-	1,553,091	98,898	1,651,989
Appropriation and distribution of earnings:												
Legal reserves	-	-	-	95,630	-	(95,630)	-	-	-	-	-	-
Special reserve set aside	-	-	-	-	217,589	(217,589)	-	-	-	-	-	-
Cash dividends on common stock	-	-	-	-	-	(514,128)	-	-	-	(514,128)	-	(514,128)
Other changes in capital reserve:												
Changes in subsidiaries, associates and joint ventures accounted for using quity method	-	-	45,248	-	-	-	-	-	-	45,248	-	45,248
Compensation cost of employee stock options	-	-	10,693	-	-	-	-	-	-	10,693	-	10,693
Cash capital increase	-	125,638	-	-	-	-	-	-	-	125,638	-	125,638
Increment/deduction of non-control equity	-	-	-	-	-	-	-	-	-	-	120,253	120,253
Balance on Dec. 31, 2018	934,779	125,638	2,466,109	931,082	255,202	5,110,368	(314,561)	(2,459)	-	9,506,158	365,324	9,871,482
Net income	-	-	-	-	-	2,076,043	-	-	-	2,076,043	68,425	2,144,468
Other comprehensive income	-	-	-	-	-	(918)	(317,409)	(16,103)	-	(334,430)	(3,488)	(337,918)
Total of comprehensive income	-	-	-	-	-	2,075,125	(317,409)	(16,103)	-	1,741,613	64,937	1,806,550
Appropriation and distribution of earnings:												
Legal reserves	-	-	-	160,857	-	(160,857)	-	-	-	-	-	-
Special reserve set aside	-	-	-	-	61,818	(61,818)	-	-	-	-	-	-
Cash dividends on common stock	-	-	-	-	-	(900,258)	-	-	-	(900,258)	-	(900,258)
Other changes in capital reserve:												
Changes in subsidiaries, associates and joint ventures accounted for using quity method	-	-	193,451	-	-	-	-	-	-	193,451	-	193,451
Cash capital increase	100,000	(125,638)	1,300,000	-	-	-	-	-	-	1,274,362	-	1,274,362
Increment/deduction of non-control equity	-	-	-	-	-	-	-	-	-	-	310,257	310,257
Cash dividends issued by subsidiaries for non-controlling interests	-	-	-	-	-	-	-	-	-	-	(10,619)	(10,619)
Balance on Dec. 31, 2019	\$ 1,034,779	-	3,959,560	1,091,939	317,020	6,062,560	(631,970)	(18,562)	-	11,815,326	729,899	12,545,225

Lotes Co., Ltd. and Its Subsidiaries
Consolidated Statement of Cash Flows
January 1 to December 31, 2019 and 2018

	Unit: 1,000 TWD	
	2019	2018
Net cash flow from operating activities:		
Net profit before tax	\$ 2,831,761	2,154,297
Items of adjustment:		
Income and expenses		
Depreciation expense	1,023,478	819,154
Amortization expense	12,368	7,966
Expected credit losses	2,867	2,145
Interest expense	22,711	18,468
Interest income	(32,820)	(14,387)
Profit/loss of Financial assets and liabilities in fair value	(7,267)	1,379
Losses on the price fall and scraping of inventory	39,165	48,379
Disposition of Property, plant and equipment	27,655	12,193
Compensation cost of employee stock options	4,709	10,693
Total income and expenses	<u>1,092,866</u>	<u>905,990</u>
Change in assets/liabilities related to operating activities:		
Net change in operating assets:		
Gain/loss of receivable notes	858	(9,220)
Increase in accounts receivable	(657,895)	(1,001,427)
Decrease (increase) in other accounts receivable	(4,427)	7,694
Decrease (increase) in inventory	212,641	(485,727)
Increase in payments in advance	(46,534)	(39,721)
Decrease in Other current assets	2,067	23,675
Decrease in Other financial assets	48,332	134,255
Total net change in operating assets	<u>(444,958)</u>	<u>(1,370,471)</u>
Net change in operating liabilities:		
Increase in contract liabilities	13,787	6,160
Increase (decrease) in notes payable	(26,396)	35,992
Increase in accounts payable	141,590	41,733
Increase in other payables	154,112	138,188
Increase in provisions	59	192
Increase (decrease) in Other current liabilities	5,674	(1,137)
Increase (decrease) in refund liabilities	70,373	(12,414)
Increase in other non-current liabilities	206	261
Total net change in operating liabilities	<u>359,405</u>	<u>208,975</u>
Total net changes in operating assets and liabilities	<u>(85,553)</u>	<u>(1,161,496)</u>
Total adjustments	<u>1,007,313</u>	<u>(255,506)</u>
Cash in flow generated by operating activities	3,839,074	1,898,791
Interests received	42,560	11,175
Paid interests	(24,089)	(17,870)
Income tax paid	<u>(497,845)</u>	<u>(383,817)</u>
Net cash inflow from operating activities	<u>3,359,700</u>	<u>1,508,279</u>
Net cash flow in investing activities:		
Acquisition of financial assets measured at FVTOCI	-	(25,000)
Financial assets		
Acquisition of financial assets measured at FVTPL	(313,922)	(90,479)
Disposal of financial assets measured at FVTPL	177,274	-
Acquisition of real estate, plant and equipment	(1,127,735)	(1,308,667)
Disposition of Property, plant and equipment	6,162	8,574
Increase in intangible assets	(52,630)	(42,111)
Decrease (increase) in other non-current liabilities	(181,017)	38,095
Cash flow of investment activities (Outflow)	<u>(1,491,868)</u>	<u>(1,419,588)</u>
Cash flows in fundraising activities:		
Increment/loss of short-term loan	(889,663)	318,811
Repayment of lease principal	(121,833)	-
Issuance of cash dividends	(900,258)	(514,128)
Cash dividends issued for non-controlling interests	(10,619)	-
Cash capital increase	1,274,362	-
Capital collected in advance for cash capital increase	-	125,638
Variance of non-control equity	308,003	120,253
Changes in subsidiaries, associates and joint ventures accounted for using equity method	190,996	45,248
Net cash inflow (outflow) in financing activities	<u>(149,012)</u>	<u>95,822</u>
Change of exchange rate effecting Cash and cash equivalents	(320,897)	(55,575)
Increase of cash and cash equivalents	1,397,923	128,938
Balance of cash and cash equivalents at the beginning of the term	1,448,071	1,319,133
Balance of cash and cash equivalents at the end of the term	<u>\$ 2,845,994</u>	<u>1,448,071</u>

Lotes Co., Ltd. and Its Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended on December 31, 2019 and 2018
(Except as otherwise indicated, the unit for all amounts in this document is NT\$1,000))

I. Company History

Lotes Co., Ltd. (hereinafter referred to as the "Company") was incorporated on Aug. 23, 1986 in accordance with the provisions of the Company Law and was approved for registration with its registered office at No.15, Wuxun Street, Anle District, Keelung City. The Company and its subsidiaries (hereinafter referred to as the "Consolidated company") are principally engaged in the sale and purchase of various hardware parts and components, the manufacturing and processing of various terminals and their connectors, the import and export business in connection with the preceding item and the agency of the preceding item in connection with the tender quotation and distribution of products of domestic and foreign manufacturers. Please refer to Note 14 for further details.

II. Date and Procedures of Approval of Financial Statement

The Consolidated Financial Statement was approved and released by the Board of Directors on Mar. 25, 2020.

III. Application of New and Revised Standards and Interpretations

(1) Influence of the Adoption of New and Revised Standards and Integrations Approved by the Financial Supervisory Commission

Since 2019, the Consolidated company has fully adopted the International Financial Report Standards which is approved by the Financial Supervisory Commission (hereinafter referred to as FSC) to come into effect to compile Consolidated Financial Statements, with relevant new, amended and revised standards and interpretations listed as follows:

New release/revision/amendment of guidelines and interpretations	Effective date upon promulgation by the IASB
IFRS 16 "Leases"	Jan. 1, 2019
IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"	Jan. 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	Jan. 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	Jan. 1, 2019
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	Jan. 1, 2019

With the exception of the following items, the application of the new IFRS will not cause a material change to the consolidated financial statements. The nature and impact of the actors are described as follows:

IFRS 16 leases

International Financial Reporting Standards no. 16 "lease" (hereinafter referred to as the IFRS-16) place of the current International Accounting Standards no. 17 "lease" (hereinafter referred to as the IAS 17), the International Financial Reporting Interpretations Committee no. 4 "Determining Whether an Arrangement Contains a Lease" (hereinafter referred to as the IFRIC-4), SIC-15 "Operating Leases – Incentives", and SIC-27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

The consolidated company adopted the formal retroactive law to transition to IFRS 16, adjusting the cumulative impact of the initial application to the retained earnings on 1 January 2019. The nature and impact of the relevant accounting policy changes are described below:

(1) Definition of lease

The consolidated company previously relied on IFRIC 4 to determine whether or not an agreement was or included in a lease on the commencement date of the contract. A change in accounting policy will assess whether a contract is or includes a lease as defined in IFRS 16. Note iv (11) to the accounting policy.

In the transition to IFRS 16, the consolidated company chooses to use the expedient method to waive the assessment of whether the transaction before the initial application is a lease, i.e., to apply IFRS 16 directly to a contract previously identified as a lease. Contracts that are not a lease will not be re-evaluated as a lease if they have previously been interpreted in accordance with IAS 17 and IFRS 4 identification. Therefore, the lease definition set forth in IFRS 16 applies only to contracts entered into or changed after the date of initial application.

(2) the lessee

A transaction in which the consolidated company is a lessee is previously classified according to whether or not the lease agreement has been transferred to the underlying property subject to almost all risks and rewards. Under IFRS 16, lease contracts are identified as right-of-use assets and lease liabilities on the balance sheet.

A. Contracts previously classified as operating leases under IAS 17

During the transition, lease liabilities is measured by the present value of residual lease benefits, and discounted by the incremental borrowing rate of the first applicable day of a consolidated company. Lease assets are measured in terms of lease liabilities adjusted for all prepaid or payable lease benefits related to the lease.

In addition, the consolidated company adopted the following expedient for transition to IFRS 16:

- a. A single discount rate is applied to a lease portfolio with similar characteristics.
- b. As an alternative to the impairment assessment of right-of-use assets, the results of the assessment of the loss-making contracts in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets,” before the date of the first application.
- c. For leases whose Lease term ends within 12 months after the initial application date, right-of-use assets and lease liabilities are not recognized by exemption.
- d. The original direct cost is not included in the right-of-use assets measurement on the initial application date.
- e. When the lease contract includes an option to extend or terminate the lease, the

lease term shall be decided with the benefit of hindsight.

(3) the lessor

Except for subletting, the consolidated company is not required to make any adjustment in connection with its transaction as a lessor when transitioning to IFRS 16, which applies to its lease transactions from the date of initial application.

Under IFRS 16, the classification shall be based on right-of-use assets rather than on the valuation and sublease of the underlying assets.

(4) impact on financial statements

When transitioning to IFRS 16, the consolidated company recognized right-of-use assets and lease liabilities as \$488,228, \$241,482, and other non-current assets as less than \$246,746, 000, respectively, on the first date of application. Lease liabilities is discounted by Lease benefits at the increased borrowing rate of the first applicable date of the consolidated company. The weighted average of interest rate used is 6.08%.

The lease commitment amount disclosed in the year before the first applicable date and the lease liabilities recognized in the first applicable date are as follows. The difference number is the discounted effect number.

	2019.1.1
Amount of commitment for the operating lease disclosed in the consolidated financial statements issued on Dec. 31, 2018	\$ 247,997
Amount discounted with the incremental borrowing rate announced on Jan. 1, 2019 (Amount of lease liabilities recognized on Jan. 1, 2019)	\$ 241,482

(2) Effects of new and revised standards and interpretation has been approved by FSC but not yet being adopted

In accordance with FSC Order No. 1080323028, dated July 29, 2019, the public offering company should fully adopt the International Financial Reporting Standards (IFRSs) which are approved by the FSC and coming into effective on 2020. The newly issued, amended and revised standards and explanations are set out as follows:

New release/revision/amendment of guidelines and interpretations	Effective date upon promulgation by the IASB
Amendments to IFRS 3 Definition of a Businesses	Jan. 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform	Jan. 1, 2020
Amendments to IAS 1 and IAS 8 Definition of Material	Jan. 1, 2020

The Consolidated company considers that the application of the aforementioned newly recognized IFRSs will not result in significant changes to the Consolidated Financial Statements

(3) New and revised standards and interpretations not yet recognized by the FSC

The following table sets out the standards and interpretations that have been issued and revised by the International Accounting Standards Board (hereinafter referred to as the Board) but not yet endorsed by the FSC.

New release/revision/amendment of guidelines and interpretations	Effective date upon promulgation by the IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by the Board
IFRS 17 "Insurance Contracts"	Jan. 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	Jan. 1, 2022

The consolidated company is continuously evaluating the impact of the above criteria and explanations on the consolidated company's financial position and results of operations.

IV. Summary of Major Accounting Policies

The major accounting policies adopted in this Consolidated Financial Statement are summarised as follows. Unless otherwise noted, the following accounting policies have been applicable for all presentation period of the Consolidated Financial Statement.

(1) Compliance Statement

The Consolidated Financial Statement was compiled in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Guidelines Governing the Preparation), IFRS approved by the Financial Supervisory Commission, and IAS, Interpretations and Interpretation Announcement (hereinafter referred to as IFRS approved by the Financial Supervisory Commission).

(2) Compling Basis

1. Measurement Foundation

Except the major items in the following balance sheet, the Consolidated Financial Statement was complied based on the historical costs:

- (1) Financial assets at fair value through profit or loss measured with fair value;
- (2) Financial assets carried at fair value through other comprehensive income or loss.
- (3) Liabilities for cash settlement Share-based payment agreements that are measured at fair value.
- (4) Net defined benefit liabilities (or assets) are measured at the fair value of the pension fund's assets, less the present value of defined benefit obligations and the maximum effect amount as described in Note 4(16).

2. Functional Currency and Presentation Currency

Each party of the Consolidated company takes the currency of major economic environment where its operation is located as its functional currency. The Consolidated Financial Statement is presented in the functional currency of the Company, TWD. All of the financial information expressed herein in TWD is of one thousand per unit.

(3) Consolidation Foundation

1. Compling Principles of the Consolidated Financial Statement

The main compliers of the Consolidated Financial Statement are composed of the Company and the individuals controlled by the Company (subsidiary).

Since the date of being control, subsidiary have started to integrate their financial

Lotes Co., Ltd. and Its Subsidiaries Notes to the Consolidated Financial Statements (Continued)

reports to the Consolidated Financial Statement till the date of the cancelation of the control. All trading, balances and any un-realized gains and losses among the consolidated companies have been terminated when the Consolidated Financial Statement is complied. The sum of the integrated gains and losses of subsidiary company are under control of the owner the Company and belong to non-controlling interests, even if when non-controlling interests become losses.

Intercompany transactions, balances and any unrealized gains and expenses were removed from the preparation of the consolidated financial statements.

Changes in the Consolidated company's ownership interest in a subsidiary that do not result in a loss of control are treated as equity transactions with owners.

Lotes Co., Ltd. and Its Subsidiaries Notes to the Consolidated Financial Statements (Continued)

2. Subsidiary listed in the Consolidated Financial Statement

The including subsidiaries listed in the Consolidated Financial Statement are as follows:

Name of Investment Company	Name of Subsidiary	Place of Incorporation	Shareholding percentage	
			Dec. 31, 2019	Dec. 31, 2018
The Company	Lotes Investments Limited	Samoa	100.00%	100.00%
"	Good Hope Investments Limited	"	100.00%	100.00%
"	Guansi Development Co., Ltd.	"	100.00%	100.00%
"	Zhaxi Investment Co., Ltd.	Anguilla, British West	100.00%	100.00%
"	Jiayu Investment Co., Ltd.	4F, No. 15, Wuxun St., Anle Dist., Keelung City	100.00%	100.00%
"	Lotes USA, Inc	888 SW 5TH AVE 800 PORTLAND OR 97204 U.S.A.	100.00%	100.00%
"	LOTES EU GmbH	Ulmenstrabe 23-25 ,60325 Frankfurt am Main.	100.00%	100.00%
Lotes Investments Limited	Loteson International Investments Limited	Hong Kong	100.00%	100.00%
Loteson International Investments Limited	Lotes Guanghou Co., Ltd	No. 526, Jinling N. Rd., Panyu Nansha, Guangzhou City, Guangdong Province, China	100.00%	100.00%
Lotes Guanghou Co., Ltd	Lotes Hengnan Co., Ltd.	Yunji Avenue, Xinxiancheng Industrial Park, Hengnan County, Hengyang City, Hunan Province, China	100.00%	100.00%
"	Shenzhen Deyi Automation Technology Co., Ltd.	Suite 2, 4F, Building 1, Dachien Industrial Park, Longchang Rd., Area 67, Baoan Dist., Shenzhen City	100.00%	100.00%
"	Lotes Zhongshan Co., Ltd	4F, III of Building 2, No. 8, Gaopingrui Feng Rd., Sanjiao Town, Zhongshan City	50.00%	50.00%
"	Zhongshan Dezhi Metal Surface Treatment Co., Ltd.	1F, No. 8, Rui Feng Rd., Sanjiao Town, Zhongshan City	100.00%	- %
"	Hengnan Deyi Property Development Co., Ltd.	No. 120, Yunji Avenue, Yunji Township, Hengnan County, Hengyang City, Hunan City	100.00%	- %
"	Guangzhou Leside Technology Co., Ltd.	Suite 603, No. 5, Shuangshan Avenue, Nansha Dist., Guangzhou City	100.00%	- %
Guangzhou Leside Technology	Chongqing Fuxinrui Electronic Technology Co., Ltd.	No. 6, Yingchun Rd., Nanan Dist., Chongqing City	51.00%	- %

Lotes Co., Ltd. and Its Subsidiaries Notes to the Consolidated Financial Statements (Continued)

Co., Ltd.				
Lotes Suzhou Co., Ltd	Lotes Zhongshan Co., Ltd	4F, III of Building 2, No. 8, Gaopingrui Feng Rd., Sanjiao Town, Zhongshan City	50.00%	50.00%
Good Hope Investments Limited	Xincheng Development Co., Ltd.	Samoa	100.00%	100.00%
"	REKA Technology Co., Ltd.	Unit 1405-1406 Dominion Centre 43-59 Queen's Road East, Wanchai, H.K.	100.00%	100.00%
Guansi Development Co., Ltd.	Jae You Co., Ltd.	Hong Kong	100.00%	100.00%
Jae You Co., Ltd.	Lotes Suzhou Co., Ltd	No. 26, Caohu Avenue, Xiangcheng Economic Development Zone, Suzhou City, Jiangsu Province, China	100.00%	100.00%
Zhaxi Investment Co., Ltd.	Wangden Investments Limited (HK)	Hong Kong	100.00%	100.00%
Wangden Investments Co., Ltd.	Zongka Technology (Shenzhen) Co., Ltd.	403B, Building 1, Dacheng Industrial Zone, Longchang Rd., Area 67, Baoan Dist., Shengzhen City	100.00%	100.00%
Jiayu Investment Co., Ltd.	Ememe Robot Co., Ltd	15F, No. 700, Zhongzhen Rd., Zhonghe Dist., New Taipei City	94.37%	94.37%
"	Compertum Microsystems Inc.	13F-1, No. 716, Zhongzhen Rd., Zhonghe Dist., New Taipei City	46.74%	- %
"	Lintes Co., Ltd.	9F-1, No. 150, Jianyi Rd., Zhonghe Dist., New Taipei City	52.13%	58.36%
Lintes Co., Ltd.	Pure Fortune Limited	Samoa	- %	100.00%
"	Jilong Co., Ltd.	"	100.00%	100.00%
Jilong Co., Ltd.	Rihui Co., Ltd.	"	100.00%	100.00%
Rihui Co., Ltd.	Lintes Technology (Suzhou) Co., Ltd.	No. 26, Caohu Avenue, Xiangcheng Economic Development Zone, Suzhou City, Jiangsu Province, China	100.00%	100.00%

Pure Fortune Limited was liquidated in Q2, 2019.

