

Lotes Co., Ltd. and its Subsidiaries
Consolidated Financial Statements and
Accountant's Review Report
First Quarter 2020 and First Quarter 2019

Notice to Readers

For the convenience of readers, the Consolidated Financial Statements and Accountant's Review Report 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 financial statements shall prevail.

Address: No. 15, Wuxun St., Anle Dist., Keelung City 204
Telephone: (02)2433 1110

Table of Contents

Contents	Page
I. Cover page	1
II. Table of Content	2
III. Independent Auditor's Report	3
IV. Consolidated Balance Sheet	4
V. Consolidated Statement of Comprehensive Income	5
VI. Consolidated Statement of Changes in Equity	6
VII. Consolidated Statement of Cash Flows	7
VIII. Notes to the Consolidated Financial Statements	
(I) Company History	8
(II) Date and Procedures of Approval of Financial Statement	8
(III) Application of New and Revised Standards and Interpretations	8~9
(IV) Summary of Major Accounting Policies	9~12
(V) Primary Sources of Major Accounting Judgment, Estimate and Assumption Uncertainties	12
(VI) Descriptions for Important Accounting Items	12~40
(VII) Related Party Transactions	40~41
(VIII) Pledged Assets	41
(IX) Significant Contingent Liabilities and Unrecognized Contractual Commitments	41
(X) Significant Disaster Loss	41
(XI) Significant Post-period Events	41
(XII) Others	42
(XIII) Disclosing Information	
(1) Major Transaction Details	42~48
(2) Information on Reinvestment Business	49
(3) Investment in Chinese Company	50~51
(4) Principal Shareholder Information	51
(XIV) Segmental Information	52

Independent Auditor's Review Report

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

Foreword

We have reviewed the Consolidated Balance Sheet of Lotes Co., Ltd. and its subsidiaries as of March 31, 2020 and 2019, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the three months ended March 31, 2020 and 2019, and the Notes to the Consolidated Financial Statements (including important accounting policies summary). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express an conclusion on these consolidated financial statements based on our reviews.

Scope

We conducted our reviews in accordance with Statements on Auditing Standards No. 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of inquiries (primarily of persons responsible for financial and accounting matters), analytical procedures and other review procedures. A review is substantially less in scope than an audit, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Lotes Co., Ltd. and its subsidiaries as of March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

KPMG Taiwan

CPAs:

Competent : CHIN-KUAN-CHENG-SHEN
Authority of TZU No. 1000011652
Securities (88) TAI-TSAI-CHENG (VI)
Approval No. 18311
Certificate No
May 11, 2020

Unit: 1,000 TWD

4

Reviewed only, not audited in accordance with GAAS

Lotes Co., Ltd. and its Subsidiaries

Consolidated Statement of Comprehensive Income

For the Three Months Ended March 31, 2020 and 2019

Unit: 1,000 TWD

		For the Three Months Ended March 31,			
		2020		2019	
		Amount	%	Amount	%
4000	Operating revenue (Note VI (XIII), (XXI))	\$ 3,136,840	100	3,252,879	100
5000	Operating cost (Note VI (IV), (IX) and XII)	2,014,402	64	2,239,369	69
	Gross profit	1,122,438	36	1,013,510	31
	Operating expense (Note VI (IX), (XII), (XV), (XXIV), VII and XII) :				
6100	Selling Expenses	117,945	4	129,777	4
6200	Administration Expenses	245,322	8	254,565	8
6300	R&D expenses	289,752	9	232,898	7
6450	Losses from expected credit impairment	1,675	-	293	-
	Total operating expenses	654,694	21	617,533	19
	Net operating profit	467,744	15	395,977	12
	Non-operating income/expenses (Note VI (XXII)) :				
7010	Other income	43,156	1	62,171	2
7020	Other gains and/or losses	28,917	1	(29,735)	(1)
7050	Financial costs	(2,592)	-	(7,866)	-
7055	Profit from expected credit impairment	2,506	-	73	-
	Total of non-operating income and expenses	71,987	2	24,643	1
	Net profit before tax from continuing operations	539,731	17	420,620	13
7950	Less: Income tax expenses (Note VI (XVII))	107,607	3	88,888	3
	Net profit in the year	432,124	14	331,732	10
8300	Other comprehensive income:				
8310	Items that may not be reclassified subsequently to profit or loss:				
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(2,692)	-	4,409	-
8349	Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	Total of items that will not be reclassified to profit or loss	(2,692)	-	4,409	-
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange difference between foreign operating office's statement	(38,096)	(1)	140,127	4
8399	Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Total of items that may be reclassified to profit or loss	(38,096)	(1)	140,127	4
8300	Other comprehensive gain/loss (net amount after tax)	(40,788)	(1)	144,536	4
	Comprehensive gain/loss	\$ 391,336	13	476,268	14
	Net profit attributable to:				
8610	Owner of parent company	412,898	13	317,374	10
8620	Non-control equity	19,226	1	14,358	-
		432,124	14	331,732	10
	Comprehensive income attributable to:				
8710	Owner of parent company	373,401	12	460,605	14
8720	Non-control equity	17,935	1	15,663	-
		391,336	13	476,268	14
	Basic earnings per share (Unit: TWD) (Note VI (XX))	\$ 3.99		3.10	
	Diluted earnings per share (Unit: TWD) (Note VI (XX))	\$ 3.98		3.09	

Reviewed only, not audited in accordance with GAAS
Lotes Co., Ltd. and its Subsidiaries
Consolidated Statement of Changes in Equity
For the Three Months Ended March 31, 2020 and 2019

Unit: 1,000 TWD

	Equity allocated to the owner of the parent company										
	Share capital						Other equity items				
	Share capital		Retained earnings				Exchange difference between foreign operating office's statement	Unrealized gain or loss on Financial assets measured at FVTOCI	Total equity attributable to owners of the parent	Non-control equity	Total equity
	Ordinary share capital	Share capital received in advance	Capital reserves	Legal reserve	Special reserve	Undistributed earnings					
Balance on Jan. 1, 2019	\$ 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	-	-	-	-	-	317,374	-	-	317,374	14,358	331,732
Other comprehensive income	-	-	-	-	-	-	138,822	4,409	143,231	1,305	144,536
Total of comprehensive income	-	-	-	-	-	317,374	138,822	4,409	460,605	15,663	476,268
Cash capital increase	100,000	(125,638)	1,300,000	-	-	-	-	-	1,274,362	-	1,274,362
Increment/deduction of non-control equity	-	-	-	-	-	-	-	-	-	1,352	1,352
Balance on March 31, 2019	\$ 1,034,779	-	3,766,109	931,082	255,202	5,427,742	(175,739)	1,950	11,241,125	382,339	11,623,464
Balance on Jan. 1, 2020	\$ 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
Net income	-	-	-	-	-	412,898	-	-	412,898	19,226	432,124
Other comprehensive income	-	-	-	-	-	-	(36,805)	(2,692)	(39,497)	(1,291)	(40,788)
Total of comprehensive income	-	-	-	-	-	412,898	(36,805)	(2,692)	373,401	17,935	391,336
Increment/deduction of non-control equity	-	-	-	-	-	-	-	-	-	18,282	18,282
Balance on March 31, 2020	\$ 1,034,779	-	3,959,560	1,091,939	317,020	6,475,458	(668,775)	(21,254)	12,188,727	766,116	12,954,843

Reviewed only, not audited in accordance with GAAS
Lotes Co., Ltd. and its Subsidiaries
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2020 and 2019

Unit: 1,000 TWD

	<u>For the Three Months Ended March 31,</u>	
	2020	2019
Net cash flow from operating activities:		
Net profit before tax	\$ 539,731	420,620
Items of adjustment:		
Income and expenses		
Depreciation expense	274,145	367,389
Amortization expense	3,282	3,232
Expected credit losses (gains)	(831)	220
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	7,694	(663)
Depreciation expense	2,592	7,866
Amortization expense	(8,405)	(6,872)
Disposition of Property, plant and equipment	303	9,028
Losses on the price fall and scraping of inventory	18,760	24,876
Total income and expenses	297,540	405,076
Change in assets/liabilities related to operating activities:		
Net change in operating assets:		
Loss (gain) of receivable notes	(4,740)	10,883
Decrease in accounts receivable	621,939	481,587
Decrease in other accounts receivable	15,156	183
Decrease in inventory	22,118	166,110
Increase in payments in advance	(2,492)	(42,639)
Decrease (increase) in other current assets	(3,261)	2,471
Increase in Other financial assets	-	(3,048)
Total net change in operating assets	648,720	615,547
Net change in operating liabilities:		
Increase (decrease) in contract liabilities	420	(3,273)
Decrease in notes payable	(4,266)	(37,959)
Decrease in accounts payable	(229,861)	(180,892)
Other increase (decrease) in accounts payable	(31,554)	46,823
Increase (decrease) in provisions	(9)	11
Decrease in Other current liabilities	(6,282)	(11,892)
Increase in refund liabilities	15,304	7,898
Increase in other non-current liabilities	223	254
Total net change in operating liabilities	(256,025)	(179,030)
Total net changes in operating assets and liabilities	392,695	436,517
Total adjustments	690,235	841,593
Cash in flow generated by operating activities	1,229,966	1,262,213
Interests received	7,837	15,844
Paid interests	(2,655)	(8,611)
Income tax paid	(117,714)	(69,918)
Net cash inflow from operating activities	1,117,434	1,199,528
Net cash flow in investing activities:		
Acquisition of financial assets measured at FVTPL	219,003	71,603
Acquisition of real estate, plant and equipment	(240,003)	(517,470)
Disposition of Property, plant and equipment	21,440	2,255
Increase in intangible assets	(21,404)	(22,718)
Increase in other non-current liabilities	(79,890)	(43,598)
Cash flow of investment activities (Outflow)	(100,854)	(509,928)
Cash flows in fundraising activities:		
Loss of short-term loan	(29,980)	(688,503)
Repayment of lease principal	(29,505)	(24,791)
Cash capital increase	-	1,274,362
Variance of non-control equity	18,282	1,352
Net cash inflow (outflow) in financing activities	(41,203)	562,420
Change of exchange rate effecting cash and cash equivalents	(38,096)	140,127
Increase of cash and cash equivalents	937,281	1,392,147
Balance of cash and cash equivalents at the beginning of the term	2,845,994	1,448,071
Balance of cash and cash equivalents at the end of the term	\$ 3,783,275	2,840,218

Reviewed only, not audited in accordance with GAAS

Lotes Co., Ltd. and its Subsidiaries

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

(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 May 11, 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 2020, 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
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.

