

**LANNER ELECTRONICS INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2023 and 2022**

**Address: 7rd Floor, No. 173, Sec. 2, Datong Rd., Xizhi Dist., New Taipei City,
Taiwan, R.O.C.**

Telephone: (02)8692-6060

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

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards, amendments and interpretations adopted	9~10
(4) Summary of material accounting policies	10~27
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	27
(6) Explanation of significant accounts	27~57
(7) Related-party transactions	57~59
(8) Pledged assets	59
(9) Commitments and contingencies	60
(10) Losses Due to Major Disasters	60
(11) Subsequent Events	60
(12) Other	60
(13) Other disclosures	
(a) Information on significant transactions	61~62
(b) Information on investees	62
(c) Information on investment in mainland China	63
(d) Major shareholders	63
(14) Segment information	64

Representation Letter

The entities that are required to be included in the combined financial statements of LANNER ELECTRONICS INC. as of and for the year ended December 31, 2023 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, LANNER ELECTRONICS INC. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: LANNER ELECTRONICS INC.

Chairman: Chou I Wen

Date: March 14, 2024



安侯建業聯合會計師事務所

KPMG

台北市110615信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 110615, Taiwan (R.O.C.)

電話 Tel + 886 2 8101 6666
傳真 Fax + 886 2 8101 6667
網址 Web kpmg.com/tw

Independent Auditors' Report

To the Board of Directors of LANNER ELECTRONICS INC.:

Opinion

We have audited the consolidated financial statements of LANNER ELECTRONICS INC. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants and Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

We did not audit the financial statements of certain subsidiaries. The financial statements of these subsidiaries were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of the other auditors. The total assets for these subsidiaries constituting 14% and 20% of consolidated total assets at December 31, 2023 and 2022, respectively, and total operating revenues constituting 38% and 43% of consolidated total operating revenues for the years then ended, respectively.

The Company has prepared its parent company only financial statements as of and for the years ended December 31, 2023 and 2022, on which we have issued an unmodified opinion with other matter paragraphs.

Key Audit Matters

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

1. Revenue recognition

Please refer to notes 4(n) and 6(r) for disclosures related to revenue recognition.

Description of key audit matter:

Revenue is the key indicator used by the investors and management while evaluating the Group's finance or operating performance. The accuracy timing and amount of revenue recognized have significant impact on its financial statements. Therefore, we consider it one of our key audit matters.

How the matter was addressed in our audit:

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

2. Inventory measurement

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and professional skepticism throughout the audit. We also:

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Huang, Po-Shu and Wu, Chung-Shun.

KPMG

Taipei, Taiwan (Republic of China)
March 14, 2024

Notes to Readers

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

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

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES**Consolidated Balance Sheets****December 31, 2023 and 2022****(Expressed in Thousands of New Taiwan Dollars)**