In Q2, 2018, Lotes Hengnan Co. Ltd. had a merger with Hengnan Dezhi Fine Electornics Co., Ltd.

2. Subsidiary not listed in the Consolidated Financial Statement: none.

(4) Foreign Currency

1. Foreign Currency Trading

Foreign currency is converted into functional currency according to exchange rate on the date of transaction. At the end of each subsequent reporting period (the "Reporting Date"), foreign currency monetary items are translated into functional currency at the exchange rate prevailing on that date. Non-monetary items measured at fair value in foreign currencies are translated into functional currencies using the exchange rates prevailing at the date of fair value measurement, while non-monetary items measured at historical cost in foreign currencies are translated at the exchange rates prevailing at the dates of the transactions.

The foreign currency exchange difference resulting from the conversion is recognized to be other comprehensive Income excepting for the following situations, otherwise, recognized to be gains and losses.

- (1) Equity instruments designated as measured at fair value through other comprehensive income.
- (2) Financial liabilities designated as a net investment hedge for a foreign operating entity are within the effective range of the hedge; or
- (3) Eligible cash flow hedges are within the effective range of the hedge.

2. Foreign Operating Organizations

The assets and liabilities of foreign operating organizations, including the business reputation and fair value adjustment during the acquisition, are converted to be TWD according to exchange rate on the report day; gains and losses are converted into TWD according to exchange rate in the current period, and the resultant conversion difference is recognized to be other comprehensive Income.

In case of the loss of control, joint control or material influences arising from the punishment on foreign operating organizations, the accumulated conversion differences related to the foreign operating organizations shall be fully reclassified as gains and losses. In case of subsidiary company of foreign operating organizations involved in the punishment, the related accumulated conversion differences shall be reclassified as non-controlling interests in proportion. In case of affiliated company or joint ventures of foreign operating organizations involved in some of the punishment, related accumulated conversion differences shall be fully reclassified as gains and losses in proportion.

As to the receivable and payable monetary items of foreign operating organizations, if without the repayment plan or the possibility of repayment in foreseeable future, the resultant gains and losses from foreign currency conversion shall be regarded as a part of net investments to the foreign operating organizations as recognized as other comprehensive income.

(5) Standards for Classifying Current and Non-current Assets and Liabilities

Assets meeting one of the following conditions are recognized to be current assets, and other assets not belonging to current assets are recognized to be non-current assets:

1. Those that are expected to be realized during the normal operating period of the Consolidated company or intended to be sold or consumed.
2. Those held mainly for the purpose of transaction.
3. Those expected to be realized within 12 months after the balance sheet.
4. Cash or cash equivalents, but not including those used for exchange, liquidation of liabilities or those with other restrictions.

The liabilities meeting any one of the following conditions are current liabilities, and other liabilities not belonging to current liabilities are recognized to be non-current liabilities:

1. Those expected to be paid off during the normal operating period of the Company.
2. Those held mainly for the purpose of transaction.
3. Those expected to be paid off within 12 months after the balance sheet.
4. Those that shall not allow the Consolidated company to unconditionally extend the liquidation period to at least 12 months. Liabilities for liquidation arising from the issuing of equity instruments in accordance with the clauses chosen by the other party of transaction will not affect their classification.

(6) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are the investments which are allowed to be converted into cash with few value change risks and short-term high flowability. Certificate of deposit which satisfy the foregoing definition and with the holding purpose of meeting the short-term cash pledges rather than investment or others shall be recognized as cash equivalents.

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

(7) Financial Instrument

Accounts receivable are recognized at the time of generation. All other financial assets and financial liabilities were originally recognized when the consolidated company became a party to the terms of the financial instrument agreement. Financial assets that are not measured at fair value through profit or loss (except accounts receivable, which do not contain a significant financial component) or financial liabilities are measured at fair value plus the transaction cost directly attributable to the acquisition or issue. Accounts receivable, which do not contain significant financial components, are originally measured at transaction prices.

1. Financial assets

The purchase or sale of financial assets by a conventional trader, the consolidated company shall treat all purchases and sales of financial assets classified in the same manner in accordance with the transaction date or the settlement date.

At the time of the original recognition, financial assets were classified as: financial assets measured at amortized cost, debt instrument investments measured at fair value through other comprehensive income, equity instrument investments measured at fair value through other comprehensive income, or financial assets measured at fair value through gains and losses.

The consolidated company will only change its business model for managing financial assets from the first day of the next reporting period to classify all affected financial assets.

(1) financial assets as measured by their amortized costs

Financial assets are measured at post-amortized cost when they simultaneously meet the following conditions and are not specified to be measured at fair value through profit or loss:

- The financial asset is held under a business model for the purpose of collecting contractual cash flow.
- The cash flow generated by the terms of the contract on the financial asset at the specified date is solely for the payment of the principal and the interest on the outstanding principal amount.

The cumulative amortization of such assets is subsequently calculated by the effective interest method plus or minus the original amount recognized, and the amortized cost of any loss allowance is adjusted. Interest income, foreign exchange gains and losses and impairment losses are recognized as gains and losses. When derecognized, the profit or loss shall be included in the profit or loss.

(2) financial assets measured at fair value through other comprehensive income

When the debt instrument investment simultaneously meets the following

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

conditions and is not specified to be measured at fair value through profit and loss, it is measured at fair value through other consolidated profit and loss:

- the financial asset is held under a business model for the purpose of collecting contractual cash flow and selling.
- the cash flow generated by the terms of the contract on the financial asset at the specified date is solely for the payment of the principal and the interest on the outstanding principal amount.

The consolidated company may, at the time of its original recognition, irrevocably choose to report the subsequent changes in the fair value of its non-tradable equity instrument investments to other consolidated profits and losses. The foregoing selection is made on a item-by-item tool basis.

Debt instrument investors are measured by fair value afterwards. Interest income, foreign exchange gains and losses and impairment losses calculated by the effective interest method are recognized as gains and losses, while the remaining net gains or losses are recognized as other comprehensive income. When discounting, the accumulated amount of other comprehensive income shall be reclassified into comprehensive income.

Equity instrument investors are measured by fair value afterwards. Dividend income (unless it clearly represents the recovery of a portion of the investment cost) is recognized as a profit or loss. The remaining net benefits or losses are recognized as other comprehensive income and are not reclassified into gains and losses.

Dividend income from equity investments is recognized on the date (usually ex-dividend date) when the consolidated company becomes entitled to receive dividends.

(3) financial assets measured at fair value through profit and loss

Financial assets that are not measured at fair value at the above amortized cost or through other comprehensive income are measured at fair value through gains and losses, including derivative financial assets. The consolidated company may, at the time of its original recognition, irrevocably designate financial assets that meet the criteria of measuring at fair value according to the amortized cost or through other comprehensive income as financial assets measured at fair value through gains and losses in order to eliminate or substantially reduce improper accounting matching.

Such assets are subsequently measured at fair value and their net gains or losses (including any dividends and interest income) are recognised as gains or losses.

(4) business model evaluation

The purpose of the consolidated company is to assess the business model of holding financial assets at a portfolio level, which best reflects the way of operation and

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

management and the way of providing information to management. The following information is considered:

- the portfolio policies and objectives described and the operation of such policies. Including whether the management's strategy is to focus on earning contractual cash flow, maintaining a certain portfolio of interest rates, matching the duration of financial assets with the duration of the relevant liabilities or anticipated cash outflows, or achieving cash flow through the sale of financial assets.
- performance of the business model and how the financial assets held under the business model are evaluated and reported to the principal managers of the business.
- risks that affect the performance of the business model (and the financial assets held under the business model) and the manner in which such risks are managed.
- the frequency, amount and timeliness of previous sales of financial assets, the reasons for such sales and the expectation of future sales.

The transfer of a financial asset to a third party for the above business purposes that does not meet the exclusion criteria is not a sale as described above, consistent with the purpose for which the consolidated company continues to recognize the asset.

Financial assets held for trading and managed and evaluated for performance on a fair value basis are measured at fair value through profit and loss.

(5) evaluate whether the cash flow of the contract is fully the interest on the payment of the principal and the amount of outstanding principal

For evaluation purposes, the principal is the fair value of the financial asset at the time of its original recognition, and the interest is made up of the following considerations: the time value of money, the credit risk associated with the amount of outstanding principal in circulation during a particular period, and other basic lending risks and costs and profit margins.

To evaluate whether the contract cash flow is fully interest on the principal and the outstanding principal amount, the consolidated company considers the terms of the financial instrument contract, including whether the financial asset contains a contract term that can change the point or amount of the cash flow of the contract, causing it to fail to meet this condition. In the evaluation, the consolidated company considers:

- any contingencies that change the timeliness or amount of the cash flow of the contract;
- the terms of the coupon rate may be adjusted, including the nature of the variable rate;
- the nature of prepayment and extension; and
- claims of the consolidated company are limited to cash flow terms derived from specific assets (e.g. non-recourse nature).

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(6) impairment of financial assets

For the financial assets measured at the amortized cost after (including cash and about when cash, notes receivable, accounts receivable, other receivables, refundable deposit, and other financial assets, etc.), through the other comprehensive income measured at fair value, the debt instruments of investment assets and contract of expected loss, the consolidated company recognizes the allowance for credit losses.

The following financial assets are measured against losses according to the expected credit loss amount of 12 months, and the rest are measured according to the expected credit loss amount of the existing period:

- determine that the credit risk of the debt securities at the reporting date is low; and
- the credit risk of other debt securities and bank deposits (i.e. the risk of default during the expected life of financial instruments) has not increased significantly since the original recognition.

The loss allowance for accounts receivable and contract assets is measured in terms of the expected credit loss during the period of existence.

In determining whether credit risk has increased significantly since the initial recognition, the consolidated company considers reasonable and verifiable information (available at no excessive cost or investment), including qualitative and quantitative information, as well as analysis based on the consolidated company's historical experiences, credit assessment and forward-looking information.

The consolidated company shall be deemed to be in default of the financial asset if the debtor of the contract payment is unlikely to meet his credit obligations to make the full payment to the consolidated company.

Expected credit loss during the life of a financial instrument refers to the expected credit loss arising from all possible defaults during the life of the financial instrument.

Twelve-month expected credit loss refers to the expected credit loss arising from the possible default of the financial instrument within twelve months after the date of the report (or a shorter period, if the expected duration of the financial instrument is shorter than twelve months).

The longest contract period during which the expected credit loss is measured is the longest contract period during which the consolidated company is exposed to credit risk.

The expected credit loss is the probabilistic weighted estimate of the credit loss during the expected life of the financial instrument. Credit losses are measured in terms of the present value of all cash shortfalls, the difference between the cash flows that the consolidated company can collect under the contract and the cash flows that the

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

consolidated company expects to collect. The expected credit loss is discounted at the effective interest rate of the financial asset.

On each reporting date, the consolidated company evaluates whether there is a credit impairment in the debt securities on which financial assets are measured at after-amortized cost and on which fair value is measured through other comprehensive income. When one or more events have occurred that adversely affect the estimated future cash flow of a financial asset, the financial asset has suffered a credit impairment. Evidence of credit impairment of financial assets includes observable information relating to:

- major financial difficulties of the borrower or issuer;
- default, such as delay or delay beyond a specified period;
- for economic or contractual reasons related to the borrower's financial difficulties, the consolidated company gives the borrower concessions that the borrower would not have considered;
- the borrower is likely to file for bankruptcy or other financial restructuring; or
- the active market for the financial asset disappears due to financial difficulties.

The loss allowance for a financial asset measured at its amortized cost is deducted from the carrying amount of the asset. The allowance for losses on debt instrument investments is measured at fair value through other comprehensive income. It is adjusted and recognized as other comprehensive income (without reducing the carrying amount of the assets).

When the consolidated company cannot reasonably expect to recover the financial assets as a whole or in part, it will directly reduce the total book amount of its financial assets. For the company, the consolidated company shall analyze the date and amount of the write-off on the basis of whether it is reasonable to expect recovery. The consolidated company does not expect a significant reversal of the write-off. However, financial assets that have been written off may still be enforced to comply with the procedures of the consolidated company for recovering overdue amounts.

(7) Financial assets de-recognition

When the Consolidated company terminates the contractual rights from the cash flow of such assets or has transferred the financial assets and almost all risks and returns of the asset ownership have been transferred to other enterprises, the financial assets shall be de-recognized.

Transactions in which the Consolidated company enters into transfers of financial assets that retain all or substantially all of the risks and rewards of ownership of the transferred assets continue to be recognized on the balance sheet.

2. Financial liabilities

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

Financial liabilities are classified as amortized costs or measured at fair value through profit or loss. Financial liabilities which are held for trading, derivatives or specified at the time of their original recognition are classified as being measured at fair value through profit or loss. Financial liabilities, measured at fair value through profit and loss, are measured at fair value, and the associated net benefits and losses, including any interest expense, are recognized as profit and loss.

The effective subsequent interest method for other financial liabilities is measured at the amortized cost. Interest expenses and exchange gains and losses are recognized as gains and losses. Any benefit or loss at the time of discounting is also considered as profit or loss.

(1) De-recognition of Financial Liabilities

The Consolidated company derecognizes financial liabilities when contractual obligations have been fulfilled, cancelled or matured. When the terms of a financial liability are modified and the cash flows of the modified liability differ materially, the original financial liability is derecognized and a new financial liability is recognized at fair value based on the modified terms.

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

When de-recognizing financial liabilities, the difference between carrying amount and the sum of paid or payable considerations (including any transferred non-cash capital or assumed liabilities) shall be recognized as gains and losses.

(2) Offset between Financial Assets and Liabilities

Financial assets and financial liabilities can be offset with each other and represented on the balance sheet with net value only when the Company has legal rights to offset and has the intention to deliver with net value as well as realize capital and liquidate the liabilities.

3. Derivative Financial Instruments

The Consolidated company holds derivative financial instruments to avoid foreign currency and interest rate risks. Embedded derivatives are separated from the main contract when specific conditions are met and the main contract is not a financial asset.

Derivative instruments are initially recognized at fair value and subsequently measured at fair value, and the resulting gain or loss is recognized directly in profit or loss.

(8) Inventory

Inventory shall be measured with the lower of the costs and net realizable value. The costs include the acquisition, production and processing costs enabling them to arrive at the available places and status and other costs, which are calculated according to the standard cost method, and priced at cost transferring according to weighted mean method. The costs of the inventory of finished products and products in process include the manufacturing costs amortized based on normal production capacity according to proper percentage.

Net realizable value refers to the estimated prices under normal operation deducting estimated costs to be needed for estimated completion and estimated costs to be needed for completing selling.

(9) Property, plant and equipment

1. Recognition and Measurement

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

Significant components of property, plant and equipment are treated as separate items (major components) when they have different life cycles.

Gain or loss on disposal of property, plant and equipment is recognized in profit or loss.

2. Subsequent Costs

Subsequent expenses are capitalized only when it is probable that future economic benefits will flow into the Company.

3. Depreciation

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

Depreciation is calculated based on the cost of the asset less its residual value and is recognized in profit or loss using the straight-line method over the estimated useful life of each component.

The land is not subject to depreciation.

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

- | | |
|---------------------|-------------|
| (1) Buildings | 20-40 years |
| (2) Machinery | 2-10 years |
| (3) Other equipment | 2-10 years |

The Company reviews the method of depreciation, durability and residual value at each reporting date and makes appropriate adjustments as necessary.

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

4. Reclassification to investment real estate

When real property for own use is reclassified to investment property, the real property is reclassified to investment property based on its carrying amount at the time of change of use.

(10) Investment real estate

Investment real estate means real property held for the purpose of earning rent or asset appreciation, or both, rather than for the purpose of production, provision of goods or services, or for administrative purposes. Investment real estate is originally measured by cost, and later measured by cost minus accumulated depreciation and accumulated impairment. The depreciation method, durable life and residual value shall be treated in accordance with the provisions of real estate, plant and equipment.

The disposal interest or loss of the investment real estate (calculated at the difference between the net disposal price and the account amount of the project) shall be recognized as the profit or loss.

The rental income of investment real estate is recognized as other income in the straight-line method during the lease term. The incentive to lease is recognized as part of the rental income during the lease term.

(11) Leasing

Effective from January 1, 2019

1. Judgment of lease

The consolidated company shall assess whether the contract is a lease or includes a lease on the date of formation of the contract. If the contract transfers control over the use of the identified assets for a period of time in exchange for consideration, the contract shall be a lease or includes a lease. To assess whether the contract is a lease, the consolidated company evaluates the following items:

(1) the contract relates to the use of an identified asset whose entity may distinguish or represent all of the actual production capacity if it is explicitly specified in the contract or by implication specified at the time of availability. If the supplier has a material right to replace the asset, the asset is not recognized; and

(2) the right to obtain almost all the economic benefits derived from the use of the identified assets throughout the use period; and

(3) acquire the right to dominate the use of the identified assets in one of the following circumstances:

- the consolidated company has the right to dominate the use and purpose of the identified assets throughout the use period; or
- decisions relating to the manner and purpose of use of the asset are made in advance, and:

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

The consolidated company has the right to operate the assets throughout the use period and the supplier has no right to change the instructions for such operations; or

The way in which the assets are designed by the consolidated company has determined in advance how and for what purpose they will be used throughout their lifetime.

2. The lessee

The consolidated company recognize the right-of-use assets and lease liabilities on the beginning date of the lease. Right-of-use assets are originally measured in terms of cost, which includes the original measured amount of lease liabilities, adjusts the lease beginning date or before payment of any rent payment, and the initial direct costs, and applied to removing the asset and restoring its location or the estimated cost of the underlying assets. It minuses the charge of any lease incentives at the same time.