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

(2) 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 following may be of interest to the consolidated companies:

Release Date	New or Amended Standards	Major Amendments
January 1, 2020	Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	The purpose of the amendment is to improve the consistency in the application of the standard and to assist enterprises in determining whether a debt or other liability with an indefinite date of settlement should be classified as current (due or likely to be due within one year) or non-current on the balance sheet. The amendment also clarifies the classification of debts that may be settled by converting them into equity.

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

(1) Compling Basis

The Consolidated Financial Statement was compiled in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations Governing the Preparation) and IAS 34 "Interim Financial Reporting" which is effective upon endorsement and issuance by the Financial Supervisory Commission. The consolidated financial statements do not include all of the information required to be disclosed in the full annual consolidated financial statements prepared in accordance with the following, as recognized by the Financial Supervisory Commission (FSC): International

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

Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Except as described below, the significant accounting policies used in this consolidated financial statement are the same as those used in the 2019 consolidated financial statement; see Note 4 to the 2019 consolidated financial statements for related information.

(2) Consolidation Foundation

1. 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		
			March 31, 2020	Dec. 31, 2019	March 31, 2019
The Company	Lotes Investments Limited	Samoa	100.00%	100.00%	100.00%
"	Good Hope Investments Limited	"	100.00%	100.00%	100.00%
"	Guansi Development Co., Ltd.	"	100.00%	100.00%	100.00%
"	Zhaxi Investment Co., Ltd.	Anguilla	100.00%	100.00%	100.00%
"	Jiayu Investment Co., Ltd.	Taiwan	100.00%	100.00%	100.00%
"	Lotes USA, Inc	America	100.00%	100.00%	100.00%
"	LOTES EU GmbH	Germany	100.00%	100.00%	100.00%
"	Lerain Technology Co., Ltd.	Taiwan	33.92%	- %	- %
Lotes Investments Limited	Loteson International Investments Limited	Hong Kong	100.00%	100.00%	100.00%
Loteson International Investments Limited	Lotes Guanghou Co., Ltd	China	100.00%	100.00%	100.00%
Lotes Guanghou Co., Ltd	Lotes Hengnan Co., Ltd.	China	100.00%	100.00%	100.00%
"	Shenzhen Deyi Automation Technology Co., Ltd.	"	100.00%	100.00%	100.00%
"	Lotes Zhongshan Co., Ltd	"	50.00%	50.00%	50.00%
"	Zhongshan Dezhi Metal Surface Treatment Co., Ltd.	"	100.00%	100.00%	- %
"	Hengnan Deyi Property Development Co., Ltd.	"	100.00%	100.00%	- %

Shareholding percentage

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

Name of Investment Company	Name of Subsidiary	Place of Incorporation	March 31, 2020	Dec. 31, 2019	March 31, 2019
The Company	Lotes Investments Limited	Samoa	100.00%	100.00%	100.00%
"	Guangzhou Leside Technology Co., Ltd.	"	100.00%	100.00%	100.00%
Guangzhou Leside Technology Co., Ltd.	Chongqing Fuxinrui Electronic Technology Co., Ltd.	"	51.00%	51.00%	51.00%
Lotes Suzhou Co., LTD	Lotes Zhongshan Co., Ltd	"	50.00%	50.00%	50.00%
Good Hope Investments Limited	Xincheng Development Co., Ltd.	Samoa	100.00%	100.00%	100.00%
"	REKA Technology Co., Ltd.	Hong Kong	100.00%	100.00%	100.00%
Guansi Development Co., Ltd.	Jae You Co., Ltd.	"	100.00%	100.00%	100.00%
Jae You Co., Ltd.	Lotes Suzhou Co., LTD	China	100.00%	100.00%	100.00%
Zhaxi Investment Co., Ltd.	Wangden Investments Limited	Hong Kong	100.00%	100.00%	100.00%
Wangden Investments Limited	Zongka Technology (Shenzhen) Co., Ltd.	China	100.00%	100.00%	100.00%
Jiayu Investment Co., Ltd.	Ememe Robot Co., Ltd	Taiwan	94.37%	94.37%	94.37%
"	Compertum Microsystems Inc.	"	46.74%	46.74%	- %
"	Lintes Technology Co., Ltd	"	52.13%	52.13%	58.36%
Lintes Technology Co., Ltd	Jiajyun Investment Co., Ltd.	"	100.00%	- %	- %
"	Pure Fortune Limited	Samoa	- %	- %	100.00%
"	Jilong Co., Ltd.	"	100.00%	100.00%	100.00%
Jilong Co., Ltd.	Rihui Co., Ltd.	"	100.00%	100.00%	100.00%
Rihui Co., Ltd.	Lintes Technology (Suzhou) Co., Ltd.	China	100.00%	100.00%	100.00%

Pure Fortune Limited was liquidated in Q2, 2019.

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

(3) Employee benefits

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

The defined benefit plan pension for the interim period is calculated based on the actuarial pension cost ratio from the previous year's reporting date to the end of the current period and adjusted for significant market fluctuations, and significant curtailment, liquidation or other significant one-time events after the reporting date.

(4) Income Tax

The consolidated companies' income tax expense for the interim period is measured and disclosed in accordance with B12 of IAS No. 34 "Interim Financial Reporting".

Income tax expense, which is recognized directly in equity or other comprehensive income, is measured as the temporary difference between the carrying amount of the related assets and liabilities for financial reporting purposes and their tax bases at the applicable tax rates that are expected to apply when the related assets and liabilities are realized or settled.

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

The preparation of the consolidated financial statements in conformity with the Regulations Governing the Preparation of Financial Statements and IAS 34 "Interim Financial Reporting" which is approved by the FSC, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates.

The significant judgments made by management in the preparation of the consolidated financial statements and the key sources of estimation uncertainty in the adoption of the consolidated companies' accounting policies are consistent with Note 5 to the 2019 consolidated financial statements.

(VI). Descriptions for important accounting items

Except as noted below, the description of significant accounting items in this consolidated financial statement is not yet materially different from the 2019 consolidated financial statement, see Note 6 to the 2019 consolidated financial statement for related information.

(1) Cash and cash equivalents

	<u>March 31,</u> <u>2020</u>	<u>Dec. 31, 2019</u>	<u>March 31,</u> <u>2019</u>
Petty cash	\$ 1,884	3,660	2,093
Checks and demand deposits	1,826,464	1,560,714	1,633,178
Time deposits	1,954,927	1,281,620	1,204,947
Cash and cash equivalents listed on the Statement	<u>\$ 3,783,275</u>	<u>2,845,994</u>	<u>2,840,218</u>

Please refer to Note VI(24) 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

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

	<u>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Financial assets mandatorily measured at FVTPL:			
Non-derivative financial assets:			
Listed stocks	\$ 13,337	20,931	25,179
Linked deposits	-	219,103	-
Total	<u>\$ 13,337</u>	<u>240,034</u>	<u>25,179</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 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>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Equity instruments measured at FVTOCI:			
Domestic unlisted stocks — Kuang Ying Computer Equipment Co., Ltd.	\$ 1,981	4,507	16,950
Domestic unlisted stocks — AICP Technology Corporation	1,765	1,931	10,000
Total	<u>\$ 3,746</u>	<u>6,438</u>	<u>26,950</u>

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 in the periods from Jan. 1 to March 31, 2020 and from Jan. 1 to March 31, 2019.

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Consolidated company's financial assets had not been pledged as security.

(3) Notes, accounts receivable and other receivables

	<u>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Receivable notes	\$ 19,997	15,257	5,232
Accounts receivable	5,335,907	5,957,860	4,819,026
Other accounts receivable	207,729	222,320	218,362
Less: Provisions	(11,033)	(11,881)	(9,766)
	<u>\$ 5,552,600</u>	<u>6,183,556</u>	<u>5,032,854</u>

Please refer to Note VI (XXIV)1.(3) Statement of Changes in Notes and Accounts

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

Receivable and Provisions as of March 31, 2020, December 31, 2019 and March 31, 2019 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 March 31, 2020, December 31, 2019 and March 31, 2019, of which NT\$488,025,000, NT\$497,928,000 dollars and NT\$457,468,000 dollars respectively, and NT\$0, NT\$0 and \$22,619,000 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

March 31, 2020

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	\$ -	755,625	-	-	-	None
		USD 25,000				

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

March 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	\$ 237,583	527,431	213,825	22,619	3.22%~3.32%	None
	USD 7,709	USD 17,113	USD 6,938	USD 771		

The above quota is used in a circular manner, and the outstanding accounts receivable 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 March 31, 2020, December 31, 2019 and March 31, 2019, the retained accounts receivable for sale were NT\$0, NT\$0 and NT\$22,619,000 respectively, and were transferred to other receivables.