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Depreciation of right-of-use assets following the commencement of the lease shall be carried out by the straight-line method at the end of the useful life of right-of-use assets or earlier at the end of the lease term. In addition, the consolidated company will periodically evaluate whether there is any loss of right-of-use assets and deal with any loss that has occurred, and adjust the right-of-use assets in the case of lease liabilities.

Lease liabilities are defined as the present value of lease benefits not yet paid at lease commencement date. If the implied lease rate is easy to determine, the discount rate will be that rate, and if not, the incremental borrowing rate of the consolidated company will be used. Generally speaking, the consolidated company adopts its incremental borrowing rate as the discount rate.

Lease benefits measured in Lease liabilities include:

- (1) fixed payments, including substantive fixed payments;
- (2) depending on the variation of a certain index or rate of rent payment, the index or rate on the commencement date of the lease shall be used as the original measurement;
- (3) the guaranteed amount of salvage value expected to be paid; and
- (4) the price at which the option to exercise the option to purchase or terminate the lease will be reasonably determined or the penalty to be paid.

Lease liabilities is then calculated using effective interest method, and the amount was measured when:

- (1) changes in the index or rate used to determine lease payments result in changes in future lease payments;
- (2) the guaranteed amount of the residual value expected to be paid has changed;
- (3) the evaluation of the underlying asset purchase option has changed;
- (4) the estimate of whether to exercise the option of extension or termination has changed, which leads to the change of the assessment of the lease period;
- (5) modification of the subject matter, scope or other terms of the lease.

Lease liabilities are remeasured due to the aforementioned changes in the index or rate used to determine lease payments, changes in the residual value guarantee amount, and changes in the evaluation of purchases, extensions or termination options, the book value of right-of-use assets should be adjusted accordingly. When the book value of right-of-use assets is reduced to zero, the remaining re-measured amount is recognized in profit or loss.

For the tease modifications about the reduced coverage, the book amount of right-of-use assets will be reduced to reflect partial or total termination of Lease, and the difference between Lease assets and Lease assets will be included in the profit and loss.

The consolidated company will express the right-of-use assets and lease liabilities that do not conform to the definition of investment real estate in the form of single line

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items in the balance sheet.

3. The lessor

The transaction in which the consolidated company is a lessor shall be classified as a financial lease or an operating lease on the date of establishment of the lease, depending on whether or not the lease contract is transferred to almost all the risks and rewards attached to the ownership of the underlying asset. In the evaluation, the consolidated company shall consider certain indicators, including whether the lease term covers the principal part of the underlying asset's economic life.

If the consolidated company is a sublease lessor, it will handle the master lease and the sublease transaction respectively, and evaluate the sublease transaction classification based on the right-of-use assets generated from the master lease. If the principal lease is a short-term lease and a recognition waiver is applicable, the sublease transaction shall be classified as an operating lease.

Applicable before January 1, 2019

1. The lessee

The consolidated company leases offices and plants on an operating lease basis, and the rental payments are recognized as current expenses during the lease period on a straight-line basis.

2. The lessor

Operating leases are recognized as income during the lease period on a straight-line basis.

(12) Intangible assets

1. Recognition and measurement

Computer software acquired by the Consolidated company is measured at cost less accumulated amortization and accumulated impairment.

2. Subsequent expenditure

The subsequent expenditure can be capitalized only when they can increase the future economic benefits of relevant specific assets, and all of other expenditures are recognized as gains and losses when they occur, including the expenses for developing reputation and brand establishing.

3. Amortization

Amortization is calculated based on the cost of the asset less its estimated residual value, and is recognized in profit or loss using the straight-line method over the estimated useful lives of the Intangible assets, from one to five years from the time the assets reach a ready-for-use condition.

The Consolidated company reviews the amortization method, useful life and residual value of Intangible assets at each reporting date and makes appropriate adjustments as

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necessary.

(13 Non Financial Asset Impairment

At each reporting date, the Consolidated company assesses whether there is any indication that the carrying amount of non-financial assets (other than inventories, deferred income tax assets) may be impaired. If any indication exists, the recoverable amount of the asset is estimated.

For the purpose of impairment testing, cash inflows that are largely independent of other individual assets or groups of assets are treated as the smallest identifiable group of assets.

The recoverable amount is the higher of the fair value less costs to dispose of the individual asset or cash-generating unit or its value in use. If the recoverable amount of an individual asset or cash-generating unit is less than its carrying amount, an impairment loss is recognized. An impairment loss is recognized immediately in profit or loss and is reduced first by the carrying amount of goodwill amortized on the cash-generating unit and then by the carrying amount of each other asset in the unit in proportion to its carrying amount.

Non-financial assets other than goodwill are reversed only to the extent that they do not exceed the carrying amount (net of depreciation or amortization) that would have been determined had no impairment loss been recognized for the asset in prior years.

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(14) Provisions

Provisions are recognized as present obligations due to past events that make it probable that the Consolidated company will need to expend economically efficient resources in the future to settle the obligation and the amount of the obligation can be reliably estimated.

The amount recognized in Provisions takes into account the risks and uncertainties of the obligation and is the best estimate of the payments required to settle the obligation at the end of the reporting period. If Provisions is measured at the estimated cash flows to settle this realistic obligation, the carrying amount is the present value of those cash flows.

(15) Income Recognition

Revenue from customer contracts

Income is measured in consideration for the expected entitlement to transfer goods or services. The consolidated company recognizes revenue from the transfer of control of goods or services to the customer in order to meet its performance obligations.

The consolidated company manufactures electronic components and sells them to manufacturers in the electronics industry. The consolidated company recognizes revenue at the time of the transfer of control over the products. Control transfer of the product means that the product has been delivered to the customer and the customer can fully determine the sales channel and price of the product, and there is no failure to fulfill obligations that would affect the customer's acceptance of the product. Delivery occurs when the product is shipped to a specific location, the risk of obsolescence and loss has been transferred to the customer, the customer has accepted the product in accordance with the sales contract, the acceptance terms have expired, or the consolidated company has objective evidence that all acceptance conditions have been met.

The consolidated company recognizes revenue on the basis of the net amount of the estimated discount deducted from the contract price, the amount of which is estimated based on past experiences, and only to the extent that there is a high probability that no significant turnaround will occur. As of the date of the report, the sales will expect to pay the customer for the discount, which is refunded as refund liabilities. The average credit period of sales is one hundred twenty days to one hundred fifty days, which is consistent with the practice of the same trade, so no financing elements are included.

The consolidated company shall recognize accounts receivable at the time of delivery of the goods, as the consolidated company shall have the right to receive unconditional consideration at that time.

The time between the transfer of goods or services from all customer contracts to

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the customer and the time between the customer's payment for the goods or services is expected to be no more than one year, so the consolidated company does not adjust the time currency value of the transaction price.

(16) Employee Benefits

1. Defined Contribution Plan

The contribution obligation of the defined contribution pension plan is recognized as an expense in the period in which the employees render service to the Consolidated company.

2. Defined benefit plans

The Consolidated company's net obligation to a defined benefit plan is measured by discounting the present value of future benefits earned by the employee's current or prior period of service, less the fair value of the plan assets.

The defined benefit obligation is actuated annually by a qualified actuary using the projected unit benefit method. When the results of the calculation are probable to be favorable to the Company, an asset is recognized to the extent of the present value of any economic benefits that may be obtained by returning a contribution from the plan or reducing future contributions to the plan. Any minimum funding requirement is taken into account in calculating the present value of economic benefits.

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The remeasurement of the net defined benefit obligation, including actuarial gains and losses, compensation for plan assets (excluding interest), and any change in the impact of asset limits (excluding interest) is recognized immediately in other comprehensive income and accumulated in retained earnings. The Consolidated company determines net interest expense (income) for net defined benefit liabilities (assets) using the net defined benefit liabilities (assets) and discount rate determined at the beginning of the annual reporting period. Net interest expense and other costs for defined benefit plans are recognized in profit or loss.

When a plan is revised or curtailed, changes in benefits related to prior period service costs or curtailment gains or losses are recognized immediately in profit or loss. The Consolidated company recognizes gain or loss on the settlement of defined benefit plans when settlement occurs.

3.Short-term employee benefits

Short-term employee benefit obligations are recognized as an expense when services are provided. If the Consolidated company has a present legal or constructive obligation to pay for services rendered by employees in the past and the obligation can be estimated reliably, the amount is recognized as a liability.

(17) Share-based Payment Transaction

The value of Share-based benefit agreements shall be settled at the fair value on the date of grant, and an expense shall be recognized over the vesting period of the award and the relative equity shall be increased. The amount ultimately recognized is based on the amount of incentive payments made on the vesting date that meet the conditions of service and non-market vesting conditions.

The non vesting conditions of share-based payment rewards have been reflected on the fair value measurement on the grant date of share-based payment, and the difference between the expected and actual results are not required to check and adjust.

The fair value of the right to increase the value of the shares for cash delivery shall be the amount paid to the employee within the period of the employee's unconditional remuneration, and the expenses shall be recognized and the relative liabilities shall be increased. Any change in the liability, which is remeasured at the fair value of the rights to increase in value of the shares on the reporting and closing dates, is recognized as a profit or loss.

(18) Income Tax

Income taxes include current and deferred income tax asset. Except those related to enterprise consolidation and items directly recognized as equities or other comprehensive income, Current tax and deferred income tax asset shall be recognized as gains and losses.

Current income taxes include estimated income taxes payable or refund receivable

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based on current year taxable income (loss) and any adjustments to prior years' income taxes payable or refund receivable. The amounts are measured at the best estimate of the amount expected to be paid or received at the statutory or substantive legislative rates in effect at the reporting date.

Deferred income tax assets are measured and recognized according to the temporary difference between the carrying amount and taxation basis of assets and liabilities with financial report objectives.

In case of any of the following situations, the temporary differences will not be recognized as deferred income tax assets:

1. Those not belong to the assets or liabilities originally recognized in the transaction of enterprise consolidation, and not influencing accounting profits and taxation incomes (losses) during the transaction.
2. Those generated due to investment subsidiary company and joint equities and likely to not to be returned in the foreseeable future.
3. Original recognition of business reputation

Deferred income tax assets are measured according to the tax rate in the current period when the expected capital is realized or liabilities are liquidated, and based on the legal tax rate or substantial legal tax rate on the report day.

Only when the Consolidated company shall meet the following conditions at the same time, can the deferred income tax assets and deferred tax liabilities offset with each other:

1. Having the legal execution right to make the current income tax assets and the current tax liabilities offset with each other: and
2. Deferred income tax assets and deferred tax liabilities are related to one of the subjects of tax payment from which the same tax authority levies income tax;
 - (1) Same subject of tax payment; or
 - (2) Different subjects of tax payment, but all subjects intend to liquidate the current tax liabilities and assets based on net amount or at the same time realize assets and liquidate liabilities in each of the future periods when deferred income tax assets of major amounts are expected to be recovered and deferred tax liabilities expected to be liquidated.

Carry forward of unused taxation losses and unused income tax and deductible temporary differences are recognize as deferred income tax assets within the scope where the possible future taxable incomes are available. They are re-evaluated on each report day and deduct the income tax benefits which are not possible to be realized.

(19) Earnings per share

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The Consolidated company lists the basic and diluted earnings per share of holders of common stock equity of the Company. The basic earnings per share of the Consolidated company shall be calculated with the gains and losses of the holders of common stock equity of the Consolidated company divided by the weighted mean of current outstanding common shares. Diluted earnings per share shall be calculated after adjusting the influence of all potential diluted common shares of the gains and losses of the holders of common stock equity of the Company and the weighted mean of current outstanding common shares. The potential diluted common shares of the Consolidated company include convertible corporate bonds and stock options for employees.

(20) Segments

The operating segment is a component of the Consolidated company that engaging in operating activities that may earn income and incur expenses, including income and expenses related to transactions between other components of the Consolidated company. The results of operations of all operating segments are reviewed periodically by the Consolidated company's chief operating decision maker to make decisions about the allocation of resources to those segments and to measure their performance. Separate financial information is available for each operating segment.

V. Primary Sources of Major Accounting Judgment, Estimate and Assumption Uncertainties

Management is required to make judgments, estimates and assumptions in preparing this consolidated financial statements in accordance with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" that will affect the adoption of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from estimates.

The management authority continuously inspects the estimate and basic assumption, and accounting changes are recognized during the period of changes and the period of future to be influenced.

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Accounting policies that involve significant judgment and that have a material effect on the amounts recognized in the consolidated financial statements of the Consolidated company are as follows:

(1) inventory evaluation

Since inventory must be measured at the lower of cost or net realizable value, the consolidated company estimates the reported amount of inventory due to normal wear and tear, obsolescence, or no market sale value on a daily basis and reduces the cost of inventory to net realizable value. The net realizable value of inventories may change significantly due to rapid changes in the industry and the introduction of new products. Please refer to Note vi (IV) for the inventory assessment.

(2) Refund liabilities

The consolidated company will estimate refund liabilities according to the nature and conditions of sales transactions, and will recognize them as sales income in the current period when the products are sold and continue to examine the reasonableness of the estimates. However, due to market price competition and product technology development and other factors, it may cause a significant adjustment of the estimated amount. Please refer to Note vi (XIV) for Refund liabilities estimates.

VI. Descriptions for important accounting items

(1) Cash and cash equivalents

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Petty cash	\$ 3,660	2,719
Demand deposits and check deposits	1,560,714	1,137,826
Time deposits	<u>1,281,620</u>	<u>307,526</u>
Cash and cash equivalents listed on the Statement	<u>\$ 2,845,994</u>	<u>1,448,071</u>

Please refer to Note VI for the disclosure of the interest rate risk and sensitivity analysis of the financial assets of the consolidated company.

(2) Financial assets and liabilities

1. Financial assets and liabilities measured at FVTPL:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Financial assets measured at FVTPL:		
Non-derivative financial assets:		
Listed stocks	\$ 20,931	24,516
Linked deposits	<u>219,103</u>	<u>71,603</u>
Total	<u>\$ 240,034</u>	<u>96,119</u>

The Consolidated company's linked deposits are initially recognized on the basis of the principal amount of the deposit contract, and the interest rate is calculated based on the

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change in the subject matter of the linked deposits, and the Consolidated company receives the Interest income on a regular basis.

2. Financial assets measured at FVTOCI

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Equity instruments measured at FVTOCI:		
Domestic unlisted stocks — Kuang Ying Computer Equipment Co., Ltd.	\$ 4,507	12,541
Domestic unlisted stocks — AICP Technology Corporation	<u>1,931</u>	<u>10,000</u>
Total	<u>\$ 6,438</u>	<u>22,541</u>

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The Consolidated company's investments in these equity instruments are held as long-term strategic investments and are not held for trading purposes and therefore have been designated as measured at fair value through other comprehensive income.

The Consolidated company had no dividend income from Equity instruments measured at FVTOCI and no disposal of Equity instruments measured at FVTOCI for the years ended December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the Consolidated company's financial assets had not been pledged as security.

(3) Notes, accounts receivable and other receivables

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Receivable notes	\$ 15,257	16,115
Accounts receivable	5,957,860	5,300,398
Other accounts receivable	222,320	227,652
Less: Provisions	<u>(11,881)</u>	<u>(9,466)</u>
	<u>\$ 6,183,556</u>	<u>5,534,699</u>

Please refer to Note VI (XXV)1.(3) Statement of Changes in Notes and Accounts Receivable Provisions for the years ended December 31, 2019 and 2018 for details.

The Consolidated company assesses that a portion of the accounts receivable and other receivables held by the Consolidated company under the operating model of collecting cash flows and sales are measured at fair value through other comprehensive income as of December 31, 2019 and 2018, of which \$497,928,000 dollars and \$428,851,000 dollars respectively, and \$0 and \$50,970,000 dollars respectively, are accounts receivable.

Information of the factoring of accounts receivable of the consolidated company is provided below:

Unit: 1,000 TWD / 1,000 in foreign currency

Dec. 31, 2019						
Factored to	Amount derecognized	Amount can be provided as advance	Amount provided as advance	Transferred to other receivables	Interest rate range	Other important matters
CTBC Bank	\$ -	749,500	-	-	-	None
		USD 25,000				

Unit: 1,000 TWD / 1,000 in foreign currency

Dec. 31, 2018						
Factored to	Amount derecognized	Amount can be provided as advance	Amount provided as advance	Transferred to other receivables	Interest rate range	Other important matters
CTBC Bank	\$ 287,511	480,364	235,467	50,970	3.1%~3.73%	None
	USD 9,361	USD 15,639	USD 7,666	USD 1,695		

The above quota is used in a circular manner, and the outstanding accounts receivable

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sold by the consolidated company are purchased by China Trust without recourse. In accordance with the terms of the sale and surrender contract, losses arising from commercial disputes (such as return of sales or concessions, etc.) shall be borne by the consolidated company and losses arising from credit risk shall be borne by such Banks.

As of December 31, 2018, to 2019, the retained accounts receivable for sale were \$0, 000 and \$50,970, respectively, and were transferred to other receivables.

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(4) Inventory

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Merchandise	\$ 494,396	603,894
Final goods	706,097	723,130
Work in progress	444,416	468,998
Raw materials	292,094	416,979
Goods in transit	<u>39,018</u>	<u>14,826</u>
	<u>\$ 1,976,021</u>	<u>2,227,827</u>

The Consolidated company's inventories as of December 31, 2019 and 2018 including an allowance for inventory losses are \$271,717,000 dollars and \$255,887,000 dollars respectively.

The Consolidated company recognized inventory-related expenses and gains as follows:

	<u>2019</u>	<u>2018</u>
Cost of goods sold	\$ 9,941,368	9,213,704
Losses on the price fall and scraping of inventory	39,165	48,379
Income from the sales of scraps and waste	<u>(359,571)</u>	<u>(299,434)</u>
Total	<u>\$ 9,620,962</u>	<u>8,962,649</u>

As of December 31, 2019 and 2018, the Consolidated company's inventories were not pledged as security.

(5) Change in ownership interest in a subsidiary

1. Disposal of a portion of the equity interest in a subsidiary without loss of control

In December 2019, the Consolidated company disposed of 10% of the shares of Lintes Technology Co, Ltd. with interest of \$3,540,000 dollars.

The Consolidated company disposed of a total of 3.35% of the share of Lintes Technology Co. with interest of \$66,890,000 dollars.

The effect of the change in the Consolidated company's ownership interest in the above subsidiaries on the owners' equity attributable to the Parent Company is as follows:

	<u>2019</u>	<u>2018</u>
Book value of disposed shares of subsidiaries	\$ (979)	(21,537)
Consideration received from non-controlling interests	3,540	66,890
Exchange differences on the translation of foreign financial statements	<u>(1)</u>	<u>170</u>
Capital reserve - the difference between the prices of the actual acquired or disposed shares of subsidiaries and their book values	<u>\$ 2,560</u>	<u>45,523</u>

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2. Subsidiary Cash capital increase, the consolidated company did not subscribe in proportion to its shareholding, resulting in no loss of control

Lintes Technology Co., Ltd raised \$479,108 from a capital increase of 6,000 new shares on December 10, 2008. The failure of the consolidated company to subscribe reduced its interest in Lintes Technology Co., Ltd by 6.13%.

Lintes Technology Co., Ltd., with a capital increase of \$50 per share, issued 5,000 new shares on March 16, 2018, raising a total of \$250,000. The number of shares subscribed for by the consolidated company was 3,028 thousand for an amount of \$151,391 thousand, which increased the interest of the consolidated company in Lintes Technology Co., Ltd by 0.01% due to the non-subscription of the shares in proportion to its shareholding.

The effects of the changes in the consolidated company's ownership interests of the subsidiaries mentioned above on the interests attributable to the owners of the parent are as follows:

	2019	2018
Increase in equity after new shares were issued by subsidiaries	\$ 190,973	151,117
Subscription amount not according to shareholding percentage	-	(151,391)
Exchange differences on the translation of foreign financial statements	(82)	(1)
Capital reserve - the recognition of changes in the ownership interests of subsidiaries	<u><u>\$ 190,891</u></u>	<u><u>(275)</u></u>

(6) Subsidiaries with significant non-controlling interests

The non-controlling interests of subsidiaries that are material to the Consolidated company are as follows:

Name of Subsidiary	Main business place/ The country where the company registered	The percentage of ownership interests and voting interests in all non-controlling interests	
		Dec. 31, 2019	Dec. 31, 2018
Lintes Technology Co., Ltd.	Taiwan	47.87%	41.64%

The aggregate financial information of the above subsidiaries is as follows. The financial information has been prepared in accordance with International Financial Reporting Standards (IFRSs) approved by the Financial Supervisory Commission (FSC), and the financial information represents amounts before the elimination of intercompany

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transactions:

1. Comprehensive financial information of Lintes Technology Co., Ltd.:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Current assets	\$ 1,970,182	1,439,118
Non-current assets	180,502	110,428
Current liabilities	(649,878)	(666,646)
Non-current liabilities	<u>(11,443)</u>	<u>(1,846)</u>
Net assets	<u>\$ 1,489,363</u>	<u>881,054</u>
Book value of non-controlling interests at the end of the period	<u>\$ 714,874</u>	<u>365,829</u>

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	2019	2018
Operating revenue	<u>\$ 2,245,138</u>	<u>2,122,938</u>
Net profit in the year	156,114	250,336
Other comprehensive income	(6,122)	(1,165)
Total comprehensive income	<u>\$ 149,992</u>	<u>249,171</u>
Net profit in the period attributable to non-controlling interests	<u>\$ 69,180</u>	<u>100,182</u>
Total comprehensive income attributable to non-controlling interests	<u>\$ 65,759</u>	<u>99,348</u>

	2019	2018
Cash flows from operating activities	\$ 417,912	38,464
Cash flows from investing activities	(91,247)	(63,296)
Cash flows from financing activities	272,043	189,038
Effect of change in exchange rate	8,383	3,946
Increase in cash and cash equivalents	<u>\$ 607,091</u>	<u>168,152</u>
Dividends paid to non-controlling interests	<u>\$ 10,619</u>	<u>-</u>

(7) Property, plant and equipment

The changes in the costs of the property, plant and equipment, losses on depreciation and impairment of the consolidated company are as follows:

	Land	Buildings	Machinery	Other	Construction in progress and equipment to be examined	Total
Cost or deemed cost:						
Balance on Jan. 1, 2019	\$ 76,980	804,451	2,680,672	2,430,461	498,134	6,490,698
Addition	-	870	182,269	346,673	877,347	1,407,159
Prepayment for equipment	-	-	650	18,035	-	18,685
transferred in						
Completion of construction in progress and acceptance of equipment to be examined	-	-	10,300	576,528	(586,828)	-
Disposal	-	-	(68,993)	(519,830)	-	(588,823)
Reclassified into investment property	(26,800)	(15,857)	-	-	-	(42,657)
Effect of change in exchange rate	(525)	(29,725)	(106,285)	(110,967)	(31,922)	(279,424)
Balance on Dec. 31, 2019	<u>\$ 49,655</u>	<u>759,739</u>	<u>2,698,613</u>	<u>2,740,900</u>	<u>756,731</u>	<u>7,005,638</u>
Balance on Jan. 1, 2018	\$ 76,298	653,902	2,447,016	1,819,753	344,797	5,341,766
Addition	-	-	278,208	781,527	343,250	1,402,985
Prepayment for equipment	-	-	-	5,185	-	5,185

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transferred in						
Completion of construction in progress and acceptance of equipment to be examined	-	162,586	12,497	5,813	(180,896)	-
Disposal	-	-	(24,701)	(140,219)	-	(164,920)
Effect of change in exchange rate	<u>682</u>	<u>(12,037)</u>	<u>(32,348)</u>	<u>(41,598)</u>	<u>(9,017)</u>	<u>(94,318)</u>
Balance on Dec. 31, 2018	<u>\$ 76,980</u>	<u>804,451</u>	<u>2,680,672</u>	<u>2,430,461</u>	<u>498,134</u>	<u>6,490,698</u>

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Losses on depreciation and impairment:

Balance on Jan. 1, 2019	\$	-	241,559	1,455,245	1,443,734	-	3,140,538
Depreciation in the year		-	36,767	245,556	763,224	-	1,045,547
Disposal		-	-	(42,249)	(512,757)	-	(555,006)
Reclassified into		-	(1,386)	-	-	-	(1,386)
Effect of change in		-	(10,422)	(62,627)	(65,720)	-	(138,769)

investment property

exchange rate

Balance on Dec. 31, 2019	\$	-	<u>266,518</u>	<u>1,595,925</u>	<u>1,628,481</u>	-	<u>3,490,924</u>
Balance on Jan. 1, 2018	\$	-	215,886	1,247,325	1,002,898	-	2,466,109
Depreciation in the year		-	29,538	237,741	592,143	-	859,422
Disposal		-	-	(17,053)	(127,100)	-	(144,153)
Effect of change in		-	(3,865)	(12,768)	(24,207)	-	(40,840)

exchange rate

Balance on Dec. 31, 2018	\$	-	<u>241,559</u>	<u>1,455,245</u>	<u>1,443,734</u>	-	<u>3,140,538</u>
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Book value:

Balance on Dec. 31, 2019	\$	<u>49,655</u>	<u>493,221</u>	<u>1,102,688</u>	<u>1,112,419</u>	<u>756,731</u>	<u>3,514,714</u>
Balance on Dec. 31, 2018	\$	<u>76,980</u>	<u>562,892</u>	<u>1,225,427</u>	<u>986,727</u>	<u>498,134</u>	<u>3,350,160</u>

Subsidiary, Lotes Zhongshan Co., Ltd, acquired the land use rights for the construction of the new plant in 2017, and the acquisition cost was \$183,934 thousand to list right-of-use assets in the account. As of 2019 and December 31, 2018, the accumulated expenditures (tax included) for the construction of the new plant were \$622,147 thousand and \$255,126 thousand respectively.

In April, 2019, subsidiary, Lotes Zhongshan Co., Ltd, signed the pre-purchase contract and decoration contract with zhongshan Willie and real estate development co., LTD. and Tianjin Xinhongyuan building decoration engineering co., LTD., respectively. As of December 31, 2019, has to pay the price of RMB 10.881 thousand and RMB 3.285 thousand respectively (account listed as other non-current assets), is expected to transfer the property in December 2020.

As of December 31, 2019, and December 31, 2018, real estate, plant and equipment were used as collateral for short-term loans and financing lines. Please refer to note 8 for details.

(8) Right-of-use assets

The changes in the costs of the lease of lands, buildings, machinery and other equipment, losses on depreciation and impairment of the consolidated company are as follows:

		<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost of the right-of-use assets:						
Balance on Jan. 1, 2019	\$	-	-	-	-	-
Effects of retrospective application of		246,746	235,843	243	5,396	488,228

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IFRS 16					
Increase	-	35,288	474	-	35,762
Decrease	(9,838)	(16,457)	(30)	(215)	(26,540)
Balance on Dec. 31, 2019	<u>\$ 236,908</u>	<u>254,674</u>	<u>687</u>	<u>5,181</u>	<u>497,450</u>

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	<u>Land</u>	<u>Construction</u>	<u>Equipment</u>	<u>Other equipment</u>	<u>Total</u>
Losses on the depreciation and impairment of right-of-use assets:					
Balance on Jan. 1, 2019	\$ -	-	-	-	-
Depreciation in the year	5,375	112,130	717	2,446	120,668
Other decrease	(225)	(6,287)	(30)	(102)	(6,644)
Balance on Dec. 31, 2019	<u>\$ 5,150</u>	<u>105,843</u>	<u>687</u>	<u>2,344</u>	<u>114,024</u>
Book value:					
Dec. 31, 2019	<u>\$ 231,758</u>	<u>148,831</u>	<u>-</u>	<u>2,837</u>	<u>383,426</u>

The Consolidated company leased plant, offices, warehouses and employee dormitories under operating leases for the year ended December 31, 2018. For more details, please refer to Note VI (16).

(9) Investment property

The changes in the investment property of the consolidated company are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance on Jan. 1, 2019	\$ 221,400	23,428	244,828
Transferred from property, plant and equipment	26,800	15,857	42,657
Balance on Dec. 31, 2019	<u>\$ 248,200</u>	<u>39,285</u>	<u>287,485</u>
Balance on Jan. 1, 2018	\$ 221,400	23,428	244,828
Balance on Dec. 31, 2018	<u>\$ 221,400</u>	<u>23,428</u>	<u>244,828</u>
Losses on depreciation and impairment:			
Balance on Jan. 1, 2019	\$ -	2,333	2,333
Depreciation	-	764	764
Transferred from property, plant and equipment	-	1,386	1,386
Balance on Dec. 31, 2019	<u>\$ -</u>	<u>4,483</u>	<u>4,483</u>
Balance on Jan. 1, 2018	\$ -	1,761	1,761
Depreciation	-	572	572
Balance on Dec. 31, 2018	<u>\$ -</u>	<u>2,333</u>	<u>2,333</u>
Book Value:			
Dec. 31, 2019	<u>\$ 248,200</u>	<u>34,802</u>	<u>283,002</u>
Dec. 31, 2018	<u>\$ 221,400</u>	<u>21,095</u>	<u>242,495</u>
Fair value:			
Dec. 31, 2019		<u>\$ 322,604</u>	
Dec. 31, 2018		<u>\$ 282,694</u>	

Hengnan Deyi Property Development Co., Ltd. acquired the land use rights from Hunan Jialide Auction Co. in September 2019 and has paid the price of RMB\$22,845,000 dollars

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	<u>Land</u>	<u>Construction</u>	<u>Equipment</u>	<u>Other equipment</u>	<u>Total</u>
(recorded as non-current assets) as of December 31, 2019 and expects to deliver the transfer in 2020.					

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As of December 31, 2019 and 2018, the Consolidated company's investment properties were not pledged as security.

(10) Intangible assets

The changes in the cost and amortization of the intangible assets of the consolidated company are as follows:

	<u>Computer software</u>	<u>Other</u>	<u>Total</u>
Cost:			
Balance on Jan. 1, 2019	\$ 114,181	600	114,781
Separate acquisition	56,099	-	56,099
Derecognition	(590)	-	(590)
Effect of change in exchange rate	(3,469)	-	(3,469)
Balance on Dec. 31, 2019	<u><u>\$ 166,221</u></u>	<u><u>600</u></u>	<u><u>166,821</u></u>
Balance on Jan. 1, 2018	\$ 72,070	600	72,670
Separate acquisition	43,052	-	43,052
Effect of change in exchange rate	(941)	-	(941)
Balance on Dec. 31, 2018	<u><u>\$ 114,181</u></u>	<u><u>600</u></u>	<u><u>114,781</u></u>
Losses on amortization and impairment:			
Balance on Jan. 1, 2019	\$ 55,254	-	55,254
Amortization in the year	13,834	-	13,834
Derecognition	(590)	-	(590)
Effect of change in exchange rate	(1,466)	-	(1,466)
Balance on Dec. 31, 2019	<u><u>\$ 67,032</u></u>	<u><u>-</u></u>	<u><u>67,032</u></u>
Balance on Jan. 1, 2018	\$ 47,288	-	47,288
Amortization in the year	8,408	-	8,408
Effect of change in exchange rate	(442)	-	(442)
Balance on Dec. 31, 2018	<u><u>\$ 55,254</u></u>	<u><u>-</u></u>	<u><u>55,254</u></u>
Book value:			
Balance on Dec. 31, 2019	<u><u>\$ 99,189</u></u>	<u><u>600</u></u>	<u><u>99,789</u></u>
Balance on Dec. 31, 2018	<u><u>\$ 58,927</u></u>	<u><u>600</u></u>	<u><u>59,527</u></u>

The amortization expenses of the intangible assets of the consolidated company was recognized in the following items in the Consolidated Statement of Comprehensive Income:

	<u>2019</u>	<u>2018</u>
Operating cost	<u><u>\$ 1,087</u></u>	<u><u>518</u></u>
Operating expense	<u><u>\$ 12,747</u></u>	<u><u>7,890</u></u>

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(11) Other financial assets

The details of the other financial assets of the consolidated company are as follows:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Other financial assets - current		
Time deposits	<u><u>\$ -</u></u>	<u><u>134,255</u></u>
Other financial assets - non-current		
Time deposits	<u><u>\$ 85,923</u></u>	<u><u>-</u></u>

As of December 31, 2019 and 2018, none of the Consolidated company's other financial assets had been pledged as security.

(12) Short-term loans

The details, conditions and terms of the short-term loans of the consolidated company are as follows:

Dec. 31, 2019				
	<u>Currency</u>	<u>Interest rate range</u>	<u>Maturity</u>	<u>Amount</u>
			<u>year</u>	
Bank loans - credit loans	USD	2.54%	2020	<u><u>\$ 29,980</u></u>
Credit not yet used				<u><u>\$ 3,158,700</u></u>
Dec. 31, 2018				
	<u>Currency</u>	<u>Interest rate range</u>	<u>Maturity</u>	<u>Amount</u>
			<u>year</u>	
Bank loans - credit loans	USD	3.86%~3.99%	2019	\$ 199,643
	TWD	0.95%	2019	<u>720,000</u>
Total				<u><u>\$ 919,643</u></u>
Credit not yet used				<u><u>\$ 1,998,252</u></u>

Please refer to Note VI (25) for information on the exposure to interest rate and foreign currency risk. In addition, the Consolidated company has pledged assets as collateral for short-term borrowings. Please refer to Note 8 for details.

Please refer to Note VI (25) for more information on the Consolidated company's exposure to interest rate and foreign currency risk, Note 8 for information of the Consolidated company's assets pledged as collateral for short-term borrowings, and Note 9 for information of the Company's bank loans and financing facilities are pledged as guaranteed notes.

(13) Lease liabilities

The book values of the lease liabilities of the consolidated company are as follows:

	<u>Dec. 31, 2019</u>
Current	<u><u>\$ 94,851</u></u>
Non-current	<u><u>\$ 60,560</u></u>

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For the maturity analysis, please refer to Note VI (XXV).

The amounts recognized in the profit and loss are as follows:

	2019
Interest expense for lease liabilities	\$ 11,458
Income from the sublease of right-of-use assets	\$ 14,593
Expenses for short-term leases	\$ 2,443

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The amounts recognized in the Statement of Cash Flows are as follows:

	2019
Total cash outflow for leases	<u>\$ 135,734</u>

1. Lease of land, premises and buildings

The consolidated company leases land, premises and buildings for plant, office space and staff quarters. The lease term of the plant and office space is usually one to ten years, and the lease term of the staff quarters is three to eight years. Part of the lease includes an option to extend the lease at the end of the lease term. In cases where it is not reasonably determined to exercise an optional extension of Lease term, the relevant benefits for the period covered by the option are not included in the Lease liabilities.

The consolidated company is a sublease of right-of-use assets by business lease.

2. Other leases

The leasing period of machines and other equipment leased by the consolidated company shall be two to six years. In addition, the Lease term of some Lease contracts of the consolidated company is one year, and these leases are short-term subject leases. The consolidated company chooses to apply the exemption of relevant right-of-use assets and lease liabilities

(14) Refund liabilities - current

	Dec. 31, 2019	Dec. 31, 2018
Refund liabilities - current	<u>\$ 157,256</u>	<u>86,883</u>

The refund liabilities are mainly the prepayments to customers for the sales discount and defects of electronic components.

(15) Provisions

	Dec. 31, 2019	Dec. 31, 2018
Provisions - non-current		
Employee benefits	<u>\$ 41,729</u>	<u>40,522</u>

Employee benefits are estimated under the Consolidated company's defined benefit plan; please refer to Note VI (17) for details.

(16) Operating lease

1. Lessee lease

The rental payments payable under non-cancellable operating leases are as follows:

	Dec. 31, 2018
Within 1 year	\$ 116,739
1-5 years	<u>131,258</u>

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\$ 247,997

The Consolidated company leases its plant, office, warehouse and staff quarters under operating leases for periods of 1-10 years.

For the year ended on December 31, 2018, the Consolidated company reported operating leases at an expense of \$70,663,000 dollars.

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2. Lessor lease

The consolidated company leases its investment real estate, which is classified as an operating lease because almost all risks and rewards belonging to the ownership of the underlying asset have not been transferred. Please refer to Note VI (IX) for details of the investment real estate.

Due date analysis of lease benefits to report the total amount of undiscounted lease benefits received in the future is shown in the following table:

	Dec. 31, 2019
Not more than 1 year	\$ 5,821
1-2 years	593
Total undiscounted lease payment	<u>\$ 6,414</u>

The lowest future lease payments receivable for the non-cancelable lease term are as follows:

	Dec. 31, 2018
Within 1 year	\$ 5,549
1-5 years	6,025
	<u>\$ 11,574</u>

For the years ended on December 31, 2019 and 2018, the income tax generated in the investment property from rentals was \$5,408,000 dollars and \$5,143,000 dollars respectively, and the direct operating expenses (including maintenance) incurred in the investment property from rentals were \$875,000 dollars and \$654,000 dollars respectively.

(17) Employee benefits

1. Defined benefit plans

The reconciliation between the present value of defined benefit obligations and the fair value of plan assets of the Company is as follows:

	Dec. 31, 2019	Dec. 31, 2018
Present value of defined benefit obligations	\$ 73,681	72,724
Fair value of plan assets	(31,952)	(32,202)
Net defined benefit liabilities	<u>\$ 41,729</u>	<u>40,522</u>

The details of the employee benefits liability of the consolidated company are as follows:

	Dec. 31, 2019	Dec. 31, 2018
Liabilities from paid leaves	<u>\$ 14,674</u>	<u>13,119</u>

The defined benefit plan of the Company is contributed to special account of contribution for retirement of Bank of Taiwan. The retirement payment of each employee applicable to Labor Standards Law is calculated in accordance with the base obtained

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based on the length of service and the average salaries within six months before retirement.