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

(4) Inventroy

	<u>March 31,</u> <u>2020</u>	<u>Dec. 31, 2019</u>	<u>March 31,</u> <u>2019</u>
Merchandise	\$ 429,549	494,396	508,940
Finished goods	590,219	706,097	587,556
Work in progress	548,332	444,416	663,831
Raw materials	321,840	292,094	271,796
Goods in transit	45,203	39,018	4,718
	<u>\$ 1,935,143</u>	<u>1,976,021</u>	<u>2,036,841</u>

The Consolidated company's inventories as of March 31, 2020, December 31, 2019 and March 31, 2019 including an allowance for inventory losses are NT\$287,573,000, NT\$271,717,000 and NT\$277,022,000 dollars respectively.

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

	<u>For the Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Cost of goods sold	\$ 1,960,801	2,289,628
Shutdown cost	90,799	-
Losses on the price fall and scraping of inventory	18,760	24,876
Income from the sales of scraps and waste	(55,958)	(75,135)
Total	<u>\$ 2,014,402</u>	<u>2,239,369</u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Consolidated company's inventories were not pledged as security.

(5) Subsidiaries with significant non-controlling interests

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

<u>Name of Subsidiary</u>	<u>Main business place/ The country where the company registered</u>	<u>The percentage of ownership interests and voting interests in all non-controlling interests</u>		
		<u>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Lintes Technology Co., Ltd	Taiwan	47.87%	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 transactions:

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

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

	March 31, 2020	Dec. 31, 2019	March 31, 2019
Current assets	\$ 1,935,610	1,985,182	1,581,567
Non-current assets	183,178	165,502	163,087
Current liabilities	(559,518)	(649,878)	(815,355)
Non-current liabilities	(17,674)	(11,443)	(11,203)
Net assets	\$ 1,541,596	1,489,363	918,096
Book value of non-controlling interests at the end of the period	\$ 741,841	714,874	381,497

	For the Three Months Ended March 31,	
	2020	2019
Operating revenue	\$ 400,888	552,557
Net profit in the year	54,384	34,523
Other comprehensive income	(2,151)	2,519
Total of comprehensive income	\$ 52,233	37,042
Net profit in the period attributable to non-controlling interests	\$ 28,259	14,352
Total comprehensive income attributable to non-controlling interests	\$ 26,972	15,683

	For the Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities	\$ 105,231	153,580
Cash flows from investing activities	(20,255)	(37,388)
Cash flows from financing activities	(33,776)	27,835
Effect of change in exchange rate	(436)	(9,197)
Increase in cash and cash equivalents	\$ 50,764	134,830

(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	Others	Construction in progress and equipment to be examined	Total
Cost or deemed cost:						
Balance on Jan. 1, 2020	\$ 49,655	759,739	2,698,613	2,740,900	756,731	7,005,638
Addition	-	-	24,398	28,959	228,400	281,757
Prepayment for equipment transferred in	-	-	1,423	895	-	2,318
Completion of construction in progress and acceptance of equipment to be examined	-	-	-	131,839	(131,839)	-
Disposal	-	-	(23,071)	(479,071)	-	(502,142)

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Others</u>	<u>Construction in progress and equipment to be examined</u>	<u>Total</u>
Effect of change in exchange rate	175	(4,843)	(15,117)	(15,238)	(6,731)	(41,75)
Balance on March 31, 2020	<u>\$ 49,830</u>	<u>754,896</u>	<u>2,686,246</u>	<u>2,408,284</u>	<u>846,561</u>	<u>6,745,8</u>
Balance on Jan. 1, 2019	\$ 76,980	804,451	2,680,672	2,430,461	498,134	6,490,6
Addition	-	-	56,019	263,689	61,830	381,5
Prepayment for equipment transferred in	-	-	-	9,586	-	9,5
Completion of construction in progress and acceptance of equipment to be examined	-	-	9,180	11,576	(20,756)	-
Disposal	-	-	(16,334)	(455,958)	-	(472,29
Effect of change in exchange rate	75	16,588	54,695	53,183	11,391	135,9
Balance on March 31, 2019	<u>\$ 77,055</u>	<u>821,039</u>	<u>2,784,232</u>	<u>2,312,537</u>	<u>550,599</u>	<u>6,545,4</u>
Losses on depreciation and impairment:						
Balance on Jan. 1, 2020	\$ -	266,518	1,595,925	1,628,481	-	3,490,9
Depreciation for the year	-	8,822	62,970	190,529	-	262,3
Disposal	-	-	(3,291)	(477,108)	-	(480,39
Effect of change in exchange rate	-	(1,880)	(7,922)	(7,650)	-	(17,45
Balance on March 31, 2020	<u>\$ -</u>	<u>273,460</u>	<u>1,647,682</u>	<u>1,334,252</u>	<u>-</u>	<u>3,255,3</u>
Balance on Jan. 1, 2019	\$ -	241,559	1,455,245	1,443,734	-	3,140,5
Depreciation for the year	-	9,330	60,240	203,261	-	272,8
Disposal	-	-	(8,373)	(452,636)	-	(461,00
Effect of change in exchange rate	-	5,072	27,658	30,929	-	63,6
Balance on March 31, 2019	<u>\$ -</u>	<u>255,961</u>	<u>1,534,770</u>	<u>1,225,288</u>	<u>-</u>	<u>3,016,0</u>
Book value:						
Jan. 1, 2020	<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>
March 31, 2020	<u>\$ 49,830</u>	<u>481,436</u>	<u>1,038,564</u>	<u>1,074,032</u>	<u>846,561</u>	<u>3,490,423</u>
Jan. 1, 2019	<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>
March 31, 2019	<u>\$ 77,055</u>	<u>565,078</u>	<u>1,249,462</u>	<u>1,087,249</u>	<u>550,599</u>	<u>3,529,443</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 March 31, 2020, December 31, 2019 and March 31, 2019, the accumulated expenditures (tax included) for the construction of the new plant were NT\$676,452,000, NT\$622,147,000 and NT\$311,335,000 respectively.

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

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 March 31, 2020, has to pay the price of RMB 10,881,000 and RMB 3,285,000 respectively (account listed as other non-current assets), is expected to transfer the property in December 2020.

As of March 31, 2020, December 31, 2019 and March 31, 2019, real estate, plant and equipment were used as collateral for short-term loans and financing lines. Please refer to Note VIII for details.

(7) 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:

	Land	Buildings	Machinery	Others	Total
Cost of the right-of-use assets:					
Balance on Jan. 1, 2020	\$ 236,908	254,674	687	5,181	497,450
Increase	-	21,283	-	-	21,283
Decrease	-	-	(691)	(603)	(1,294)
Effect of change in exchange rate	(1,734)	(2,007)	4	(31)	(3,768)
Balance on March 31, 2020	\$ 235,174	273,950	-	4,547	513,671
Balance on Jan. 1, 2019	\$ -	-	-	-	-
Number of effects of retroactive application of IFRS 16	246,746	235,843	243	5,396	488,228
Increase	-	2,449	482	-	2,931
Decrease	-	(159)	-	-	(159)
Effect of change in exchange rate	5,607	5,082	7	123	10,819
Balance on March 31, 2019	\$ 252,353	243,215	732	5,519	501,819
Depreciation and impairment loss on right-of-use assets:					
Balance on Jan. 1, 2020	\$ 5,150	105,843	687	2,344	114,024
Depreciation for the year	1,294	28,432	-	438	30,164
Decrease	-	-	(691)	(603)	(1,294)
Effect of change in exchange rate	(54)	(1,062)	4	(16)	(1,128)
Balance on March 31, 2020	\$ 6,390	133,213	-	2,163	141,766
Balance on Jan. 1, 2019	\$ -	-	-	-	-
Depreciation for the year	1,370	28,309	183	846	30,708
Decrease	-	(26)	-	-	(26)
Effect of change in exchange rate	2	45	-	1	48
Balance on March 31, 2019	\$ 1,372	28,328	183	847	30,730
Book value:					
March 31, 2020	\$ 228,784	140,737	-	2,384	371,905
March 31, 2019	\$ 250,981	214,887	549	4,672	471,089

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

(8) Investment property

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

	Self-owned Assets		Right-of-use Assets	
	Land	Buildings	Land	Total
Cost or deemed cost:				
Balance on Jan. 1, 2020	\$ 248,200	39,285	-	287,48
Increase	-	-	98,663	98,66
Effect of change in exchange rate	-	-	(1,206)	(1,206)
Balance on March 31, 2020	<u>\$ 248,200</u>	<u>39,285</u>	<u>97,457</u>	<u>384,94</u>
Balance on Jan. 1, 2019	\$ 221,400	23,428	-	244,82
Balance on March 31, 2019	<u>\$ 221,400</u>	<u>23,428</u>	<u>-</u>	<u>244,82</u>
Losses on depreciation and impairment:				
Balance on Jan. 1, 2020	\$ -	4,483	-	4,48
Depreciation	-	240	-	24
Balance on March 31, 2020	<u>\$ -</u>	<u>4,723</u>	<u>-</u>	<u>4,72</u>
Balance on Jan. 1, 2019	\$ -	2,333	-	2,33
Depreciation	-	143	-	14
Balance on March 31, 2019	<u>\$ -</u>	<u>2,476</u>	<u>-</u>	<u>2,47</u>
Book Value:				
Jan. 1, 2020	<u>\$ 248,200</u>	<u>34,802</u>	<u>-</u>	<u>283,00</u>
Mar. 31, 2020	<u>\$ 248,200</u>	<u>34,562</u>	<u>97,457</u>	<u>380,21</u>
Jan. 1, 2019	<u>\$ 221,400</u>	<u>21,095</u>	<u>-</u>	<u>242,49</u>
Mar. 31, 2019	<u>\$ 221,400</u>	<u>20,952</u>	<u>-</u>	<u>242,35</u>
Fair value:				
Jan. 1, 2020				<u>\$ 322,60</u>
Mar. 31, 2020				<u>\$ 420,06</u>
Jan. 1, 2019				<u>\$ 282,69</u>
Mar. 31, 2019				<u>\$ 282,69</u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Consolidated company's investment properties were not pledged as security.

(9) Intangible assets

The changes in the cost and amortization of the intangible assets of the consolidated

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

company are as follows:

	<u>Computer Software</u>	<u>Others</u>	<u>Total</u>
Cost:			
Balance on Jan. 1, 2020	\$ 166,221	600	166,821
Separate acquisition	22,153	-	22,153
Derecognition	(412)	-	(412)
Effect of change in exchange rate	(749)	-	(749)
Balance on March 31, 2020	<u>\$ 187,213</u>	<u>600</u>	<u>187,813</u>
Balance on Jan. 1, 2019	\$ 114,181	600	114,781
Separate acquisition	21,493	-	21,493
Effect of change in exchange rate	1,225	-	1,225
Balance on March 31, 2019	<u>\$ 136,899</u>	<u>600</u>	<u>137,499</u>
Losses on amortization and impairment:			
Balance on Jan. 1, 2020	\$ 67,032	-	67,032
Amortization in the year	3,574	-	3,574
Derecognition	(412)	-	(412)
Effect of change in exchange rate	(292)	-	(292)
Balance on March 31, 2020	<u>\$ 69,902</u>	<u>-</u>	<u>69,902</u>
Balance on Jan. 1, 2019	\$ 55,254	-	55,254
Amortization in the year	2,674	-	2,674
Effect of change in exchange rate	558	-	558
Balance on March 31, 2019	<u>\$ 58,486</u>	<u>-</u>	<u>58,486</u>
Book value:			
Jan. 1, 2020	<u>\$ 99,189</u>	<u>600</u>	<u>99,789</u>
Balance on March 31, 2020	<u>\$ 117,311</u>	<u>600</u>	<u>117,911</u>
Jan. 1, 2019	<u>\$ 58,927</u>	<u>600</u>	<u>59,527</u>
Balance on March 31, 2019	<u>\$ 78,413</u>	<u>600</u>	<u>79,013</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>For the Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Operating costs	<u>\$ 306</u>	<u>130</u>
Operating expense	<u>\$ 3,268</u>	<u>2,544</u>

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

(10) Other financial assets

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

	<u>March 31,</u> <u>2020</u>	<u>Dec. 31, 2019</u>	<u>March 31,</u> <u>2019</u>
Other financial assets - current			
Time deposits	<u>\$ 85,295</u>	<u>-</u>	<u>-</u>
Other financial assets - non-current			
Time deposits	<u>\$ -</u>	<u>85,923</u>	<u>137,303</u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, none of the Consolidated company's other financial assets had been pledged as security.

(11) Short-term loans

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

<u>March 31, 2020</u>				
	<u>Currency</u>	<u>Interest rate range</u>	<u>Maturity year</u>	<u>Amount</u>
Bank loans - credit loans	-	-	-	<u>\$ -</u>
Credit not yet used				<u>\$ 3,053,725</u>
<u>Dec. 31, 2019</u>				
	<u>Currency</u>	<u>Interest rate range</u>	<u>Maturity year</u>	<u>Amount</u>
Bank loans - credit loans	USD	2.54%	109	<u>\$ 29,980</u>
Credit not yet used				<u>\$ 3,158,700</u>
<u>March 31, 2019</u>				
	<u>Currency</u>	<u>Interest rate range</u>	<u>Maturity year</u>	<u>Amount</u>
Bank loans - credit loans	USD	3.37%~3.99%	108	<u>\$ 231,140</u>
Credit not yet used				<u>\$ 2,692,320</u>

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

(12) Lease liabilities

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

	<u>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Current	<u>\$ 88,630</u>	<u>94,851</u>	<u>109,407</u>
Non-current	<u>\$ 58,559</u>	<u>60,560</u>	<u>111,345</u>

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

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

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

	For the Three Months Ended March 31,	
	2020	2019
Interest expense for lease liabilities	\$ 2,334	3,456
Income from the sublease of right-of-use assets	\$ 3,682	3,204
Expenses for short-term leases	\$ 411	634

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

	For the Three Months Ended March 31,	
	2020	2019
Total cash outflow for leases	\$ 32,250	28,881

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.

(13) Refund liabilities - current

	March 31, 2020	Dec. 31, 2019	March 31, 2019
Refund liabilities - current	\$ 172,560	157,256	94,781

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

(14) Provisions

	March 31, 2020	Dec. 31, 2019	March 31, 2019
Provisions - non-current			
Employee benefits	\$ 41,720	41,729	40,533

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

Employee benefits are estimated under the Consolidated company's defined benefit plan.

(15) Operating lease

1. 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 (VIII) 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:

	<u>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Not more than 1 year	\$ 4,894	5,821	5,562
1-2 years	65	593	4,635
Total undiscounted lease payment	<u>\$ 4,959</u>	<u>6,414</u>	<u>10,197</u>

In the periods from Jan. 1 to March 31, 2019 and from Jan. 1 to March 31, 2018, the income tax generated in the investment property from rentals were NT\$1,386,000 dollars and \$1,311,000 dollars respectively, and the direct operating expenses (including maintenance) incurred in the investment property from rentals were NT\$207,000 dollars and NT\$143,000 dollars respectively.

(16) Employee benefits

1. Defined benefit plans

The consolidated companies used actuarially determined pension costs as of December 31, 2019 and 2018 to measure and disclose pension costs for the interim period as there were no significant market fluctuations and no significant curtailments, settlements or other significant one-time events subsequent to the prior fiscal year reporting date.

The consolidated companies recognized \$233,000 dollars and \$248,000 dollars of expense in profit or loss from January 1, 2020 and March 31, 2019, respectively.

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.

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

The pension expense under the defined contribution retirement funds of the Company in the year of 2020 and 2019 are \$2,407,000 dollars and \$2,230,000 dollars 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, 2020 and 2019 were \$39,341,000 dollars and \$44,220,000 dollars, respectively.

(17) Income tax

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

	For the Three Months Ended March 31,	
	2020	2019
Income tax expense in the year		
Income tax generated in the year	\$ 87,963	88,146
Adjustment of the income tax in the previous year	-	6,165
	<u>87,963</u>	<u>94,311</u>
Deferred income tax expense		
Other deferred income tax expense (income)	<u>19,644</u>	<u>(5,423)</u>
Income tax expense	<u>\$ 107,607</u>	<u>88,888</u>

2. No income tax benefit or expense was recognized in equity and other comprehensive income for January 1 through March 31, 2020 and 2019.

3. 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.

(18) Capital and Other Equity

As of March 31, 2020, December 31, 2019, and March 31, 2019, the total authorized share capital of the Company was \$1,550,000,000 dollars, \$1,550,000,000 dollars, and \$1,050,000,000 dollars with a par value of \$10 per share, and the actual amount issued were all \$1,034,779,000 dollars.

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.

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

1. Capital reserve

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

	<u>March 31,</u> <u>2020</u>	<u>Dec. 31, 2019</u>	<u>March 31,</u> <u>2019</u>
Premium of issued shares	\$ 3,577,768	3,577,768	3,577,768
Change in the net value of the stock of subsidiaries and associates accounted for using the equity method	366,393	366,393	172,942
Employee stock options	15,399	15,399	15,399
	<u>\$ 3,959,560</u>	<u>3,959,560</u>	<u>3,766,109</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 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.

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

(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 March 25, 2020 and June 14, 2019, the Company's shareholders resolved to distribute earnings for the years 2019 and 2018, respectively, as follows:

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		2018	
	<u>Payout ratio</u>	<u>Amount</u>	<u>Payout ratio</u>	<u>Amount</u>
	<u>(TWD)</u>		<u>(TWD)</u>	
Distributed to the holders of ordinary shares:				
Cash	\$ 10.50	<u><u>1,086,518</u></u>	8.70	<u><u>900,258</u></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 differences on translation of foreign operations</u>	<u>Unrealized gain or loss on Financial assets measured at FVTOCI</u>	<u>Total</u>
Balance on Jan. 1, 2020	\$ (631,970)	(18,562)	(650,532)
Exchange differences arising from the translation of the net assets of foreign operations	(36,805)	-	(36,805)
Unrealized losses from financial assets measured at FVTOCI	-	(2,692)	(2,692)
Balance on March 31, 2020	<u><u>\$ (668,775)</u></u>	<u><u>(21,254)</u></u>	<u><u>(690,029)</u></u>
	<u>Exchange differences on translation of</u>	<u>Unrealized gain or loss on Financial assets</u>	<u>Total</u>

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

	foreign operations	measured at FVTOCI	
Balance on Jan. 1, 2019	\$ (314,561)	(2,459)	(317,020)
Exchange differences arising from the translation of the net assets of foreign operations	138,822	-	138,822
Unrealized losses from financial assets measured at FVTOCI	-	4,409	4,409
Balance on March 31, 2019	<u><u>\$ (175,739)</u></u>	<u><u>1,950</u></u>	<u><u>(173,789)</u></u>

(19) Share-based payment

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

	Cash capital increase reserved for employees to subscribe Subsidiary
Date of offering	Nov. 29, 2019
Amount offered	436,000 shares
Target of offering	Current employees of subsidiaries
Vesting condition	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.

(20) Earnings per share

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

	<u>For the Three Months Ended March 31,</u>	
	2020	2019
Net profit attributable to the Company in the year	<u><u>412,898</u></u>	<u><u>317,374</u></u>
Weighted average shares outstanding (1,000 shares)	103,478	102,478
Dilutive potential ordinary shares		
Effect of employee compensation	348	258
	<u><u>103,826</u></u>	<u><u>102,736</u></u>
Basic earnings per share	<u><u>3.99</u></u>	<u><u>3.10</u></u>
Diluted earnings per share	<u><u>3.98</u></u>	<u><u>3.09</u></u>

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

(21) 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

	<u>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Contract liabilities	<u>\$ 20,367</u>	<u>19,947</u>	<u>2,887</u>

The amounts of beginning balances of contractual liabilities as of January 1, 2020 and January 1, 2019 were respectively recognized as income of \$4,147,000 dollars and \$5,840,000 dollars for the years ended on March 31, 2020 and 2019.