(1) Composition of Plan Assets

The retirement fund contributed by the Consolidated under the Labor Standards Law shall be controlled by the Labor Funds Operation Bureau of the Ministry of Labor (hereinafter referred to as the Labor Funds Bureau), and under the provisions of Measures on the Management and Application of Labor Retirement Funds, the annual minimum return settled and distributed from the funds operation shall not be lower than the incomes calculated in accordance with the 2-year time certificate of deposit rate of the local banks.

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As of the reporting date, the balance of the Company in the special account of contribution for retirement of Bank of Taiwan amounts to TWD 31,952,000 dollars. The data of the application of the labor retirement funds include funds yield and funds asset allocation, with details to be seen in the information released on the website of the Labor Funds Bureau.

(2) Changes in the present values of defined benefit obligations

Changes in the present values of defined obligations of the Company in 2019 and in 2018 are as follows:

	2019	2018
Defined benefit obligation on January 1	\$ 72,724	72,626
Service cost and interest in the year	1,310	1,476
Remeasurement of net defined benefit liabilities (assets)	2,262	(1,378)
Benefit paid by the plan	(2,615)	-
Defined benefit obligation on December 31	<u>\$ 73,681</u>	<u>72,724</u>

(3) Changes in the fair value of plan assets

The changes in the fair value of defined benefit plan assets of the Company in 2019 and in 2018 are as follows:

	2019	2018
Fair value of plan assets on January 1	\$ 32,202	30,109
Interest income	319	374
Remeasurement of net defined benefit liabilities (assets)	1,114	809
Amount contributed to the plan	932	910
Benefit paid by the plan	(2,615)	-
Fair value of plan assets on December 31	<u>\$ 31,952</u>	<u>32,202</u>

(4) Expenses recognized in profit or loss

The expenses of the Company recognized in profit or loss in 2019 and in 2018 are as follows:

	2019	2018
Service cost in the year	\$ 590	576
Net interest of net defined benefit liabilities	401	526
	<u>\$ 991</u>	<u>1,102</u>
Operating cost	\$ 117	142
Promotion Expenses	277	293
Administration Expenses	356	388
R&D expenses	241	279
	<u>\$ 991</u>	<u>1,102</u>

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(5) Remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income

Remeasurement of the accumulated net defined benefit liabilities (assets) of the Company recognized in other comprehensive income in 2019 and in 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Accumulated balance on January 1	\$ 3,043	856
Amount recognized in this period	(1,148)	2,187
Accumulated balance on December 31	<u><u>\$ 1,895</u></u>	<u><u>3,043</u></u>

(6) Actuarial assumptions

The material actuarial assumptions used by the Company to determine the present value of defined benefit obligations at the end of the reporting period are as follows:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Discount rate	0.75%	1.00%
Increase in future salary	2.00%	2.00%

The amount of appropriation for defined benefit plans within 1 year after the reporting date for the year ended on Dec. 31, 2019 is 916,000 TWD.

The weighted average duration of defined benefit plans is 11 years.

(7) Sensitivity analysis

The effects of changes in the main actuarial assumptions adopted on Dec. 31, 2019 and 2018 on the present value of defined benefit obligations are as follows:

	Effects on defined benefit obligations	
	<u>Increased by 0.25%</u>	<u>Decreased by 0.25%</u>
Dec. 31, 2019		
Discount rate	\$ (2,069)	2,151
Increase in future salary	2,119	(2,049)
Dec. 31, 2018		
Discount rate	(2,095)	2,181
Increase in future salary	2,154	(2,079)

The sensitivity analysis above was based on the analysis of the effects of changes in a single hypothesis with other assumptions unchanged. Changes in many assumptions in practice may be interlinked. Sensitivity analysis is consistent with the method used to calculate the net pension liabilities on the balance sheet.

The methodology and assumptions used in the sensitivity analysis are the same.

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2. Defined Contribution Plan

As to the defined contribution plan, the Consolidated company shall contribute the retirement funds of employees to the individual accounts for labor retirement funds of the Bureau of Labor Insurance according to 6% of the monthly salaries of labors under the provisions of Labor Pension Act. Under this plan, after contributing fixed amount to the Bureau of Labor Insurance, the Consolidated company will not assume the legal or constructive obligations of paying extra amount.

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The pension expense under the defined contribution retirement funds of the Company in the year of 2019 and 2018 are TWD 9,032,000 and TWD 8,951,000 respectively, which have been contributed to the Bureau of Labor Insurance.

In accordance with the pension insurance system established by the government of the People's Republic of China, the subsidiaries in Mainland China make monthly contributions to employees' pension insurance based on a certain percentage of their salaries and wages. The monthly pension plan is administered and arranged by the government, and the above-mentioned company has no further obligation other than to make monthly contributions. The related pension expense for the years ended December 31, 2019 and 2018 were \$195,676,000 dollars and \$188,352,000 dollars respectively.

(18) Income tax

1. The details of the income tax expense of the consolidated company are as follows:

	<u>2019</u>	<u>2018</u>
Income tax expense in the year		
Income tax generated in the year	\$ 704,790	483,727
Surtax on undistributed retained earnings	27,468	6,448
Adjustment of the income tax in the previous year	<u>(17,187)</u>	<u>(34,340)</u>
	<u>715,071</u>	<u>455,835</u>
Deferred income tax expense		
Change in income tax rate	-	(8,130)
Other deferred income tax expense (benefit)	<u>(27,778)</u>	<u>(1,707)</u>
Income tax expense	<u>\$ 687,293</u>	<u>445,998</u>

The details of income tax expense (benefit) recognized in the other comprehensive income in 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit plan	<u>\$ (230)</u>	<u>463</u>

The reconciliation between the income tax expense (benefit) and net profit before tax of the consolidated company in 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Net profit before tax	<u>\$ 2,831,761</u>	<u>2,154,297</u>
Income tax calculated based on the tax rate of the place where the Company located	895,013	662,596
Adjustments in accordance with tax laws in different countries and regions	(218,245)	(181,623)
Adjustment of income tax rate	-	(8,130)
Underestimate (overestimate) in the previous year	(17,187)	(34,340)
Surtax on undistributed retained earnings	27,468	6,448

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Income basic tax	244	1,047
Total	<u>\$ 687,293</u>	<u>445,998</u>

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Deferred income tax assets and liabilities

(1) Unrecognized deferred income tax assets

The item not recognized as deferred income tax assets by the consolidated company is as follows:

	Dec. 31, 2019	Dec. 31, 2018
Tax loss	<u>\$ 15,315</u>	<u>15,729</u>

The loss due to taxation is subject to the income tax law, and the net profit of the ten years before the loss is deducted by the tax collection authority. These items are not recognized as deferred income tax assets because it is not likely that the consolidated company will have sufficient tax offices for such temporary differences in the future.

Subsidiary Ememe Robot Co., Ltd., in accordance with the provisions of the income tax law, the losses of the previous ten years can be deducted from the net profits of the current year after being verified by the tax collection authority, and the income tax shall be verified again. As of December 31, 2019, the consolidated company had not yet recognized a loss of tax on its deferred income tax assets. The period of deduction is as follows:

Ememe Robot Co., Ltd.:

Losses occurred in	Losses to be deducted	The last year for the deduction to be conducted
2011 (approved)	\$ 9,714	2021
2012 (approved)	14,184	2022
2013 (approved)	14,550	2023
2014 (approved)	6,246	2024
2015 (approved)	8,951	2025
2016 (approved)	10,166	2026
2017 (approved)	6,828	2027
2018 (applied)	3,237	2028
2019 (estimated)	2,697	2029
	<u>\$ 76,573</u>	

(2) Recognized deferred income tax assets

	Dec. 31, 2019	Dec. 31, 2018
Losses from inventory price drop and obsolescence	\$ 20,587	26,223
Unappropriated pension expenses	492	480
Losses from the price drop of fixed assets and idle assets	44	44
Refund liabilities	43,772	30,613
Unrealized foreign exchange losses	15,423	142

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Estimated expenses payable	35,246	32,284
Remeasurement of defined benefit plan	8,238	8,008
Bad debt expense	123	128
Deferred income tax assets	<u>\$ 123,925</u>	<u>97,922</u>

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2. Income Tax Approval

The approval on the filing of final income tax return of the Company has lasted till the year 2017 as required by the taxing authority.

(19) Capital and Other Equity

As of December 31, 2018 and 2019, the total authorized share capital of the Company was \$1,550,000,000 dollars and \$1,050,000,000 dollars with a par value of \$10 per share, and the actual amount issued was \$1,034,779,000 dollars and \$934,779,000 dollars respectively.

On August 9, 2018 and November 19, 2018, the Company's Board of Directors resolved to issue 10,000,000 new shares with a par value of \$10 per share and an issue price of \$140 per share by cash capital increase, with January 10, 2019 as the base date for the capital increase. This capital increase has been approved by the Financial Supervisory Commission and the statutory registration process was completed on January 23, 2019.

1. Capital reserve

The components of the Company's capital reserve are as follows:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Premium of issued shares	\$ 3,577,768	2,277,768
Change in the net value of the stock of subsidiaries and associates accounted for using the equity method	366,393	172,942
Employee stock options	15,399	15,399
	<u>\$ 3,959,560</u>	<u>2,466,109</u>

In accordance with the Companies Act, capital surplus is required to cover losses first before new shares or cash can be issued in proportion to the shareholders' original shares. Realized capital surplus referred to in the preceding paragraph includes premiums from the issuance of shares in excess of par value and proceeds from gifts received. In accordance with the Regulations Governing the Issuer's Offerings and Issuance of Marketable Securities, the aggregate amount of capital surplus that may be capitalized each year shall not exceed 10% of the paid-in capital.

2. Retained earnings

In accordance with the Company's Articles of Incorporation, the Company shall, after the final settlement of each year's earnings, first complete tax contributions, make up for prior years' deficits and set aside 10% as legal reserve, except when the legal reserve has reached the level of total capital; the Company is required by law to set aside or reverse special reserve. In the case of unappropriated earnings for the same period, the Board of Directors shall propose a proposal for the distribution of earnings to the shareholders for resolution, and the dividend to be distributed shall not be less than 20% of the net profit for the year after taxation, after deducting the net income provided for by law.

The Company will take into account the environment and growth of the Company

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and the distribution of earnings should take into account the Company's future capital expenditure budget and capital requirements, and pay cash dividends of not less than 10% of the dividends distributed in the current year.

(1) Legal reserve

If the Company has no deficit, it may, by resolution of the shareholders in general meeting, issue new shares or cash out of the legal reserve to the extent that such reserve exceeds 25% of the paid-in capital.

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(2) Special reserve

When the Company distributes distributable earnings, the Company accounts for other shareholders' equity in the current year and provides a special reserve of the same amount from current period's profit or loss as the prior period's undistributed earnings, and a special reserve of the same amount from prior period's undistributed earnings is not distributed. If there is a subsequent reversal in the amount of other decreases in shareholders' equity, the reversal may be distributed in the form of a surplus.

(3) Earnings distribution

On June 14, 2019 and June 12, 2018, the Company's shareholders resolved to distribute earnings for the years 2018 and 2017, respectively, as follows:

	2018		2017	
	<u>Payout ratio</u> <u>(TWD)</u>	<u>Amount</u>	<u>Payout ratio</u> <u>(TWD)</u>	<u>Amount</u>
Distributed to the holders of ordinary shares:				
Cash	\$ 8.70	<u>900,258</u>	5.50	<u>514,128</u>

On March 25, 2020, the Company's Board of Directors proposed a distribution of earnings for the year e2019, and the amount of dividends distributed to owners was as follows:

	2019	
	<u>Payout ratio</u> <u>(TWD)</u>	<u>Amount</u>
Distributed to the holders of ordinary shares:		
Cash	\$ 10.50	<u>1,086,518</u>

Information on the distribution of earnings as proposed by the Board of Directors and resolved by the Shareholders' Meeting is available on the "Public Information Observation Post System".

3. Other equity

	<u>Exchange difference</u> <u>between foreign</u> <u>operating office's</u> <u>statement</u>	<u>Unrealized gain or</u> <u>loss on Financial</u> <u>assets measured at</u> <u>FVTOCI</u>	<u>Total</u>
Balance on Jan. 1, 2019	\$ (314,561)	(2,459)	(317,020)
Exchange differences arising from the translation of the net assets of foreign operations	(317,409)	-	(317,409)
Unrealized losses from financial assets measured at FVTOCI	-	(16,103)	(16,103)
Balance on Dec. 31, 2019	<u>\$ (631,970)</u>	<u>(18,562)</u>	<u>(650,532)</u>

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	Exchange difference between foreign operating office's statement	Unrealized gain or loss on Financial assets measured at FVTOCI	Unrealized gain or loss on available-for-s ale financial instruments	Total
Balance on Jan. 1, 2018	\$ (259,820)	-	4,618	(255,202)
Adjustments for the retrospective application of new standards	-	-	(4,618)	(4,618)
Balance after the restatement on Jan. 1, 2018	(259,820)	-	-	(259,820)
Exchange differences arising from the translation of the net assets of foreign operations	(54,741)	-	-	(54,741)
Unrealized losses from financial assets measured at FVTOCI	-	(2,459)	-	(2,459)
Balance on Dec. 31, 2018	<u><u>\$ (314,561)</u></u>	<u><u>(2,459)</u></u>	-	<u><u>(317,020)</u></u>

(20) Share-based payment

The following share-based payment transactions were performed by the consolidated company:

	Cash capital increase reserved for employees to subscribe	
	Subsidiary	The Company
Date of offering	Nov. 28, 2019	Nov. 22, 2018
Amount offered	436,000 shares	314,500 shares
Target of offering	Current employees of subsidiaries	Current employees of the Company
Vesting condition	Immediate vesting	Immediate vesting

Lintes Technology Co., Ltd. estimated the fair value of the above Cash capital increase stock option to be \$10.8 and recognized the cost of Share-based payment Compensation of employees from the Cash capital increase stock option to be \$4,709,000 dollars in 2019.

The estimated fair value of the above Cash Capital Increase stock option Date of offering was \$34, and the cost of Share-based payment Compensation of employees arising from the Cash Capital Increase stock option was \$10,693,000 dollars in 2018.

(21) Earnings per share

The basic earnings per share and diluted earnings per share of the consolidated company were calculated as follows:

	2019	2018
Net profit attributable to the Company in the year	<u><u>2,076,043</u></u>	<u><u>1,608,567</u></u>
Weighted average shares outstanding (1,000 shares)	103,231	93,478
Dilutive potential ordinary shares		
Compensation of employees	<u>278</u>	<u>322</u>

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	<u>103,509</u>	<u>93,800</u>
Basic earnings per share	<u>20.11</u>	<u>17.21</u>
Diluted earnings per share	<u>20.06</u>	<u>17.15</u>

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(22) Revenue from contracts with customers

1. Please refer to Note XIV (III) and (IV) for the disclosure of disaggregation of revenue for the major products and major regional markets.

2. Balance of Contract

	Dec. 31, 2019	Dec. 31, 2018	2018.1.1
Contract liabilities	<u>\$ 19,947</u>	<u>6,160</u>	<u>2,651</u>

The amounts of beginning balances of contract liabilities as of Jan. 1, 2019 and Jan. 1, 2018 were respectively recognized as income of 5,825,000 TWD and 2,016,000 TWD for the year ended on Dec. 31, 2019 and 2018.

(23) Non-operating income and expense

1. Other income

The details of other income of the consolidated company are as follows:

	2019	2018
Interest income	\$ 32,820	14,387
Income from cash dividends	875	443
Income from molding	42,802	74,342
Compensation from suppliers	10,143	8,745
Income from rentals	28,065	12,126
Income from the sales of developed products	7,131	8,642
Income from subsidies	27,845	31,924
Others	62,359	51,120
	<u>\$ 212,040</u>	<u>201,729</u>

2. Other income and losses

The details of other income and losses of the consolidated company are as follows:

	2019	2018
Foreign exchange gain (loss)	\$ (58,026)	34,358
Net profit or loss from the financial assets (liabilities) measured at FVTPL	5,346	(1,379)
Losses from the disposal of Property, plant and equipment	(27,655)	(12,193)
Other	(25,450)	(32,977)
Total	<u>\$ (105,785)</u>	<u>(12,191)</u>

3. Financial cost

The details of the financial cost of the consolidated company are as follows:

	2019	2018
Interest expense	<u>\$ 22,711</u>	<u>18,468</u>

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(24) Remuneration for employees and directors, supervisors

In accordance with the Company's Articles of Incorporation, no less than 3% of the Company's annual profits shall be appropriated to the Compensation of Employees and no more than 3% to the Compensation of Directors and Supervisors; however, if the Company has accumulated losses, it shall retain the amount of compensation in advance and appropriate the Compensation of Employees and Supervisors in proportion to the aforementioned. The former Compensation of employees to whom stock or cash is issued may include employees of a subordinate company who meet certain criteria.

The estimated amount of compensation of employees for the years ended December 31, 2019 and 2018 was \$73,054,000 dollars and \$56,000,000 dollars respectively, and the estimated amount of compensation to directors and supervisors was \$4,480,000 dollars. The Company's Net profit before tax for the period is estimated by multiplying the amount of the Company's Net profit before issuing the compensation of employees and directors and supervisors by the proportion of the Company's compensation distribution to employees and directors and supervisors as provided in the Company's Articles of Incorporation, and is reported as operating costs or expenses for that period. If there is a difference between the actual distribution amount and the estimated amount for the following year, the change in accounting estimate is adjusted and the difference is recognized in profit or loss for the following year. In the event that the Board of Directors resolves to grant a compensation of employees by way of stock, the number of shares of stock-based compensation is calculated based on the closing price of the common stock on the day before the Board of Directors' resolution.

The actual allotment of compensation to employees, directors and supervisors for the year ended December 31, 2018 did not differ from the amount estimated in the Company's annual financial statements, and was paid in cash. The difference between the amount approved by the Board of Directors for the remuneration of employees, directors and supervisors in 2019 and the estimated amount in the individual financial statements in 2020 was \$46,000 dollars.

(25) Financial instruments and fair value information

1. Credit risk

(1) Credit risk exposure

The carrying amount of a financial asset represents the maximum amount of credit risk. The maximum amount of credit risk exposure was \$9,330,916,000 dollars and \$7,185,909,000 dollars as of December 31, 2019 and 2018 respectively.

(2) Credit risk concentration risk

The customers of the consolidated company are concentrated in the high-tech computer industry. In order to reduce the credit risk of accounts receivable, the

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consolidated company continuously evaluates the financial position of the customers and adjusts the transaction terms if necessary. The consolidated company on December 31, 2018, and in 2019, a single customer is more than 5% of the total accounts receivable, accounts receivable balance for five and three different customers, the consolidated company regularly assesses the possibility of accounts receivable collection and allowance for loss, and the total loss of total within the authorities expected.