(22) Non-operating income and expense

1. Other income

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

	<u>For the Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Interest income	\$ 8,405	6,872
Income from molding	4,636	22,370
Compensation from suppliers	390	1,316
Income from rentals	7,020	6,627
Income from the sales of R&D products	2,483	4,150
Income from subsidies	188	6,834
Others	20,034	14,002
	<u>\$ 43,156</u>	<u>62,171</u>

2. Other income and losses

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

	<u>For the Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Foreign exchange gain (loss)	\$ 42,246	(12,527)
Net loss from financial assets (liabilities) measured at FVTPL	(7,694)	663
Profit from the disposal of property, plant and equipment	(303)	(9,028)
Others	(5,332)	(8,843)
Total	<u>\$ 28,917</u>	<u>(29,735)</u>

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

3. Financial cost

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

	<u>For the Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Interest expense	<u>\$ 2,592</u>	<u>7,866</u>

(23) 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 March 31, 2020 and 2019 was \$18,250,000 dollars and \$12,500,000 dollars respectively, and the estimated amount of compensation to directors and supervisors was \$1,120,000 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 NT\$46,000.

(24) Financial instruments and fair value information

1. Credit risk

(1) Credit risk exposure

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

The carrying amount of a financial asset represents the maximum amount of credit risk. The maximum amount of credit risk exposure was \$9,419,286,000 dollars, \$9,330,916,000 dollars, and \$8,008,282,000 dollars as of March 31, 2020, December 31, 2019, and March 31, 2019, respectively.

(2) Credit risk concentration risk

The customers of the consolidated companies are concentrated in the high-tech computer industry. In order to reduce the credit risk of accounts receivable, the consolidated companies continuously evaluates the financial position of the customers and adjusts the transaction terms if necessary. The consolidated companies on March 31, 2020, December 31, 2019, and March 31, 2019, a single customer is more than 5% of the total accounts receivable, accounts receivable balance for 6, 5, and 4 different customers, respectively, the consolidated companies 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:

	March 31, 2020		
	Book value of Notes and accounts receivable	Weighted average expected credit loss rate	Expected credit loss in the duration of provision
Not past due	\$ 5,037,078	0.02%	812
1-30 days past due	234,281	0.35%	812
31-60 days past due	70,773	1.37%	971
61-120 days past due	5,229	12.37%	647
121-180 days past due	350	18.86%	66
181-270 days past due	2,611	52.20%	1,363
271-365 days past due	-	100.00%	-
More than 365 days past due	5,582	100.00%	5,582
	<u>\$ 5,355,904</u>		<u>10,253</u>

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

	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>

	March 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	\$ 4,610,664	0.03%	1,158
1-30 days past due	176,696	0.20%	351
31-60 days past due	26,110	0.43%	112
61-120 days past due	3,012	13.35%	402
121-180 days past due	244	31.97%	78
181-270 days past due	1,456	51.54%	750
271-365 days past due	1,108	100.00%	1,108
More than 365 days past due	4,968	100.00%	4,968
	<u>\$ 4,824,258</u>		<u>8,927</u>

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

	For the Three Months Ended March 31,	
	2020	2019
Opening balance	\$ 8,592	8,565
Recognized impairment loss	1,675	293
Foreign currency translation gains and losses	(14)	69
Closing balance	<u>\$ 10,253</u>	<u>8,927</u>

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

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>Cash flow from the contract</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>
March 31, 2020							
Non-derivative financial liabilities:							
Notes payable	\$ 14,734	14,734	14,734	-	-	-	-
Accounts payable	1,655,201	1,655,201	1,655,201	-	-	-	-
Other payables	928,668	928,668	928,668	-	-	-	-
Lease liabilities	147,189	154,785	52,761	41,907	31,210	28,907	-
	<u>\$ 2,745,792</u>	<u>2,753,388</u>	<u>2,651,364</u>	<u>41,907</u>	<u>31,210</u>	<u>28,907</u>	<u>-</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>
March 31, 2019							
Non-derivative financial liabilities:							
Short-term loan	\$ 231,140	233,969	172,047	61,922	-	-	-
Notes payable	7,437	7,437	7,437	-	-	-	-
Accounts payable	1,562,580	1,562,580	1,562,580	-	-	-	-
Other payables	877,505	877,505	877,505	-	-	-	-
	<u>\$ 2,678,662</u>	<u>2,681,491</u>	<u>2,619,569</u>	<u>61,922</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:

March 31, 2020			
	<u>Foreign</u>	<u>Rate</u>	<u>TWD</u>
<u>Currency</u>			
<u>(Note)</u>			
<u>Financial assets</u>			
<u>Currency</u>			
USD	\$ 345,949	30.2250	10,456,290
RMB	148,782	4.2660	634,604
HKD	7,701	3.8980	30,019
JPY	272,162	0.2788	75,879
EURO	1,812	33.2400	60,237
INR	4	0.4791	2
VND	17,980	0.0012	22

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

		March 31, 2020		
		<u>Foreign</u>	<u>Rate</u>	<u>TWD</u>
		<u>Currency</u>		
		<u>(Note)</u>		
<u>Financial liabilities</u>				
	<u>Currency</u>			
	USD	\$ 166,592	30.2250	5,035,232
	RMB	48	4.2660	204
	HKD	2,066	3.8980	8,054
	JPY	23,700	0.2788	6,608
		Dec. 31, 2019		
		<u>Foreign</u>	<u>Rate</u>	<u>TWD</u>
		<u>Currency</u>		
		<u>(Note)</u>		
<u>Financial assets</u>				
	<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
<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

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

		March 31, 2019		
		<u>Foreign</u>	<u>Rate</u>	<u>TWD</u>
		<u>Currency</u>		
		<u>(Note)</u>		
<u>Financial assets</u>				
	<u>Currency</u>			
	USD	\$ 299,377	30.8200	9,226,782
	RMB	80,250	4.5771	367,285
	HKD	6,270	3.9260	24,618
	JPY	35,559	0.2783	9,896
	EURO	1,369	34.6100	47,366
<u>Financial liabilities</u>				
	<u>Currency</u>			
	USD	\$ 155,542	30.8200	4,793,788
	RMB	18	4.5771	85
	HKD	2,346	3.9260	9,211
	THB	26	0.9740	25

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 companies 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 gains (realized and unrealized) of \$42,246,000 dollars and losses of \$12,527,000 dollars for the years ended March 31, 2020 and 2019 respectively.

(2) Sensitivity analysis

The consolidated companies' 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, 2020 and 2019, 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 \$49,656,000 dollars and \$38,983,000 dollars respectively for the years ended March 31, 2020 and 2019. 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

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

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 companies' financial assets with variable interest rates at March 31, 2020, December 31, 2019, and March 31, 2019 were \$1,869,837,000 dollars, \$1,882,046,000 dollars and \$2,975,267,000 dollars, respectively, and its financial liabilities were \$0 dollar, \$0 dollar and \$231,140,000 dollars, respectively. If interest rates had increased or decreased by 1%, the consolidated companies' net income would have increased or decreased by \$3,740,000 dollars and \$5,488,000 dollars for the years ended March 31, 2020 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 consolidated company on the financial reporting date are as follows:

	<u>March 31, 2020</u>		<u>Dec. 31, 2019</u>		<u>March 31, 2019</u>	
	<u>Book Value</u>	<u>Fair value</u>	<u>Book Value</u>	<u>Fair value</u>	<u>Book Value</u>	<u>Fair value</u>
The parts measured at fair value:						
Financial assets:						
Financial assets measured at FVTPL - current	\$ 13,337	13,337	240,034	240,034	25,179	25,179
Financial assets measured at FVTOCI - current	3,746	3,746	6,438	6,438	26,950	26,950

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

	<u>March 31, 2020</u>		<u>Dec. 31, 2019</u>		<u>March 31, 2019</u>	
	<u>Book Value</u>	<u>Fair value</u>	<u>Book Value</u>	<u>Fair value</u>	<u>Book Value</u>	<u>Fair value</u>
Not measured at fair value:						
Non-financial assets:						
Investment property	380,219	420,061	283,002	322,604	242,352	282,694

(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.
- C. 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>
March 31, 2020				
The parts measured at fair value:				
Financial assets measured at				
FVTPL	\$ 13,337	-	-	13,337
Financial assets measured at				
FVTOCI	-	-	3,746	3,746
	<u>\$ 13,337</u>	<u>-</u>	<u>3,746</u>	<u>17,083</u>
Not measured at fair value:				
Investment property	<u>\$ -</u>	<u>-</u>	<u>420,061</u>	<u>420,061</u>

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

Dec. 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

March 31, 2019

The parts measured at fair value:

Financial assets measured at FVTPL	\$ 25,179	-	-	25,179
Financial assets measured at FVTOCI	-	10,000	16,950	26,950
	<u>\$ 25,179</u>	<u>10,000</u>	<u>16,950</u>	<u>52,129</u>

Not measured at fair value:

Investment property	<u>\$ -</u>	<u>-</u>	<u>282,694</u>	<u>282,694</u>
---------------------	-------------	----------	----------------	----------------

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

Unit: 1,000 TWD

For the Three Months Ended March 31, 2020							
Name	Opening balance	Profit and Losses		Increase		Decrease	
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase	Transferred to level 3	Sales, disposal or clearing	Closing balance
Financial assets measured at FVTPL	\$ 219,103	1,231	-	-	-	(220,334)	-
Financial assets measured at FVTOCI	6,438	-	(2,692)	-	-	-	3,746
	<u>\$ 225,541</u>	<u>1,231</u>	<u>(2,692)</u>	<u>-</u>	<u>-</u>	<u>(220,334)</u>	<u>3,746</u>
For the Three Months Ended March 31, 2019							
Name	Opening balance	Profit and Losses		Increase		Decrease	
		Recognized in profit or loss	Recognized in other comprehensive income	Purchase	Transferred to level 3	Sales, disposal or clearing	Closing balance
Financial assets measured at FVTPL	\$ 71,603	1,521	-	-	-	(73,124)	-
Financial assets measured at FVTOCI	12,541	-	4,409	-	-	-	16,950
	<u>\$ 84,144</u>	<u>1,521</u>	<u>4,409</u>	<u>-</u>	<u>-</u>	<u>(73,124)</u>	<u>16,950</u>

For March 31, 2020, December 31, 2019, and March 31, 2019, unrealized gains or

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

losses on assets held at the end of the reporting period amounted to \$0 dollar, \$411,000 dollars, and \$0 dollar, respectively.