(3) Impairment loss

The consolidated company for all notes receivable and accounts receivable adopts simplified approach to estimate the expected credit losses, i.e. using the term forecast credit losses measure, measure for this purpose, such as the notes receivable and accounts receivable department press on behalf of clients according to the terms of the contract to pay all amount due ability of credit risk characteristics shall be grouped together, and has set up into a forward-looking information. The expected credit loss analysis of notes receivable and accounts receivable of the consolidated company is as follows:

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	Dec. 31, 2019		
	Book value of notes and accounts receivable	Weighted average expected credit loss rate	Expected credit loss in the duration of provision
Not past due	\$ 5,558,158	0.02%	983
1-30 days past due	328,542	0.39%	1,327
31-60 days past due	79,760	0.67%	538
61-120 days past due	614	5.21%	32
121-180 days past due	381	13.91%	53
181-270 days past due	-	50.00%	-
271-365 days past due	50	94.00%	47
More than 365 days past due	5,612	100.00%	5,612
	<u>\$ 5,973,117</u>		<u>8,592</u>

	Dec. 31, 2018		
	Book value of notes and accounts receivable	Weighted average expected credit loss rate	Expected credit loss in the duration of provision
Not past due	\$ 4,996,416	0.03%	1,296
1-30 days past due	275,988	0.17%	467
31-60 days past due	35,081	1.10%	386
61-120 days past due	2,927	12.03%	352
121-180 days past due	28	25.00%	7
181-270 days past due	10	50.00%	5
271-365 days past due	519	97.88%	508
More than 365 days past due	5,544	100.00%	5,544
	<u>\$ 5,316,513</u>		<u>8,565</u>

The changes in the provisions for notes and accounts receivable of the consolidated company in 2019 and 2018 are as follows::

	2019	2018
Opening balance	\$ 8,565	5,669
Recognized impairment loss	460	2,932
Write-off in the period	(280)	-
Effects of exchange rate	(153)	(36)
Closing balance	<u>\$ 8,592</u>	<u>8,565</u>

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2. Liquidity risk

The contracts of financial liabilities are sorted by their maturity dates as follows. The estimated interests are included, but the effect of net value agreement is excluded.

	<u>Book Value</u>	<u>Contract Cash flow</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Dec. 31, 2019							
Non-derivative financial liabilities:							
Short-term loan	\$ 29,980	30,172	30,172	-	-	-	-
Notes payable	19,000	19,000	19,000	-	-	-	-
Accounts payable	1,885,062	1,885,062	1,885,062	-	-	-	-
Other payables	964,415	964,415	964,415	-	-	-	-
Lease liabilities	155,411	165,242	54,559	46,417	41,233	23,033	-
	<u>\$ 3,053,868</u>	<u>3,063,891</u>	<u>2,953,208</u>	<u>46,417</u>	<u>41,233</u>	<u>23,033</u>	<u>-</u>
Dec. 31, 2018							
Non-derivative financial liabilities:							
Short-term loan	\$ 919,643	925,206	785,736	139,470	-	-	-
Notes payable	45,396	45,396	45,396	-	-	-	-
Accounts payable	1,743,472	1,743,472	1,743,472	-	-	-	-
Other payables	830,541	830,541	830,541	-	-	-	-
	<u>\$ 3,539,052</u>	<u>3,544,615</u>	<u>3,405,145</u>	<u>139,470</u>	<u>-</u>	<u>-</u>	<u>-</u>

The consolidated company does not anticipate that the cash flows analyzed at maturity date will alter significantly or that the actual amounts will vary significantly.

3. Market risk - exchange rate risk

(1) Exposure to exchange rate risk

The consolidated company's financial assets and liabilities exposed to significant foreign currency exchange rate risk are as follows:

Dec. 31, 2019			
	<u>Foreign</u>	<u>Rate</u>	<u>TWD</u>
<u>Currency</u>			
<u>(Note)</u>			
Financial assets			
<u>Currency</u>			
USD	\$ 387,757	29.9800	11,624,983
RMB	173,383	4.2975	744,979
HKD	7,250	3.8490	27,904
JPY	83,529	0.2760	23,054
EURO	2,394	33.5900	80,425
INR	4	0.4791	2
VND	17,980	0.0012	22

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		<u>Dec. 31, 2019</u>		
		<u>Foreign</u>	<u>Rate</u>	<u>TWD</u>
		<u>Currency</u>		
		<u>(Note)</u>		
<u>Financial liabilities</u>				
<u>Currency</u>				
USD	\$	222,319	29.9800	6,665,126
RMB		37	4.2975	160
HKD		2,025	3.8490	7,793
JPY		23,878	0.2760	6,590
EURO		46	33.5900	1,531
MOP		1	3.8490	3
VND		14,361	0.0012	17
		<u>Dec. 31, 2018</u>		
		<u>Foreign</u>	<u>Rate</u>	<u>TWD</u>
		<u>Currency</u>		
		<u>(Note)</u>		
<u>Financial assets</u>				
<u>Currency</u>				
USD	\$	323,031	30.7150	9,921,912
RMB		97,695	4.4753	437,209
HKD		1,987	3.9210	7,790
JPY		10,135	0.2782	2,820
EURO		989	35.2000	34,809
<u>Financial liabilities</u>				
<u>Currency</u>				
USD	\$	185,973	30.7150	5,712,149
RMB		17	4.4753	76
HKD		2,204	3.9210	8,641
JPY		308	0.2782	86

Note: The foreign currencies denominated in the non-functional currencies of the consolidated entities include items that have been eliminated in the consolidated financial statements for inter-group transactions.

Because the Consolidated company has a wide range of functional currencies, it has adopted a consolidated approach to disclose exchange gain or loss on monetary items, with foreign currency exchange losses (realized and unrealized) of \$58,026,000

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dollars and gains of \$34,358,000 dollars for the years ended 2019 and 2018 respectively.

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(2) Sensitivity analysis

The Consolidated company's exchange rate risk primarily comes from foreign currency-denominated cash and cash equivalents, accounts receivable and other receivables, loans, accounts payable and other payables, resulting into gains and losses of conversion of foreign currency when exchanging. As of December 31, 2019 and 2018, if TWD had depreciated or appreciated by 1% relative to foreign currencies held by the Company and all other factors remained constant, net income would have increased or decreased by \$46,561,000 dollars and \$37,469,000 dollars respectively for 2019 and 2018. The same basis is used for both phases of analysis.

4. Market risk - changes in interest rates

The interest rate risk of the consolidated company mainly comes from the bank deposit and short-term loan of floating rate, so the interest rate change will cause the effective interest rate of bank deposit and short-term loan to change accordingly, and the future cash flow will fluctuate.

The following sensitivity analysis is based on the risk of interest rate shocks reported by financial instruments on the date of coverage. For floating rate liabilities, the analysis is based on the assumption that the reported amount of daily outstanding liabilities is current throughout the year. The rate of change used by the consolidated company in reporting interest rates to the main management is 1% up or down, which represents the management's assessment of the reasonable range of possible interest rate changes.

The Consolidated company's financial assets with variable interest rates at December 31, 2019 and 2018 were \$1,882,046,000 dollars and \$1,651,143,000 dollars respectively, and its financial liabilities were \$0 and \$919,643,000 dollars respectively. If interest rates had increased or decreased by 1%, the Consolidated company's net income would have increased or decreased by \$15,056,000 dollars and decreased or increased by \$5,852,000 dollars for 2018 and 2019, respectively, with all other variables held constant.

5. Market risk - fair value

(1) Fair value and carrying amount

The management of the consolidated company believes that non-derivative short-term financial instruments should be estimated at their fair value based on their book value on the balance sheet, and that their book value should be a reasonable basis for the estimated fair value because of the near maturity of such commodities. This method is applied to cash and equivalent cash, notes receivable and payable, accounts receivable and payable, other receivables and payables, deposit margin and short-term borrowings.

In addition to the above financial instruments, the fair value and book value information of the remaining financial instruments and investment real estate of the

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consolidated company on the financial reporting date are as follows:

	Dec. 31, 2019		Dec. 31, 2018	
	Book Value	Fair value	Book Value	Fair value
The parts measured at fair value:				
Financial assets:				
Financial assets measured at FVTPL - current	\$ 240,034	240,034	96,119	96,119
Financial assets measured at FVTOCI - current	6,438	6,438	22,541	22,541
Not measured at fair value:				
Non-financial assets:				
Investment property	283,002	322,604	242,495	282,694

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(2) The evaluation techniques used to determine fair value are as follows

A. When financial assets are quoted publicly in an active market, this market price is the fair value. When market prices are not available, estimates are made by reference to quoted counterparties or using valuation techniques. The estimates and assumptions used are consistent with the information used by market participants as estimates and assumptions in pricing financial instruments.

B. The fair value of investment properties is based on the evaluations of independent evaluators with recognized professional qualifications and recent experience in the area and type of investment properties evaluated.

(3) Fair value hierarchy

The following table analyzes the fair value hierarchy of financial instruments and investment property by valuation. Each fair value hierarchy is defined as follows:

A. Level 1: Publicly quoted prices (unadjusted) in an active market for identical assets or liabilities.

B. Level 2: Input parameters for an asset or liability are observable either directly (i.e., prices) or indirectly (i.e., derived from prices), except for publicly quoted prices included in Level 1.

Level 3: Input parameters for an asset or liability are not based on observable market information (non-observable parameters).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Dec. 31, 2019				
The parts measured at fair value:				
Financial assets measured at				
FVTPL	\$ 20,931	-	219,103	240,034
Financial assets measured at				
FVTOCI	-	-	6,438	6,438
	<u>\$ 20,931</u>	<u>-</u>	<u>225,541</u>	<u>246,472</u>
Not measured at fair value:				
Investment property	<u>\$ -</u>	<u>-</u>	<u>322,604</u>	<u>322,604</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Dec. 31, 2018				
The parts measured at fair value:				
Financial assets measured at	\$ 24,516	-	71,603	96,119

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FVTPL				
Financial assets measured at	-	10,000	12,541	22,541
FVTOCI - current				
	<u>\$ 24,516</u>	<u>10,000</u>	<u>84,144</u>	<u>118,660</u>
Not measured at fair value:				
Investment property	<u>\$ -</u>	<u>-</u>	<u>282,694</u>	<u>282,694</u>

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(4) Table of details of the changes in financial assets (liabilities) measured at fair value and classified into level 3

Unit: 1,000 TWD

2019							
Name	Opening balance	Profit and Losses		Increase		Decrease	Closing balance
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase	Transferred to level 3	Sales, disposal or clearing	
Financial assets measured at FVTPL	\$ 71,603	(9,461)	-	313,922	-	(156,961)	219,103
Financial assets measured at FVTOCI	12,541	-	(16,103)	-	10,000	-	6,438
	<u>\$ 84,144</u>	<u>(9,461)</u>	<u>(16,103)</u>	<u>313,922</u>	<u>10,000</u>	<u>(156,961)</u>	<u>225,541</u>

2018							
Name	Opening balance	Profit and Losses		Increase		Decrease	Closing balance
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase	Transferred to level 3	Sales, disposal or clearing	
Financial assets measured at FVTPL	\$ 106,100	(1,194)	-	601,820	-	(635,123)	71,603
	-	-	(2,459)	15,000	-	-	12,541
Financial assets measured at FVTOCI	-	-	-	-	-	-	-
Derivative financial assets for hedging	-	-	-	-	-	-	-
	<u>\$ 106,100</u>	<u>(1,194)</u>	<u>(2,459)</u>	<u>616,820</u>	<u>-</u>	<u>(635,123)</u>	<u>84,144</u>

For the years 2019 and 2018, unrealized gains or losses on assets held at the end of the reporting period amounted to \$411,000 dollars and \$466,000 dollars respectively.

(5) Quantitative information on the fair value measurement of significant non-observable input values (level 3)

The consolidated company through the profit and loss of fair value as the third level measured at the fair value of financial assets in 2019 and on December 31, 2018, are respectively \$219,103 thousand and \$71,603 million yuan, because there was no active market public offer reference and counterparties, and because in practice, it can't fully grasp the major unobservable input value and the fair value of the relationship, so it did not reveal the quantitative information. The quantitative information list of the other significant unobservable input values measured at fair value at third level is as follows:

Item	Valuation technique	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets measured at FVTOCI— investment in equity instruments with	Comparable Company Analysis	·The multiple of book-to-Market ratio 0.74-0.80 as of Dec. 31, 2019 and 1.19-1.21 as of Dec.	·The higher the multiple, the higher the fair value ·The higher the discount for lack

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no active market	31, 2018	of marketability, the lower the fair value
	·Discount for lack of marketability: 14.8%~16.8% as of Dec. 31, 2019 and Dec. 31, 2018	
"	Net asset value method	·Net asset value ·Positive correlation with fair value

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(6) The fair value is classified in the third level of the evaluation process

The fair value of the consolidated company is measured using the unobservable input value, which is classified as the third level. The input value of this level is based on the price provided by the counterparty quotation or the price-to-market ratio multiplier of the market comparable company, etc., and relevant quotation and evaluation data are properly kept. The evaluation results are then checked to ensure consistency with the evaluation sources and to ensure that the evaluation results are reasonable.

(7) The fair value measurement of the third level and the sensitivity analysis of the fair value to the reasonable alternative hypothesis

The fair value measurement of financial instruments by the consolidated company is reasonable, but different evaluation models or evaluation parameters may result in different evaluation results. For financial instruments classified as level 3, if the evaluation parameters change, the impact on current profits and losses or other comprehensive income is as follows:

		The change of fair value reflected in the profit or loss in the period		The change of fair value reflected in other comprehensive income	
Input	Rise or Drop	Favorable change	Adverse change	Favorable change	Adverse change
Dec. 31, 2019					
Financial assets measured at FVTOCI					
investment in equity instruments with no active market	The multiple of book-to-Market ratio	5%	-	-	171 (178)
	Discount for lack of marketability	1%	-	-	51 (58)
Dec. 31, 2018					
Financial assets measured at FVTOCI					
investment in equity instruments with no active market	The multiple of book-to-Market ratio	1%	-	-	114 (115)
	Discount for lack of marketability	1%	-	-	172 (115)

Favorable and unfavorable changes in the Consolidated company's fair value represent fluctuations in fair value, which is calculated by using a valuation technique based on unobservable input parameters of varying degrees. Where the fair value of a financial instrument is affected by more than one input, the above table only reflects the effect of changes in a single input and does not take into account correlation and variability between inputs.

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(26) Financial Risk Management

1. The Consolidated company is exposed to the following risks from the engagement of financial instruments:

(1) Credit risk

(2) Liquidity risk

(3) Market risk

This note presents the Consolidated company's risk information for each of these risks and the Consolidated company's objectives, policies and procedures for measuring and managing risk. For further quantitative disclosures, please refer to the respective notes to the consolidated financial statements.

2. Risk Management Structure

The Chairman has the sole responsibility for establishing and overseeing the Consolidated company's risk management structure and reports regularly to the Board on its operations.

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The Consolidated company's risk management policy is designed to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor compliance with the risks and risk limits. The Consolidated company develops a disciplined and constructive control environment through training, management guidelines and operating procedures to enable all employees to understand their roles and responsibilities.

The Board of Directors of the Consolidated company oversees how management monitors compliance with the Consolidated company's risk management policies and procedures and reviews the appropriateness of the Consolidated company's risk management framework in relation to the risks it is exposed to. Internal auditors assist the Consolidated company's Board of Directors in its oversight role. These personnel conduct regular and exceptional reviews of risk management controls and procedures and report the results of these reviews to the Board of Directors.

3. Credit risk

Credit risk is the risk of financial loss arising from the failure of the Consolidated company's customers or counterparties to fulfill their contractual obligations, mainly from the Company's accounts receivable from customers and investments in securities.

(1) Accounts receivable and other receivables

The Consolidated company's credit risk exposures are primarily depended on each customer's individual circumstances. However, management also considers statistical information about the Consolidated company's customer base, including the risk of default in the customer's industry and country, as these factors may affect credit risk. Approximately 78% and 85% of the Consolidated company's revenue for 2018 and 2019, respectively, were derived from sales to customers in Mainland China, which resulted in a significant concentration of regional credit risk.

The Consolidated company has established a credit policy whereby the Consolidated company is required to analyze the credit rating of each new customer individually before granting standard payment and delivery terms. Credit sales limits are established on an individual customer basis and are reviewed periodically; customers who do not meet the Group's benchmark credit rating may only transact business with the Consolidated company on a pre-collection basis.

In monitoring customers' credit risk, customers are grouped according to their credit characteristics, including whether they are individuals or legal entities, age of accounts, maturity dates and pre-existing financial difficulties. The Consolidated company maintains a Provisions account to reflect estimates of losses on accounts receivable and other receivables.

(2) Use of funds

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

The Consolidated company's investments in equity securities are placed through a centralized trading market and therefore have no significant credit transaction risk.

The credit risk of bank deposits, fixed income investments and other financial instruments is measured and reported to the Chairman of the Board of Directors by the Consolidated company's finance department. Since the Consolidated company's counterparties are creditworthy banks and financial institutions with investment grade or above, there are no significant performance concerns and therefore no significant credit risk.

4. Liquidity risk

Liquidity risk is the risk that the Consolidated company will not be able to deliver cash or other financial assets to settle its financial liabilities and will not be able to meet its related obligations. The Consolidated company's approach to manage liquidity risk is to ensure that the Consolidated company has sufficient liquidity to meet its liabilities as they fall due under normal and stressful circumstances and that there is no risk of unacceptable loss or damage to the Consolidated company's reputation. In addition, the Company has entered into unused borrowing lines totaling \$3,158,840,000 in 2019 to cover unanticipated payments.

5. Market risk

Market risk is the risk that changes in market prices, such as changes in exchange rates, interest rates, and prices of equity instruments, will affect the Consolidated company's revenue or the value of financial instruments held by the Consolidated company. The objective of market risk management is to manage the exposure to market risk to an acceptable level and to optimize investment returns.

The Consolidated company engages in derivative transactions in order to manage market risk. All transactions are executed in accordance with the guidelines of the Board of Directors.

(1) Exchange rate risk

The Consolidated company uses derivative transactions to hedge exchange rate risk due to its exposure to exchange rate risk arising from sales and purchase transactions that are not denominated in the Consolidated company's functional currency. Gains or losses on foreign currency assets and liabilities arising from changes in exchange rates are largely offset against natural hedges. Derivative transactions can help the Consolidated company reduce, but still not completely eliminate, the impact of changes in foreign currency exchange rates.

The Consolidated company periodically reviews individual foreign currency assets and liabilities for exposures and hedges against such exposures.

(2) Interest rate risk

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The Consolidated company's interest rate risk arises primarily from variable rate bank deposits and short-term borrowings, and changes in interest rates will cause future cash flows to fluctuate as the effective interest rates on bank deposits and short-term borrowings change.