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

The consolidated companies through the profit and loss of fair value as the third level measured at the fair value of financial assets on March 31, 2020, December 31, 2019, and March 31, 2019, are respectively \$0 dollar, \$219,103,000 dollars, and \$0 dollar, 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 no active market	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. 31, 2018 ·Discount for lack of marketability: 14.8%~16.8% as of Dec. 31, 2019 and Dec. 31, 2018	·The higher the multiple, the higher the fair value ·The higher the discount for lack of marketability, the lower the fair value
"	Net asset value method	·Net asset value	·Positive correlation with fair value

(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.

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

(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
March 31, 2020						
Financial assets measured at FVTOCI						
Investment in equity instruments with no active market	The multiple of book-to-Market ratio	5%	-	-	103	(97)
	Discount for lack of marketability	1%	-	-	29	(23)
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)
Financial assets measured at FVTOCI						
Investment in equity instruments with no active market						
Financial assets measured at FVTOCI	The multiple of book-to-Market ratio	1%	-	-	172	(172)
	Discount for lack of marketability	1%	-	-	172	(229)

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.

(25) Financial Risk Management

The consolidated companies' financial risk management objectives and policies are consistent with those disclosed in the 2019 consolidated financial statement; see Note VI(26)

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

to the 2019 consolidated financial statement for related information.

(26) Capital management

The consolidated companies' capital management objectives, policies and procedures have not changed materially from those disclosed in the 2019 consolidated financial statements; see Note VI(27) of the 2019 consolidated financial statements for related information.

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

Please refer to Notes VI(7) and VI(12) for information on the consolidated companies' non-cash trading investments and fundraising activities for Right-of-use assets acquired under leases during the years ended March 31, 2020 and 2019.

The reconciliation of the consolidated companies' liabilities from fundraising activities for the years ended March 31, 2020 and 2019 was as follows:

				<u>Non-cash change</u>		
				<u>Change in</u>	<u>Change in</u>	<u>March 31,</u>
	<u>109.1.1</u>	<u>Cash flow</u>	<u>Other</u>	<u>exchange</u>	<u>fair value</u>	<u>2020</u>
				<u>rate</u>		
Short-term loan	\$ 29,980	(30,465)	-	485	-	-
Lease liabilities	155,411	(27,524)	21,283	(1,981)	-	147,189
Total liabilities from financing activities	<u>\$ 185,391</u>	<u>(57,989)</u>	<u>21,283</u>	<u>(1,496)</u>	<u>-</u>	<u>147,189</u>

				<u>Non-cash change</u>		
				<u>Change in</u>	<u>Change in</u>	<u>March 31,</u>
	<u>108.1.1</u>	<u>Cash flow</u>	<u>Other</u>	<u>exchange</u>	<u>fair value</u>	<u>2019</u>
				<u>rate</u>		
Short-term loan	\$ 919,643	(689,182)	-	679	-	231,140
Lease liabilities	241,482	(28,247)	2,931	4,586	-	220,752
Total liabilities from financing activities	<u>\$ 1,161,125</u>	<u>(717,429)</u>	<u>2,931</u>	<u>5,265</u>	<u>-</u>	<u>451,892</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>
Key management personnel	Including the directors, supervisors, managers and their families and spouses

(3) Material transactions with the related parties

1. Lease

The consolidated companies leases warehouses from a related party and enters into one-year lease contracts with a total value of \$60,000 dollars. Interest expense recognized

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

was \$0 dollar for both the years ended March 31, 2020 and 2019, and the balance of lease liabilities was \$44,000 dollars, \$59,000 dollars, and \$103,000 dollars for the years ended March 31, 2020, December 31, 2019, and March 31, 2019, respectively.

(4) Major management personnel transaction

Related compensation includes:

	<u>For the Three Months Ended March 31,</u>	
	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 14,744	11,576
Post-employment benefits	289	214
	<u>\$ 15,033</u>	<u>11,790</u>

(VIII). Pledged assets

As of March 31, 2020, December 31, 2019, and March 31, 2019, property, plant and equipment to provide financial institutions of financing guarantee loan contracts have expired without a renewal, and they have received 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 \$16,368,000 dollars, \$16,368,000 dollars, and \$16,107,000 dollars, respectively.

(IX). Significant contingent liabilities and unrecognized contractual commitments

(1) Significant unrecognized contractual commitments:

As of March 31, 2020, the consolidated companies, had signed and unpaid major plant construction contracts, with the value of approximately RMB 70,054,000 dollars.

The consolidated companies had entered into outstanding information system related contracts as of March 31, 2020 for an amount of approximately \$54,285,000 dollars.

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

	<u>March 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>March 31, 2019</u>
Guaranteed notes	<u>\$ 2,553,050</u>	<u>2,358,960</u>	<u>2,309,360</u>

(X). Significant Disaster Loss: None.

(XI). Significant post-period events:

In order to diversify the product portfolio and expand the market customers, and for the purpose of expanding the scale of operation, Lintes Technology Co., Ltd.'s (Lintes Tech) board of directors resolved on May 5, 2020 to acquire 6,041,000 shares of common stock, amounting to \$78,533,000 from Zheng, Liang-Zhong, the chairman of Genie Precision Machining Co., Ltd. (Genie Precision), at \$13 per share in May 2020; Lintes Tech expects its shareholding to be 63.93%.

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

(XII). Others

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

Function Item	For the Three Months Ended March 31, 2020			For the Three Months Ended March 31, 2019		
	Operation cost	Operation expense	Total	Operation cost	Operation expense	Total
Employee benefit expense						
Salaries expense	342,388	241,568	583,956	367,211	213,320	580,531
Labor insurance and health insurance expenses	75,809	21,541	97,350	73,971	25,206	99,177
Pension expense	89	2,551	2,640	80	2,398	2,478
Compensation of directors	-	1,355	1,355	-	1,475	1,475
Other employee benefit expenses	25,918	23,150	49,068	27,628	27,278	54,906
Depreciation expense	202,421	90,304	292,725	259,194	44,488	303,682
Amortization expense	306	3,268	3,574	130	2,544	2,674

- (2) Seasonality of operations:

The Company's operations are subject to seasonal fluctuations due to the downstream computer industry.

(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 2020:

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 (Note 1)	Business Amount	Purpose for the lending	Allowance for bad debt	Collateral		Individual Limit (Note 2)	Overall limit (Note 2)
													Name	Value		
0	The Company	Lotes Guangzhou Co., Ltd	Intracompany transaction	Y	131,496 (RMB30,000)	127,980 (RMB30,000)	85,320	5%	2	-	Working Capital	-	None	-	2,437,745	4,875,491
0	"	"	"	Y	213,300 (RMB50,000)	213,300 (RMB50,000)	-	5%	2	-	"	-	None	-	2,437,745	4,875,491

Note 1: The description of loaning funds to others are as follow:

- (1) Where an business transaction is necessary.
- (2) Where an short-term financing facility is necessary.

Note 2: 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.

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

2. Endorsement:

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

No.	Name of the Company that provides the endorsement	Endorsee		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
		Company Name	Relationship (Note 1)										
0	The Company	REKA Technology Co., Ltd.	2	2,437,745	35,000	35,000	-	-	0.29%	6,094,364	Y	N	N
0	"	Lotes Suzhou Co., LTD	2	2,437,745	151,250 (USD5,000)	151,125 (USD5,000)	-	-	1.24%	6,094,364	"	"	Y
0	"	Lotes Guangzhou Co., Ltd. & Lotes Suzhou Co., LTD	2	2,437,745	453,750 (USD15,000)	453,375 (USD15,000)	-	-	3.72%	6,094,264	"	"	"
0	"	Lotes Guangzhou Co., Ltd	2	2,437,745	907,500 (USD30,000)	906,750 (USD30,000)	-	-	7.43%	6,094,364	"	"	"
1	Lotes Guangzhou Co., Ltd	REKA Technology Co., Ltd.	1	896,489	90,750 (USD3,000)	90,675 (USD3,000)	-	-	2.02%	2,241,223	N	"	N
2	Lintes Technology Co., Ltd	Lintes Technology (Suzhou) Co., Ltd.	2	770,798	181,500 (USD6,000)	181,350 (USD6,000)	-	-	11.76%	1,541,596	"	"	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.

- (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 Lintes 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 Lintes 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

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

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	
Jiayu Investment Co., Ltd.	Grand-Tek Technology Co., Ltd.	None	Financial assets measured at FVTPL - current	163,980	5,264	0.67 %	5,264	
"	APAQ Technology Co., Ltd.	"	"	345,000	8,073	0.41 %	8,073	
"	OtO Photonics Inc.	"	"	1,368,800	-	5.35 %	-	Note
"	Lucemitek Co., Ltd	"	"	1,169,977	-	17.33 %	-	Note
"	Radinet	"	"	600,000	-	18.37 %	-	Note
"	Communications Inc. Kuang Ying Computer Equipment Co., Ltd.	"	Financial assets measured at FVTOCI - current	1,500,000	1,981	5.73 %	1,981	
"	AICP Technology Corporation	"	"	400,000	1,765	5.33 %	1,765	

Note: All of them were recognized in losses.

- The cumulative purchase or sale of the same securities amounted to at least NT\$300 million or 20% of the paid-in capital: None.
- 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)	106.10 ~ 109.3	849,881	676,452	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 to NTD were made at the exchange rates prevailing on the balance sheet date.

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

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

7. 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	237,267	95.62 %	Settled by month at intervals of 90 days	-	No significant difference	150,313	88.56%	
"	Lotes Suzhou Co., LTD	The surrogate parent company are the same parent company	Net expense from the goods purchased	248,135	100.00 %	"	-	"	(168,261)	100.00%	
REKA Technology Co., Ltd.	The Company	Subsidiary	Net revenue from the goods sold	1,260,851	73.85 %	"	-	"	1,530,003	59.71%	
"	Lotes Guangzhou Co., Ltd	The surrogate parent company are the same parent company	Net expense from the goods purchased	1,564,761	91.80 %	"	-	"	(879,844)	35.68%	
"	Zongka Technology (Shenzhen) Co., Ltd.	"	Net revenue from the goods sold	152,678	8.94 %	"	-	"	279,167	10.89%	
Lotes Guangzhou Co., Ltd	REKA Technology Co., Ltd.	"	Net expense from the goods purchased	430,567	32.35 %	"	-	"	(240,322)	25.01%	
Lintes Technology (Suzhou) Co., Ltd.	Lintes Technology Co., Ltd	Subsidiary	Net expense from the goods purchased	272,529	95.37 %	"	-	"	243,976	93.86%	

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	150,313	5.25	-		45,391	-
REKA Technology Co., Ltd.	The Company	Subsidiary	1,530,003	2.82	-		380,439	-
"	Lotes Guangzhou Co., Ltd	The surrogate parent company are the same parent company	240,322	5.52	-		80,710	-
"	Zongka Technology (Shenzhen) Co., Ltd.	"	279,167	2.18	-		56,039	-
Lotes Suzhou Co., LTD	Xincheng Development Co., Ltd.	The surrogate parent company are the same parent company	168,261	4.91	-		50,907	-
Good Hope Investments Limited	REKA Technology Co., Ltd.	Parent company	934,589	-	-		-	-
Lotes Guangzhou Co., Ltd	"	The surrogate parent company are the same parent company	879,844	5.19	-		594,535	-
Lintes Technology (Suzhou) Co., Ltd.	Lintes Technology Co., Ltd	Subsidiary	243,976	4.03	-		147,031	-

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

9. Engagement 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	2020.02.04	2020.03.04	29	USD 570	(48)
“	Swap contract of metal products	2020.02.04	2020.03.04	29	USD 570	(64)
“	Swap contract of metal products	2020.02.04	2020.03.04	29	USD 286	(42)
“	Swap contract of metal products	2020.02.04	2020.03.09	34	USD 286	18
“	Swap contract of metal products	2020.02.04	2020.03.09	34	USD 572	36

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

Business relationships and significant intercompany transactions for the three months ended March 31, 2020:

Unit: 1,000 TWD

No.	Name	Transaction with	Relationship	Transaction in 2020			
				Subject	Amount	Term	Operating revenue Accounting for total assets
0	The Company	Ememe Robot Co., Ltd	1	Accounts receivable	2,982	Same as other transactions	0.02%
0	“	“	1	Other accounts receivable	2,272	“	0.01%
0	“	Lintes Technology Co., Ltd	1	Other income	155	“	-%
0	“	“	1	Accounts receivable	43	“	-%
0	“	“	1	Net revenue from the goods sold	62	“	-%
0	“	“	1	Net expense from the goods purchased	4,112	“	0.13%
0	“	“	1	Accounts payable	5,217	“	0.03%
0	“	“	1	Other accounts receivable	163	“	-%
0	“	Jiayu Investment Co., Ltd.	1	Other income	17	“	-%
0	“	LOTES USA, INC.	1	Administration fee	37,036	“	1.18%
0	“	“	1	Other accounts receivable	11,545	“	0.07%
0	“	Xincheng Development Co., Ltd.	1	Accounts payable	150,313	“	0.92%
0	“	“	1	Net expense from the goods purchased	237,267	“	7.56%
0	“	“	1	Other payables	64	“	-%
0	“	“	1	Selling expenses	70	“	-%
0	“	REKA Technology Co., Ltd.	1	Accounts receivable	11,242	“	0.07%
0	“	“	1	Accounts payable	1,530,003	“	9.35%
0	“	“	1	Net expense from the goods purchased	1,260,851	“	40.19%
0	“	“	1	Sales Revenue	6,880	“	0.22%
0	“	“	1	Other accounts receivable	676	“	-%
0	“	“	1	Other payables	3,76	“	0.02%
0	“	Lotes Guanghou Co., Ltd	1	Other accounts receivable	91,57	“	0.56%
0	“	“	1	Interest income	65	“	0.02%

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

No.	Name	Transaction with	Relationship	Transaction in 2020			
				Subject	Amount	Term	Operating revenue Accounting for total assets
0	"	Compertum Microsystems Inc.	1	Other income		"	-%
0	"	"	1	Other accounts receivable	21	"	-%
0	"	Lerain Technology Co., Ltd.	1	Other income	3	"	-%
	"	"	1	Other accounts receivable	4	"	-%
1	Lotes Guanghou Co., Ltd	REKA Technology Co., Ltd.	3	Accounts receivable	879,84	"	5.38%
1	"	"	3	Accounts payable	240,32	"	1.47%
1	"	"	3	Purchasing for the term	430,65	"	13.73%
1	"	"	3	Sales Revenue	1,564,76	"	49.88%
1	"	"	3	Other payables	5,69	"	0.03%
1	"	Lotes Suzhou Co., LTD	3	Sales Revenue	1,15	"	0.04%
1	"	"	3	Purchasing for the term	87	"	0.03%
1	"	"	3	Accounts receivable	2,38	"	0.01%
1	"	"	3	Accounts payable	1,53	"	0.01%
1	"	Lotes Hengnan Co., Ltd.	3	Purchase of molds	62,67	"	2.00%
1	"	"	3	Accounts receivable	8	"	-%
1	"	"	3	Accounts payable	43,86	"	0.27%
1	"	"	3	Sale of fixed assets	5,35	"	-%
1	"	"	3	Sales Revenue	9	"	-%
1	"	Zongka Technology (Shenzhen) Co., Ltd.	3	Administration fee	17	"	-%
1	"	"	3	Accounts receivable	87	"	0.01%
1	"	"	3	Accounts payable	19	"	-%
1	Lotes Guanghou Co., Ltd	Zongka Technology (Shenzhen) Co., Ltd.	3	Other accounts receivable	17	Same as other transactions	-%
1	"	"	3	Purchasing for the term	163	"	-%
	"	"	3	Sales Revenue	200	"	-%
1	"	"	3	Other income	49	"	-%
1	"	Shenzhen Deyi Automation Technology Co., Ltd.	3	Accounts receivable	659	"	-%
1	"	"	3	Accounts payable	524	"	-%
1	"	"	3	Other accounts receivable	13	"	-%
1	"	"	3	Sales Revenue	339	"	0.01%
1	"	"	3	Purchasing for the term	233	"	-%
1	"	"	3	Other income	37	"	-%
1	"	Lintes Technology (Suzhou) Co., Ltd.	3	Sales Revenue	9,717	"	0.31%
1	"	"	3	Accounts receivable	40,186	"	0.25%
1	"	Lotes Zhongshan Co., Ltd	3	Other payables	7,491	"	0.05%
1	"	"	3	Accounts receivable	2,736	"	0.02%
1	"	"	3	Other accounts receivable	14,499	"	0.09%
1	"	Guangzhou Leside Technology Co., Ltd.	3	Accounts receivable	1,299	"	0.01%
1	"	"	3	Other accounts receivable	43	"	-%
1	"	"	3	Sales Revenue	985	"	0.03%
1	"	"	3	Other income	30	"	-%
2	Lotes Suzhou Co., LTD	Xincheng Development Co., Ltd.	3	Sales Revenue	248,135	"	7.91%

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

2	“	“	3	Accounts receivable	168,261	“	1.03%
2	“	“	3	Accounts payable	827	“	0.01%
2	“	“	3	Purchasing for the term	16	“	0.01%
2	“	Zongka Technology (Shenzhen) Co., Ltd.	3	Sales Revenue	11,48	“	0.37%