(3) Equity instrument price risk

Changes in the price of equity securities at the reporting date (on the same basis for both periods and assuming no change in other factors) would have the following effects on the consolidated income statement:

	2019		2018	
<u>Security price as of the reporting date</u>	<u>Other comprehensive income after tax</u>	<u>Profit after tax</u>	<u>Other comprehensive income after tax</u>	<u>Profit after tax</u>
Increased by 1%	\$ 64	209	225	245
Decreased by 1%	\$ (64)	(209)	(225)	(245)

(27) Capital management

It is the Board's policy to maintain a sound capital base to maintain the confidence of investors, creditors and the market and to support the development of future operations. Capital consists of the Consolidated company's share capital, capital surplus and retained earnings. The Board of Directors controls the rate of return on capital and also controls the level of dividends on ordinary shares.

In order to maintain or adjust its capital structure, the Consolidated company may adjust dividends paid to shareholders, reduce capital to refund shareholders, issue new shares or sell assets to settle liabilities.

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The Consolidated company controls its capital on a debt-to-capital ratio basis. The ratio is calculated by dividing net debt by total capital. Net debt is total liabilities less cash and cash equivalents as shown on the balance sheet. Total capital represents all components of equity (i.e., equity, capital surplus, retained earnings and other equity) plus net debt. The debt-to-capital ratio at the reporting date is as follows:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Total liabilities	\$ 3,734,967	3,918,726
Less: Cash and cash equivalents	<u>(2,845,994)</u>	<u>(1,448,071)</u>
Net liabilities	<u>\$ 888,973</u>	<u>2,470,655</u>
Total equity	<u>\$ 12,545,225</u>	<u>9,871,482</u>
Debt-to-capital ratio	<u>6.62%</u>	<u>20.02%</u>

(28) Investment and fund raising activities for non-cash transactions

Please refer to Notes VI(8) and VI(13) for information on the consolidated company's non-cash trading investments and fundraising activities for Right-of-use assets acquired under leases during 2019.

The reconciliation of the consolidated company's liabilities from fundraising activities for the years ended December 31, 2019 and 2018 was as follows:

				<u>Non-cash change</u>		
	<u>2019.1.1</u>	<u>Cash flow</u>	<u>Other</u>	<u>Change in exchange rate</u>	<u>Change in fair value</u>	<u>Dec. 31, 2019</u>
Short-term loan	\$ 919,643	(890,590)	-	927	-	29,980
Lease liabilities	241,482	(115,118)	35,762	(6,715)	-	155,411
Total liabilities from financing activities	<u>\$ 1,161,125</u>	<u>(1,005,708)</u>	<u>35,762</u>	<u>(5,788)</u>	<u>-</u>	<u>185,391</u>

				<u>Non-cash change</u>		
	<u>2018.1.1</u>	<u>Cash flow</u>	<u>Other</u>	<u>Change in exchange rate</u>	<u>Change in fair value</u>	<u>Dec. 31, 2018</u>
Short-term loan	\$ 600,832	311,641	-	7,170	-	919,643
Total liabilities from financing activities	<u>\$ 600,832</u>	<u>311,641</u>	<u>-</u>	<u>7,170</u>	<u>-</u>	<u>919,643</u>

VII. Related party transactions

- (1) Parent company and ultimate controller: The Company is the ultimate controller of the Company and the Company's subsidiaries.
- (2) Names and relationships of related parties

The related parties with whom the Company had transactions during the period covered by these consolidated financial statements are as follows:

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
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Key management personnel	Including the directors, supervisors, managers and their families and spouses
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(3) Material transactions with the related parties

1. Lease

The Consolidated company leases warehouses from major management personnel and enters into one-year lease contracts with a total value of \$60,000,000 dollars with reference to the neighboring warehouse rental quotes (per year). For the year ended December 31, 2018, rent expense was \$60,000 dollars and there was no outstanding balance at December 31, 2018. The lease transaction was evaluated in accordance with IFRS 16 on January 1, 2019. The lease option was extended for one year and right-of-use assets of \$118,000 dollars and Lease liabilities of \$118,000 dollars were recognized, interest expense of \$1,000 dollars was recognized in 2018 and the balance of Lease liabilities as of December 31, 2019 was \$59,000 dollars.

In January 2018, the Consolidated company leased warehouses from related parties and entered into one-year leases with reference to the neighboring warehouses' rental quotes, with a total contract value of \$60,000 dollars. For the year ended December 31, 2018, rent expense was \$60,000 dollars and there was no outstanding balance at December 31, 2018.

(4) Major management personnel transaction

Related compensation includes:

	2019	2018
Short-term employee benefits	\$ 50,134	44,307
Post-employment benefits	865	867
Share-based payment	432	1,190
	<u>\$ 51,431</u>	<u>46,364</u>

VIII. Pledged assets

As of 2019 and December 31, 2018, property, plant and equipment to provide financial institutions of financing guarantee loan contracts have expired without a renewal, and they have receive a liquidation proof of the bank. However, the pledged note cancellation procedures have not yet been completed. The book value of the relevant land is \$28,250 thousand, and the book value of the housing construction is \$16,368 thousand and \$16,300 thousand respectively.

IX. Significant contingent liabilities and unrecognized contractual commitments

(1) Significant unrecognized contractual commitments:

As of December 31, 2019, The company's subsidiary, Lotes Zhongshan Co., Ltd., had signed and unpaid major plant construction contracts, with the value of approximately RMB 37,421 yuan.

The consolidated company had entered into outstanding information system related

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contracts as of December 31, 2019 for an amount of approximately \$43,050.

- (2) The issuance of guarantee notes for bank loans, financing lines and derivative financial commodity transactions:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Guaranteed notes	<u>\$ 2,358,960</u>	<u>2,304,320</u>

X. Significant Disaster Loss: None.

XI. Significant post-period events: None.

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XII. Others

- (1) Employee benefits, depreciation, depletion and amortization functions are summarized below:

By function By nature	2019			2018		
	Operation cost	Operation expense	Total	Operation cost	Operation expense	Total
Employee benefit expense						
Salaries expense	1,752,546	1,005,440	2,757,986	1,762,808	855,281	2,618,089
Labor insurance and health insurance expenses	312,817	113,169	425,986	324,911	99,078	423,989
Pension expense	312	9,713	10,025	333	9,720	10,053
Compensation of directors	-	5,584	5,584	-	4,457	4,457
Other employee benefit expenses	125,533	105,999	231,532	91,604	86,082	177,686
Depreciation expense	851,362	315,617	1,166,979	686,205	173,789	859,994
Amortization expense	1,087	12,747	13,834	518	7,890	8,408

XIII. Disclosing information

- (1) Major Transaction Details

In accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Company should disclose the following information about significant transactions in 2019:

1. Capital Lending to Others:

Unit: 1,000 TWD / 1,000 in foreign currency

No.	Lender	Borrower	Item	Related Party	Max Amount for the term	Balance at the end	Actual Lending Amount	Interest rate	Nature of the lending	Business Amount	Purpose for the lending	Allowance for bad debt	Collateral		Individual Limit (Note)	Overall limit (Note)
													Name	Value		
0	The Company	Lotes Guangzhou Co., Ltd	Intracompany transaction	Y	137,748 (RMB30,000)	128,925 (RMB30,000)	85,950	5%	2	-	Working Capital	-	None	-	2,363,065	4,726,130

Note: The amount of the Company's financing to a single party shall not exceed 20% of the Company's net worth.

The total amount of funds lent by the Company to others shall not exceed 40% of the Company's net worth.

2. Endorsement:

Unit: 1,000 TWD / 1,000 in foreign currency

	Endorsee															
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Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

No.	Name of the Company that provides the endorsement	Company Name	Relationship (Note 1)	Ceiling on amount of endorsement for a enterprise (Note 2)	Balance of the ceiling endorsement fee in the period	Ending balance of the endorsement fee	Amount actually used	Amount of endorsement backed by assets	Percentage of the accumulated amount of endorsement in the net value of current financial statement (%)	Ceiling on amount of endorsement (Note 2)	Endorsement made by parent company to subsidiary	Endorsement made by subsidiary to parent company	Endorsement made to any party in Mainland China
0	The Company	REKA Technology Co., Ltd.	2	2,363,065	35,000	35,000	-	-	0.30%	5,907,663	Y	N	N
0	"	Lotes Suzhou Co., Ltd	2	2,363,065	158,000 (USD5,000)	149,900 (USD5,000)	-	-	1.27%	5,907,663	"	"	Y
0	"	Lotes Guangzhou Co., Ltd and Lotes Suzhou Co., Ltd	2	2,363,065	474,000 (USD15,000)	449,700 (USD15,000)	-	-	3.81%	5,907,663	"	"	"
0	"	Lotes Guangzhou Co., Ltd	2	2,363,065	948,000 (USD30,000)	899,400 (USD30,000)	-	-	7.61%	5,907,663	"	"	"
0	"	Lintes Technology Co., Ltd.	2	2,363,065	100,000	-	-	-	0.00%	5,907,663	"	"	N
1	Lotes Group	REKA Technology Co., Ltd.	1	905,665	94,800 (USD3,000)	89,940 (USD3,000)	-	-	1.99%	2,264,164	N	"	"
2	Lintes Technology Co., Ltd.	Lintes Technology (Suzhou) Co., Ltd.	2	744,681	252,800 (USD8,000)	179,880 (USD6,000)	-	-	12.08%	1,489,363	"	"	Y

Note 1: There are seven types of relationship between the Endorser and Endorsee, which can be marked:

- (1) Companies with business dealings.
- (2) Companies in which the company directly and indirectly holds more than 50% of the voting rights.
- (3) Companies that hold more than 50% of the voting rights in the company, both directly and indirectly.
- (4) The Company owns, directly and indirectly, more than 90 percent of the voting shares.
- (5) Company that is mutually insured under a contract between its peers or co-manufacturers based on the need to perform the work.
- (6) Company in which all of the contributory shareholders have given their endorsement in proportion to their shareholding in the joint venture.
- (7) Intercompany performance guarantees and guarantees for pre-sale contracts in accordance with the Consumer Protection Act.

Note 2: (1) The amount of the Company's guarantee for a single corporate endorsement shall not exceed 20% of the net worth of the Company °

The aggregate amount of the Company's guarantees under external endorsement shall not exceed 50% of the net worth of the Company.

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(2) The amount of Lotes Guangzhou Co., Ltd.'s guarantee for a single corporate endorsement is limited to not more than 20% of the net worth of the company. °

The aggregate amount of Lotes Guangzhou Co., Ltd.'s external endorsement guarantees is limited to an amount not exceeding 50% of the Company's net worth.

(3) The amount of Lintex Technology Co., Ltd.'s guarantee for a single corporate endorsement is limited to not more than 50% of the net worth of the company.

The aggregate amount of Lintex Technology Co., Ltd.'s external endorsement guarantees is limited to an amount not exceeding 100% of the Company's net worth.

3. Securities Held at the End of Fiscal Period (excluding the equity of controlled by subsidiaries, affiliated companies, or joint company):

Unit: 1,000 TWD

Company which holds securities	Category and name of security	Relationship with the issuer of the security	Listed as	End of the fiscal period				Note
				Shares	Book Value	Shareholding proportion	Fair value	
"	Grand-Tek Technology Co., Ltd.	None	Financial assets measured at FVTPL - current	163,980	7,166	0.67 %	7,166	
"	APAQ Technology Co., Ltd.	"	"	345,000	13,765	0.41 %	13,765	
"	OtO Photonics Inc.	"	"	1,368,800	-	5.35 %	-	Note
"	Lucemitek Co., Ltd.	"	"	1,169,977	-	17.33 %	-	Note
"	Radinet Communications Inc.	"	"	600,000	-	18.37 %	-	Note
"	Kuang Ying Computer Equipment Co., Ltd.	"	Financial assets measured at FVTPL - current	1,500,000	4,507	5.73 %	4,507	
"	AICP Technology Corporation	"	"	400,000	1,931	5.33 %	1,931	

Note: All of them were recognized in losses.

4. The cumulative purchase or sale of the same securities amounted to at least NT\$300 million or 20% of the paid-in capital: None.

5. Acquisition of real property amounting to NT\$300 million or 20% or more of the paid-in capital:

Unit: 1,000 TWD

The company which acquired the property	Name of Asset	Date of occurrence	Amount of Transaction (Note 2)	Payment condition (Note 2)	Counterparty of transaction	Relationship	If the counterparty is a related party, the information of its previous transfer shall be provided				Reference for pricing	Purpose of the acquisition and the condition of use	Other agreed matters
							Owner	Relationship with the Issuer	Date of transfer	Amount			
Lotes Zhongshan Co., Ltd.	Plant (Note 1)	Oct. 2017 ~ Dec. 2019	782,965	622,147	Chongqing Chuangyou Construction Group, etc	None	-	-	-	-	Bidding	For the construction of a plant	None

Note 1: Build the factory by own contracting committee.

Note 2: The conversions were made at the exchange rates prevailing on the balance sheet date.

6. Disposal of real property amounting to NT\$300 million or 20% or more of paid-in capital: None.

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The amount of sales to or from related parties is at least \$100 million or 20% of the paid-in capital:

Unit: 1,000 TWD

The company which purchases (sells) products	Name of Transaction Counterparty	Relationship	Condition of Transaction				Situation and reason for the conditions of transaction to be different from the ordinary ones		Notes and accounts receivable (payable)		Remarks
			Purchase (sales)	Amount	Percentage in total goods purchased (sold)	Credit period	Unit Price	Credit period	Balance	Percentage in the notes and accounts receivable (payable)	
Xincheng Development Co., Ltd.	The Company	Subsidiary	Net revenue from the goods sold	1,268,540	95.40 %	settled by month at intervals of 90 days	-	No significant difference	211,482	89.14%	
"	Lotes Suzhou Co., Ltd	The surrogate parent company are the same parent company	Net expense from the goods purchased	1,329,762	100.00 %	"	-	"	(235,988)	100.00%	
REKA Technology Co., Ltd.	The Company	Subsidiary	Net revenue from the goods sold	6,889,368	74.57 %	"	-	"	2,045,852	59.16%	
"	Lotes Guangzhou Co., Ltd	The surrogate parent company are the same parent company	Net expense from the goods purchased	8,600,315	95.06 %	"	-	"	(1,529,888)	(47.64)%	
"	Shenzhen Deyi Automation Technology Co., Ltd.	"	Net revenue from the goods sold	186,915	2.02 %	"	-	"	57,618	1.67%	
"	Zongka Technology (Shenzhen) Co., Ltd.	"	Net revenue from the goods sold	484,499	5.24 %	"	-	"	279,910	8.09%	
"	Lotes Hengnan Co., Ltd.	"	Net expense from the goods purchased	412,163	4.56 %	"	-	"	(69,406)	(1.94)%	
"	"	"	Net revenue from the goods sold	188,008	2.03 %	"	-	"	62,237	2.01%	
Lotes Guangzhou Co., Ltd	REKA Technology Co., Ltd.	"	Net expense from the goods purchased	2,021,115	30.37 %	"	-	"	(383,871)	(32.23)%	
"	Lotes Hengnan Co., Ltd.	"	Net expense from the goods purchased	306,804	4.61 %	"	-	"	(23,620)	(1.98)%	
Lintes Technology (Suzhou) Co., Ltd.	Lintes Technology Co., Ltd.	Subsidiary	Net revenue from the goods sold	1,898,007	97.34 %	"	-	"	297,411	92.90%	
Lotes Hengnan Co., Ltd.	Zongka Technology (Shenzhen) Co., Ltd.	The surrogate	Net revenue from the goods sold	101,724	18.26 %	"	-	"	37,700	23.15%	

8. Amounts due from related parties amounting to at least NT\$100 million or 20% of paid-in capital:

Unit: 1,000 TWD

Related party with accounts receivable by the Company	Name of transaction counterparty	Relationship	Balance of receivables from the related party	Turnover Ratio	Past due receivables from the related party		Receivables from the related party Amount received after the period ended	Appropriated Allowance Amount of loss
					Amount	Solution		
Xincheng Development Co., Ltd.	The Company	Subsidiary	211,482	4.61	-		120,019	-
REKA Technology Co., Ltd.	"	"	2,045,852	3.77	-		1,214,382	-
"	Lotes Guangzhou	The surrogate parent	383,871	5.51	-		374,967	-

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	Co., Ltd	company are the same parent company						
"	Zongka Technology (Shenzhen) Co., Ltd.	"	279,910	2.10	-		90,369	-
Lotes Suzhou Co., Ltd	Xincheng Development Co., Ltd.	"	235,988	4.46	-		235,986	-
Good Hope Investments Limited	REKA Technology Co., Ltd.	Parent company	927,013	-	-		-	-
Lotes Guanghou Co., Ltd	"	The surrogate parent company are the same parent company	1,529,888	7.29	-		1,318,337	-
Lintes Technology (Suzhou) Co., Ltd.	Lintes Technology Co., Ltd.	Subsidiary	297,411	7.09	-		264,469	-

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9. Engagment in derivative transactions:

Unit: 1,000 TWD /1,000 in foreign currency

Company conducting transaction	Investment target	Transaction date	Maturity date	Contract period	Contract Price	Profit or loss from investment
The Company	Swap contract of metal products	Aug. 30, 2019	Oct. 1, 2019	32	USD 468	(876)
"	Swap contract of metal products	Aug. 30, 2019	Oct. 31, 2019	62	USD 470	(537)
"	Swap contract of metal products	Aug. 30, 2019	Nov. 29, 2019	91	USD 471	(1,041)
"	Forward exchange	Nov. 21, 2019	Dec. 23, 2019	32	USD 1,100	248
"	Forward exchange	Nov. 21, 2019	Dec. 31, 2019	40	USD 900	285

10. Business relationships and material transactions between parent and subsidiaries:

Business relationships and significant intercompany transactions for the year ended December 31, 2019:

Unit: 1,000 TWD

No.	Name	Transaction with	Relationship	Transaction in 2019			
				Subject	Amount	Term	Operating revenue Accounting for total assets
0	The Company	Ememe Robot Co., Ltd	1	Other income	162	Same as other transactions	-%
0	"	"	1	Accounts receivable	2,982	"	0.02%
0	"	"	1	Administration fee	3	"	-%
0	"	"	1	Other accounts receivable	2,272	"	0.01%
0	"	Lintes Technology Co., Ltd.	1	Other income	258	"	-%
0	"	"	1	Net revenue from the goods sold	118	"	-%
0	"	"	1	Net expense from the goods purchased	13,798	"	0.09%
0	"	"	1	Accounts payable	7,063	"	0.04%
0	"	"	1	Other accounts receivable	165	"	-%
0	"	Jiayu Investment Co., Ltd.	1	Other income	34	"	-%
0	"	LOTES USA, INC.	1	Administration fee	22,006	"	0.15%
0	"	"	1	Other accounts receivable	169	"	-%
0	"	LOTES EU GmbH	1	Administration fee	6,271	"	0.04%
0	"	"	1	Other payables	3,017	"	0.02%
0	"	Xincheng Development Co., Ltd.	1	Accounts payable	211,482	"	1.30%
0	"	"	1	Net expense from the goods purchased	1,268,540	"	8.41%
0	"	"	1	Other payables	65	"	-%
0	"	"	1	Selling expenses	185	"	-%
0	"	REKA Technology Co., Ltd.	1	Accounts receivable	12,129	"	0.07%
0	"	"	1	Accounts payable	2,045,852	"	12.55%
0	"	"	1	Sale of fixed assets	427	"	-%
0	"	"	1	Net expense from the goods purchased	6,889,368	"	45.66%
0	"	"	1	Sales Revenue	26,949	"	0.18%
0	"	"	1	Other accounts receivable	652	"	-%
0	"	"	1	Other payables	2,756	"	0.02%
0	"	"	1	Other income	701	"	-%
0	"	Lotes Guanghou Co., Ltd	1	Other accounts receivable	86,308	"	0.53%
0	"	"	1	Interest income	1,444	"	-%
0	"	Compertum Microsystems Inc.	1	Other income	7	"	-%
0	"	"	1	Other accounts receivable	215	"	-%
0	"	Lotes Suzhou Co., Ltd	1	Sales Revenue	18	"	-%
0	"	"	1	Accounts receivable	18	"	-%