No.	Name	Transaction with	Relationship	Subject	Transaction in 2020 Amount	Term	Operating revenue Accounting for total assets
2	“	“	3	Accounts receivable	18,635	“	0.11%
2	“	Lintes Technology (Suzhou) Co., Ltd.	3	Sales Revenue	2,462	“	0.08%
2	“	“	3	Other accounts receivable	5,277	“	0.03%
2	“	“	3	Accounts receivable	27,067	“	0.17%
2	“	“	3	Other income	3,140	“	0.10%
2	“	“	3	Sale of fixed assets	21,305	“	0.13%
2	“	Shenzhen Deyi Automation Technology Co., Ltd.	3	Sales Revenue	10,570	“	0.34%
2	“	“	3	Accounts receivable	17,035	“	0.10%
3	REKA Technology Co., Ltd.	Xincheng Development Co., Ltd.	3	Purchasing for the term	10,688	“	0.34%
3	“	“	3	Accounts payable	18,525	“	0.11%
3	“	Zongka Technology (Shenzhen) Co., Ltd.	3	Sales Revenue	152,678	“	4.87%
3	“	“	3	Accounts receivable	279,167	“	1.71%
3	“	Good Hope Investments Limited	3	Accounts payable	934,585	“	5.71%
3	“	Ememe Robot Co., Ltd	3	Accounts receivable	8,277	“	0.05%
3	“	Lotes Hengnan Co., Ltd.	3	Sales Revenue	39,025	“	1.24%
3	“	“	3	Accounts receivable	45,032	“	0.28%
3	“	“	3	Purchasing for the term	235	“	0.01%
3	“	“	3	Accounts payable	47,920	“	0.29%
3	“	Shenzhen Deyi Automation Technology Co., Ltd.	3	Sales Revenue	34,155	“	1.09%
3	“	“	3	Accounts receivable	70,530	“	0.43%
3	“	Lotes Zhongshan Co., Ltd	3	Accounts receivable	23,865	“	0.15%
4	Lotes Hengnan Co., Ltd.	Shenzhen Deyi Automation Technology Co., Ltd.	3	Sales Revenue	5,765	Same as other transactions	0.18%
4	“	“	3	Accounts receivable	6,575	“	0.04%
4	“	Zongka Technology (Shenzhen) Co., Ltd.	3	Sales Revenue	18,697	“	0.60%
4	“	“	3	Accounts receivable	47,485	“	0.29%
4	“	Lotes Suzhou Co., LTD	3	Sales Revenue	1,362	“	0.04%
4	“	“	3	Purchasing for the term	130	“	-%
4	“	“	3	Accounts receivable	1,557	“	0.01%
5	Lintes Technology (Suzhou) Co., Ltd.	Lintes Technology Co., Ltd	3	Sales Revenue	272,525	“	8.69%
5	“	“	3	Accounts payable	21,295	“	0.13%
5	“	“	3	Accounts receivable	243,970	“	1.49%
6	Zongka Technology (Shenzhen) Co., Ltd.	Lotes Zhongshan Co., Ltd	3	Accounts payable	19,317	“	0.12%

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

1. 0 refer to parent company

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

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

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

(2) Information on Reinvestment Business:

Information on the Company's investees in the three months ended March 31, 2020 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	787,361	780,979	26,050,000	100.00%	4,386,087	(12,846)	27,018	Note 2
"	Good Hope Investments Limited	"	"	12,129	12,030	401,281	100.00%	1,521,034	(29,382)	(29,382)	
"	Guansi Development Co., Ltd.	"	"	604,996	600,092	20,016,426	100.00%	1,924,558	31,798	36,478	Note 2
"	Zhaxi Investment Co., Ltd.	Anguilla	"	15,113	14,990	500,000	100.00%	114,827	3,974	3,974	
"	Jiayu Investment Co., Ltd.	Taiwan	General investment	690,000	690,000	69,000,000	100.00%	889,442	16,711	16,710	
"	Lotes USA, Inc.	America	Market development	75,563	74,950	2,500,000	100.00%	79,400	30,442	30,442	
"	LOTES EU GmbH	Germany	Market development	3,324	3,359	100,000	100.00%	2,871	(801)	(801)	
"	Lerain Technology Co., Ltd.	Taiwan	Chip design, testing and sales	9,385	-	938,525	33.92%	8,719	(1,964)	(666)	
Lotes Investment Ltd.	Loteson International Investments Limited	Hong Kong	Holding and investment businesses	787,361	780,979	26,050,000	100.00%	4,482,464	(12,846)	(12,846)	
Good Hope Investments Limited	Xincheng Development Co., Ltd.	Samoa	Telecommunication services and sales of connectors for consumer electronics industry	3,023	2,998	100,000	100.00%	1,742	(9)	(9)	
"	REKA Technology Co., Ltd.	Hong Kong	Telecommunication services and sales of connectors for consumer electronics industry	3,061	3,036	101,281	100.00%	584,678	(29,373)	(29,373)	
Guansi Development Co., Ltd.	Jae You Co., Ltd.	"	Holding and investment businesses	605,006	600,102	20,016,756	100.00%	1,936,569	31,798	31,798	
Zhaxi Investment Co., Ltd.	Wangden Investments Limited	"	Holding and investment businesses	15,113	14,990	500,000	100.00%	114,827	3,974	3,974	
Jiayu Investment Co., Ltd.	Ememe Robot Co., Ltd.	Taiwan	Electric Appliance and Audiovisual Electric Products Manufacturing	69,600	69,600	6,960,000	94.37%	(4,968)	124	117	
"	Compertum Microsystems Inc.	"	Electronic Parts and Components Manufacturing	13,164	13,164	1,316,400	46.74%	6,269	(14,263)	(6,667)	
"	Lintes Technology Co., Ltd.	"	Electronic Parts, Components, Electrical Machinery, Supplies Manufacturing	486,926	486,926	29,712,788	52.13%	807,789	54,384	30,771	Note 2
Lintes Technology Co., Ltd.	Jiajyun Investment Co., Ltd.	Taiwan	General investment	15,000	-	1,500,000	100.00%	15,000	-	-	
"	Jilong Co., Ltd.	Samoa	Holding and investment businesses	149,614	148,401	4,950,000	100.00%	190,121	9,340	23,222	Note 2
Jilong Co., Ltd.	Rihui Co., Ltd.	"	Holding and investment businesses	149,614	148,401	4,950,000	100.00%	190,121	9,340	23,222	Note 2

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

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

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

(3) Investment in Chinese 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	807,008	(2)	770,738	-	-	770,738	(12,846)	100.00%	27,013	4,386,061	-
Lotes Suzhou Co., LTD	Manufacturing connectors for telecommunication industry and for consumer electronics industry	604,174	(2)	604,174	-	-	604,174	31,798	100.00%	36,478	1,924,501	-
Zongka Technology (Shenzhen) Co., Ltd.	R&D of electronics, import and export of raw materials of plastic products and plastic products	15,113	(2)	15,113	-	-	15,113	3,974	100.00%	3,974	114,827	-
Lotes Hengnan Co., Ltd.	Manufacturing connectors for telecommunication industry and for consumer electronics industry	369,009	(3)	-	-	-	-	7,971	100.00%	13,584	513,218	-
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	149,614	(2)	149,614	-	-	149,614	5,405	52.13%	10,054	122,602	-
Shenzhen Deyi Automation Technology Co., Ltd.	Manufacturing of robotic arms, automation equipment and relevant components	106,650	(3)	-	-	-	-	3,139	100.00%	3,139	79,111	-
Lotes Zhongshan Co., Ltd	Manufacturing connectors for telecommunication industry and for consumer electronics industry, and Manufacturing of robotic arms, automation equipment and relevant components	1,151,820	(3)	-	-	-	-	(7,753)	100.00%	(7,753)	1,119,838	-
Zhongshan Dezhi Metal Surface Treatment Co., Ltd.	Surface treatment of metal products and plastic products	31,995	(3)	-	-	-	-	(2,687)	100.00%	(2,687)	29,340	-
Hengnan Deyi Property Development Co., Ltd.	Development of real estate, lease of premises, landscape design and interior decorating	98,118	(3)	-	-	-	-	(23)	100.00%	(23)	98,090	-
Guangzhou Leside Technology Co., Ltd.	Research, testing and development	2,986	(3)	-	-	-	-	(615)	100.00%	(615)	721	-
Chongqing Fuxinru 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	2,560	(3)	-	-	-	-	(297)	51.00%	(152)	629	-

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.

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

2. Investment ceiling in Mainland China:

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.	1,390,025,000	1,535,499,000	7,313,236,000
Lintes Technology Co., Ltd	149,614,000	149,614,000	924,958,000

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

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, as of March 31, 2020.

(4) Principal shareholder information:

Major Shareholders	Shares	Shareholding	
	Shares	Percentage	
Jinling Investment Co., Ltd.	10,956,237	10.58%	
Jiaming Investment Co., Ltd.	9,873,037	9.54%	
Cathay Life Insurance Company, Ltd.	5,925,000	5.11%	
2nd discretionary entrustment to investment account of Nomura Asset Management Taiwan for New Labor Pension Fund 2018	5,185,159	5.01%	

Note: (1) This table summarizes the principal shareholders' information for the Company, based on the last business day of each calendar quarter, for the common and preferred shares of the Company for which the stockholders hold at least 5% of the Company's outstanding common shares and treasury shares. The difference between the number of shares recorded in the financial statements and the number of shares for which the Company has completed the dematerialized shares may be due to differences in the basis of calculation.

(2) If the above information is related to a shareholder's share held in a trust, it is disclosed in the client's separate account of the trustee's trust account. For shareholders who apply for declaration of internal shareholdings of more than 10% according to the Securities and Exchange Act, their shareholdings include their own shares plus shares held by them in the trust and have the right to decide on the use of trust property; please refer to Market Observation Post System for more information on the declaration of internal shareholdings.

(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	<u>For the Three Months Ended March 31,</u>	
	2020	2019
A product	\$ 336,677	349,386
B product	293,431	275,265
C product	205,730	221,298
D product	168,805	1,646
E product	156,885	147,427
F product	2,691	185,316
Others	1,972,621	2,072,541
Total	<u>\$ 3,136,840</u>	<u>3,252,879</u>

(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.

Area	<u>For the Three Months Ended March 31,</u>	
	2020	2019
External client revenue:		
Taiwan	\$ 238,609	109,038
Mainland China	2,275,115	2,701,457
Other countries	623,116	442,384
Total	<u>\$ 3,136,840</u>	<u>3,252,879</u>