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1	Lotes Guanghou Co., Ltd	REKA Technology Co., Ltd.	3	Accounts receivable	1,529,888	Same as others	9.39%
1	"	"	3	Accounts payable	383,871	"	2.36%
1	"	"	3	Purchasing for the term	2,021,115	"	13.39%
1	"	"	3	Sales Revenue	8,600,135	"	57.00%
1	"	"	3	Other accounts receivable	19,950	"	0.12%
1	"	"	3	Other payables	4,538	"	0.03%
			3	Purchasing fixed assets	14,427		0.10%
1	"	Lotes Suzhou Co., Ltd	3	Sales Revenue	5,582	"	0.04%
1	"	"	3	Purchasing for the term	5,188	"	0.03%
1	"	"	3	Accounts receivable	2,544	"	0.02%
1	"	"	3	Accounts payable	1,401	"	-%
1	"	Lotes Hengnan Co., Ltd.	3	Mold purchasing	306,804	"	2.03%
1	"	"	3	Accounts receivable	100	"	-%
1	"	"	3	Accounts payable	23,620	"	0.14%
1	"	"	3	Sale of fixed assets	4,871	"	-%
1	"	"	3	Sales Revenue	305	"	-%
1	"	Zongka Technology (Shenzhen) Co., Ltd.	3	Administration fee	710	"	-%
1	"	"	3	Accounts receivable	696	"	-%
1	"	"	3	Accounts payable	78	"	-%
1	"	"	3	Other accounts receivable	17	"	-%
1	"	"	3	Purchasing for the term	574	"	-%
.	"	"	3	Sales Revenue	2,215	"	0.01%
1	"	"	3	Other income	203	"	-%
1	"	Shenzhen Deyi Automation Technology Co., Ltd.	3	Accounts receivable	826	"	-%
1	"	"	3	Accounts payable	314	"	-%
1	"	"	3	Other accounts receivable	13	"	-%
1	"	"	3	Sales Revenue	8,811	"	0.06%
1	"	"	3	Purchasing for the term	479	"	-%
1	"	"	3	Other income	146	"	-%
1	"	Lintes Technology (Suzhou) Co., Ltd.	3	Sales Revenue	87,675	"	0.58%
1	"	"	3	Accounts receivable	34,765	"	0.21%
1	"	Lotes Zhongshan Co., Ltd	3	Other accounts receivable	2,634	"	0.02%
		"	3	Purchasing for the term	33,354		0.22%
		"	3	Accounts payable	36,125		0.22%
1	"	Guangzhou Leside Technology Co., Ltd.	3	Accounts receivable	292	"	-%
1	"	"	3	Other accounts receivable	11	"	-%
1	"	"	3	Sales Revenue	323	"	-%
1	"	"	3	Other income	100	"	-%
2	Lotes Suzhou Co., Ltd	Xincheng Development Co., Ltd.	3	Sales Revenue	1,329,762	"	8.81%
2	"	"	3	Accounts receivable	235,988	"	1.45%
2	"	"	3	Accounts payable	2,323	"	0.01%
2	"	"	3	Purchasing for the term	3,454	"	0.02%
2	"	Zongka Technology (Shenzhen) Co., Ltd.	3	Sales Revenue	20,562	"	0.14%
2	"	"	3	Accounts receivable	8,248	"	0.05%
2	"	Lintes Technology (Suzhou) Co., Ltd.	3	Sales Revenue	17,998	"	0.12%
2	"	"	3	Purchasing for the term	2,030	"	0.01%
2	"	"	3	Accounts payable	497	"	-%
2	"	"	3	Other accounts receivable	3,477	"	0.02%
2	"	"	3	Accounts receivable	9,434	"	0.06%

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2	Lotes Suzhou Co., Ltd	Lintes Technology (Suzhou) Co., Ltd.	3	Other income	9,315	與一般交易相同	0.06%
2	"	"	3	Sale of fixed assets	3,319	"	-%
2	"	Shenzhen Deyi Automation Technology Co., Ltd.	3	Sales Revenue	43,522	"	0.29%
2	"	"	3	Purchasing for the term	1,195	"	-%
2	"	"	3	Accounts receivable	19,865	"	0.12%
2	"	Lintes Technology Co., Ltd.	3	Purchasing for the term	32	"	-%
3	REKA Technology Co., Ltd.	Xincheng Development Co., Ltd.	3	Purchasing for the term	58,582	"	0.39%
3	"	"	3	Accounts payable	23,371	"	0.14%
3	"	Zongka Technology (Shenzhen) Co., Ltd.	3	Sales Revenue	484,499	"	3.21%
3	"	"	3	Purchasing for the term	10,810	"	0.07%
3	"	"	3	Accounts receivable	279,910	"	1.72%
3	"	"	3	Accounts payable	412	"	-%
3	"	Good Hope Investments Limited	3	Accounts payable	927,013	"	5.69%
3	"	Ememe Robot Co., Ltd	3	Accounts receivable	8,420	"	0.05%
3	"	Lotes Hengnan Co., Ltd.	3	Sales Revenue	188,008	"	1.25%
3	"	"	3	Accounts receivable	62,237	"	0.38%
3	"	"	3	Purchasing for the term	412,163	"	2.73%
3	"	"	3	Accounts payable	69,406	"	0.43%
3	"	Shenzhen Deyi Automation Technology Co., Ltd.	3	Sales Revenue	186,915	"	1.24%
3	"	"	3	Accounts receivable	57,618	"	0.35%
3	"	Lotes Zhongshan Co., Ltd	3	Sales Revenue	80,541	"	0.53%
3	"	"	3	Account receivable	84,662	"	0.52%
4	Lotes Hengnan Co., Ltd.	Shenzhen Deyi Automation Technology Co., Ltd.	3	Sales Revenue	16,973	"	0.11%
4	"	"	3	Accounts receivable	6,975	"	0.04%
4	"	Zongka Technology (Shenzhen) Co., Ltd.	3	Sales Revenue	101,724	"	0.67%
4	"	"	3	Accounts receivable	37,700	"	0.23%
4	"	Lotes Suzhou Co., Ltd	3	Sales Revenue	24,336	"	0.15%
4	"	"	3	Purchasing for the term	135	"	-%
4	"	"	3	Accounts payable	146	"	-%
4	"	"	3	Accounts receivable	1,462	"	-%
4	"	Lotes Zhongshan Co., Ltd	3	Sales Revenue	19,858	"	0.13%
4	"	"	3	Accounts receivable	21,508	"	0.13%
5	Lintes Technology (Suzhou) Co., Ltd.	Lintes Technology Co., Ltd.	3	Sales Revenue	1,898,007	"	12.58%
5	"	"	3	Accounts payable	6,752	"	0.04%
5	"	"	3	Accounts receivable	297,411	"	1.82%
6	Zongka Technology (Shenzhen) Co., Ltd.	Shenzhen Deyi Automation Technology Co., Ltd.	3	Purchasing for the term	12	"	-%
6	"	"	3	Sales Revenue	1,533	"	0.01%
6	"	Lotes Zhongshan Co., Ltd	3	Purchasing for the term	72,484	"	0.48%
6	"	"	3	Accounts payable	78,505	"	0.48%

Note 1: The number should be filled in as follows:

1.0 refer to parent company

2.Subsidiaries are numbered by company, starting with the Arabic numeral 1.

Note 2:The type of relationship with the counterparty is indicated below:

1.Parent company to subsidiaries

2. Subsidiaries to parent company

3.Subsidiaries to subsidiaries

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(2) Information on Reinvestment Business:

Information on the Company's investees in 2019 was as follows (excluding investees in China):

Unit: 1,000 TWD

Name of the company investing	Name of investee company	Location	Main business	Initial investment amount (Note 1)		Shares held at the end of the fiscal period			Gain/loss of investee company in the fiscal period	Gain/loss in the investment recognized in the fiscal period	Remarks
				End of this period	End of the previous year	Shares	Percentage	Book Value			
The Company	Lotes Investment Ltd.	Samoa	Holding and investment businesses	780,979	800,126	26,050,000	100.00%	4,392,104	805,171	783,455	Note 2
"	Good Hope Investments Limited	"	"	12,030	12,325	401,281	100.00%	1,537,963	35,733	35,733	
"	Guansi Development Co., Ltd.	"	"	600,092	614,805	20,016,426	100.00%	1,902,509	227,196	220,478	Note 2
"	Zhaxi Investment Co., Ltd.	Anguilla, British West	"	14,990	15,358	500,000	100.00%	111,720	13,707	13,707	
"	Jiayu Investment Co., Ltd.	4F, No. 15, Wuxun St., Anle Dist., Keelung City	General investment	690,000	690,000	69,000,000	100.00%	876,828	103,213	103,334	
The Company	Lotes USA, Inc.	888 SW 5TH AVE 800 PORTLAND OR 97204	Market development	74,950	76,788	2,500,000	100.00%	48,441	(7,389)	(7,389)	
"	LOTES EU GmbH	Ulmenstrabe 23-25, 60325 Frankfurt am Main, Hong Kong	Market development	3,359	3,520	100,000	100.00%	3,711	2,008	2,008	
Lotes Investment Ltd.	Loteson International Investments Limited	Hong Kong	Holding and investment businesses	780,979	800,126	26,050,000	100.00%	4,528,344	805,171	805,171	
Good Hope Investments Limited	Xincheng Development Co., Ltd.	Samoa	Telecommunication services and sales of connectors for consumer electronics industry	2,998	3,072	100,000	100.00%	1,737	(38)	(38)	
"	REKA Technology Co., Ltd.	Unit 51 51F Tower 1 Silvercord Canton RD Tsimshatsui	Telecommunication services and sales of connectors for consumer electronics industry	3,036	3,111	101,281	100.00%	609,188	35,771	35,771	
Guansi Development Co., Ltd.	Jae You Co., Ltd.	Hong Kong	Holding and investment businesses	600,102	614,815	20,016,756	100.00%	1,919,200	227,196	227,196	
Zhaxi Investment Co., Ltd.	Wangden Investments Limited (HK)	Hong Kong	Holding and investment businesses	14,990	15,358	500,000	100.00%	111,720	13,707	13,707	
Jiayu Investment Co., Ltd.	Ememe Robot Co., Ltd	New Taipei City	Electric Appliance and Audiovisual Electric Products Manufacturing	69,600	69,600	6,960,000	94.37%	(5,085)	653	616	
"	Compertum Microsystems Inc.	New Taipei City	Electronic Parts and Components Manufacturing	13,164	-	1,316,400	46.74%	12,935	(489)	(229)	
"	Lintes Technology Co., Ltd.	New Taipei City	Electronic Parts, Components, Electrical Machinery, Supplies Manufacturing	486,926	487,426	29,712,788	52.13%	778,420	156,114	94,931	Note 2
Lintes Technology Co., Ltd.	Pure Fortune Limited	Samoa	Sales of connectors for telecommunication industry and for consumer electronics industry	-	3,809	-	-%	-	-	-	
"	Jilong Co., Ltd.	Samoa	Holding and investment businesses	148,401	152,039	4,950,000	100.00%	169,589	51,537	39,325	Note 2
Jilong Co., Ltd.	Rihui Co., Ltd.	Samoa	Holding and investment businesses	148,401	152,039	4,950,000	100.00%	169,589	51,537	39,325	Note 2

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Note 1: The original investment amount was converted into New Taiwan dollars using the exchange rate at the balance sheet date.

Lotes Co., Ltd. and Its Subsidiaries Consolidated Financial Statement

Note 2: Investment income recognized in the current period includes adjustments for unrealized gains or losses on intercompany transactions.

(3) Investment in Chiese Company:

1. Names of investee companies in Mainland China, major business activities, and other related information:

Unit: 1,000 TWD

Name of investee company in Mainland China	Main business	Paid-in capital (Note 3)	Method of investment (Note 1)	Accumulated investment amount remitted from Taiwan at the beginning of the fiscal period (Note 3)	Amount remitted or retrieved		Accumulated investment amount remitted from Taiwan at the end of the fiscal period (Note 3)	Gain/loss of investee company in the fiscal period	Shareholding Ratio	Gain/loss in investment recognized in the fiscal period (Note 2)	Carrying amount of investment at the end of the fiscal period	Investment income remitted back to Taiwan by the end of the fiscal period
					Remittance	Retrieved						
Lotes Guangzhou Co., Ltd	Manufacturing connectors for telecommunication industry and for consumer electronics industry	800,466	(2)	764,490	-	-	764,490	805,171	100.00%	783,454	4,392,083	-
Lotes Suzhou Co., Ltd	Manufacturing connectors for telecommunication industry and for consumer electronics industry	599,277	(2)	599,277	-	-	599,277	227,196	100.00%	220,478	1,902,452	-
Zongka Technology (Shenzhen) Co., Ltd	R&D of electronics, import and export of raw materials of plastic products and plastic products	14,990	(2)	14,990	-	-	14,990	13,707	100.00%	13,707	111,720	-
Lotes Hengnan Co., Ltd.	Manufacturing connectors for telecommunication industry and for consumer electronics industry	371,734	(3)	-	-	-	-	61,701	100.00%	54,337	503,491	-
Lintes Technology (Suzhou) Co., Ltd.	Development and production of the measurement instruments for optical communication, optical transceivers of 10GB/s or above and relevant technical support	148,401	(2)	148,401	-	-	148,401	79,014	52.13%	34,822	107,047	-
Shenzhen Deyi Automation Technology Co., Ltd.	Manufacturing of robotic arms, automation equipment and relevant components	107,438	(3)	-	-	-	-	23,766	100.00%	23,766	76,572	-
Lotes Zhongshan Co., Ltd	Manufacturing connectors for telecommunication industry and for consumer electronics industry, and Manufacturing of robotic arms, automation equipment and relevant components	1,031,400	(3)	-	-	-	-	(25,563)	100.00%	(25,563)	1,006,897	-
Zhongshan Dezhi Metal Surface Treatment Co., Ltd.	Surface treatment of metal products and plastic products	15,041	(3)	-	-	-	-	-	100.00%	-	15,041	-
Hengnan Deyi Property Development Co., Ltd.	Development of real estate, lease of premises, landscape design and interior decorating	98,843	(3)	-	-	-	-	(5)	100.00%	(5)	98,838	-
Guangzhou Leside Technology Co., Ltd.	Research, testing and development	3,008	(3)	-	-	-	-	(1,743)	100.00%	(1,743)	1,338	-
Chongqing Fuxinrui Electronic Technology Co., Ltd.	R&D and sales of electronic components, automobile components and accessories, computers and accessories, development of molds and the import and export of goods and technologies	2,579	(3)	-	-	-	-	(1,085)	51.00%	(553)	785	-

Note 1: There are six types of investments:

- (1) Investment in Chinese Corporation via Third Region Remittance.
- (2) Establishment of a company to reinvest in a continental company through a third regional investment.
- (3) Reinvest in Chinese companies by re-investing in existing companies in third regions.
- (4) Direct Investment
- (5) Others.
- (6) NA.

Note 2: The investment gain or loss recognized in the current period has been reconciled with the unrealized gain or loss from intercompany transactions.

Note 3: The balance sheet date exchange rates are used to translate the paid-in capital and remittance of cumulative investment amounts into New Taiwan dollars. °

2. Investment ceiling in Mainland China:

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Name	Accumulated amount remitted from Taiwan at the end of the fiscal period for investment in Mainland China (Note 1)	Investment amount approved by Investment Commission, MoEA (Note 1)	Investment ceiling in Mainland China according to the regulations made by Investment Commission, MoEA
Lotes Co., Ltd.	1,378,757,000	1,524,374,000	7,089,196,000
Lintes Technology Co., Ltd.	148,401,000	148,401,000	893,618,000

Note 1: The conversions to NTD were made at the exchange rates prevailing on the balance sheet date.

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3. Significant transactions with the investee companies in China:

Please refer to the "Significant Transactions" and "Business relationship and significant transactions between the Company and its subsidiaries" for details of the significant transactions between the Company and its investee companies in Mainland China, directly or indirectly, in 2019.

XIV. Segmental Information

(1) General Information

The company's main business is the trading of various hardware and tool parts, the manufacturing, processing and trading of various terminals and their finished connectors, the import and export trade of the preceding items, and the agency of the preceding items related to domestic and foreign manufacturers' products in the tender quotation and distribution business.

(2) Information on reportable segment profit or loss, assets, liabilities and their measurement basis and reconciliation

The Consolidated company's major decisions are based on the performance appraisal and resource allocation by the production regions. After analysis, the two regions meet the conditions of consolidation into a single operating segment, therefore the Consolidated company as a whole is a single operating segment, and the information of segment profit or loss, segment assets and segment liabilities are consistent with the financial statements.

(3) Product and Labor Provision Information

The Consolidated company's revenue information from external customers is as follows:

Product and Labor Provision	2019	2018
A Product	\$ 1,611,960	1,336,332
B Product	1,359,464	1,240,513
C Product	931,970	939,505
D Product	219,055	937,843
Others	10,966,423	8,857,325
Total	\$ 15,088,872	13,311,518

(4) Geographical Information

The Consolidated company's geographical information is shown below, where revenue is classified based on the geographic location of customers and non-current assets are classified based on the geographic location of assets.

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Area	2019	2018
External client revenue:		
Taiwan	\$ 717,666	344,516
China	11,784,445	11,343,502
Other countries	2,586,761	1,623,500
Total	<u><u>\$ 15,088,872</u></u>	<u><u>13,311,518</u></u>

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<u>Area</u>	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Non-current assets:		
Taiwan	\$ 438,067	382,839
China	<u>4,231,565</u>	<u>3,742,458</u>
	<u>\$ 4,669,632</u>	<u>4,125,297</u>

Non-current assets include Property, plant and equipment, Right-of-use assets, Investment property, tangible assets and other assets, but do not include financial instruments, deferred income tax assets, and retirement benefit assets.