		December 31, 2023		December 31, 2022				December 31, 2023		December 31, 2022	
		Amount	%	Amount	%			Amount	%	Amount	%
11xx	Assets					21xx	Liabilities and Equity				
	Current assets:						Current liabilities:				
1100	Cash and cash equivalents (note 6(a))	\$ 3,179,621	35	2,677,165	30	2100	Short-term borrowings (notes 6(i) and 8)	\$ -	-	87,796	1
1136	Current financial assets at amortised cost, net (note 6(c))	1,137,000	12	50,000	1	2321	Bonds payable, current portion (note 6(k))	-	-	893,008	10
1150	Notes receivable, net (note 6(d))	31,464	-	33,961	-	2120	Current financial liabilities at fair value through profit or loss (note 6(b))	11,653	-	11,660	-
1170	Accounts receivable, net (note 6(d))	1,146,780	13	1,871,402	20	2130	Current contract liabilities (note 6(r))	257,385	3	175,727	2
1180	Accounts receivable—related parties, net (notes 6(d) and 7)	1,796	-	10,604	-	2170	Accounts payable	1,192,817	13	1,587,810	18
1200	Other receivables (note 6(e))	15,789	-	13,090	-	2219	Other payables (notes 6(s) and 7)	917,077	10	957,810	11
1220	Current income tax assets	19,584	-	1,574	-	2230	Current tax liabilities	280,216	3	380,911	4
130x	Inventories (note 6(f))	2,025,124	22	2,720,263	30	2250	Provisions—current (note 6(j))	107,057	1	75,478	1
1410	Prepayments	60,539	1	65,769	1	2280	Current lease liabilities (notes 6(l) and 7)	39,420	1	39,386	-
1476	Other financial assets—current (note 8)	4,578	-	1,584	-	2399	Other current liabilities (note 6(r))	177,678	2	187,001	2
1479	Other current assets	70,900	1	96,664	1		Total current liabilities	2,983,303	33	4,396,587	49
	Total current assets	7,693,175	84	7,542,076	83	25xx	Non-Current liabilities:				
15xx	Non-current assets:					2560	Non-current income tax liabilities	104,918	1	-	-
1550	Investments accounted for under equity method	4,398	-	820	-	2570	Deferred income tax liabilities (note 6(n))	256,846	3	246,960	3
1600	Property, plant and equipment (notes 6(g) and 8)	1,224,623	13	1,281,240	14	2580	Non-current lease liabilities (notes 6(l) and 7)	23,379	-	38,878	-
1755	Right-of-use assets (note 6(h))	62,735	1	78,197	1	2630	Long-term deferred revenue (note 6(r))	33,871	-	42,082	1
1840	Deferred income tax assets (note 6(n))	133,749	2	130,408	2	2640	Net defined benefit liabilities (note 6(m))	44,420	1	35,279	-
1915	Prepayments for equipment	2,486	-	2,246	-	2670	Other non-current liabilities	2,248	-	12,447	-
1995	Other non-current assets (note 7)	16,246	-	20,122	-		Total non-current liabilities	465,682	5	375,646	4
	Total non-current assets	1,444,237	16	1,513,033	17	2xxx	Total liabilities	3,448,985	38	4,772,233	53
						31xx	Equity attributable to owners of parent (notes (k), (o) and (p)):				
						3110	Common stock	1,453,423	16	1,180,424	13
						3200	Capital surplus	1,485,802	16	772,702	8
						3300	Retained earnings:				
						3310	Legal reserve	567,915	6	467,203	5
						3320	Special reserve	68,858	1	135,875	2
						3350	Unappropriated retained earnings	2,193,808	24	1,794,699	20
								2,830,581	31	2,397,777	27
						3400	Other equity:				
						3410	Financial statements translation differences for foreign operations	(81,379)	(1)	(68,858)	(1)
							Total equity attributable to owners of parent	5,688,427	62	4,282,045	47
						36xx	Non-controlling interests	-	-	831	-
						3xxx	Total equity	5,688,427	62	4,282,876	47
	Total assets	\$ 9,137,412	100	9,055,109	100	2-3xxx	Total liabilities and equity	\$ 9,137,412	100	9,055,109	100

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2023 and 2022****(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)**

	2023		2022	
	Amount	%	Amount	%
4000 Operating revenue (notes 6(r) and 7)	\$ 8,371,337	100	9,819,086	100
5000 Operating costs (notes 6(f), (g), (h), (j), (l), (m), (p), (s) and 7)	<u>5,552,475</u>	<u>66</u>	<u>6,823,601</u>	<u>70</u>
5900 Gross profit	<u>2,818,862</u>	<u>34</u>	<u>2,995,485</u>	<u>30</u>
6000 Operating expenses (notes 6(d), (g), (h), (l), (m), (p), (s) and 7):				
6100 Selling expenses	565,969	7	580,213	6
6200 Administrative expenses	450,120	5	512,399	5
6300 Research and development expenses	642,068	8	726,373	7
6450 Expected credit losses (reversal gain)	(39)	-	(12,591)	-
Total operating expenses	<u>1,658,118</u>	<u>20</u>	<u>1,806,394</u>	<u>18</u>
6900 Operating profit	<u>1,160,744</u>	<u>14</u>	<u>1,189,091</u>	<u>12</u>
7000 Non-operating income and expenses (notes 6(k), (l), (t) and 7):				
7100 Interest income	59,149	1	15,798	-
7010 Other income	24,993	-	38,051	-
7020 Other gains and losses	(39,416)	-	50,223	1
7050 Financial costs	(10,502)	-	(16,882)	-
7775 Share of gain of associates accounted for under equity method	4,040	-	-	-
Total non-operating income and expenses	<u>38,264</u>	<u>1</u>	<u>87,190</u>	<u>1</u>
7900 Net income before tax	1,199,008	15	1,276,281	13
7950 Less: income tax expenses (note 6(n))	<u>211,779</u>	<u>3</u>	<u>273,073</u>	<u>3</u>
8000 Net income	<u>987,229</u>	<u>12</u>	<u>1,003,208</u>	<u>10</u>
8300 Other comprehensive income (loss) (notes 6(m) and (o)):				
8310 Components of other comprehensive income that will not be reclassified to profit or loss				
8311 Gains (losses) on remeasurements of defined benefit plans	(9,481)	-	3,843	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
Components of other comprehensive income that will not be reclassified to profit or loss	<u>(9,481)</u>	<u>-</u>	<u>3,843</u>	<u>-</u>
8360 Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361 Exchange differences on translation of foreign financial statements	(12,573)	-	66,986	1
8399 Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>(12,573)</u>	<u>-</u>	<u>66,986</u>	<u>1</u>
8300 Other comprehensive income	<u>(22,054)</u>	<u>-</u>	<u>70,829</u>	<u>1</u>
8500 Total comprehensive income	<u>\$ 965,175</u>	<u>12</u>	<u>1,074,037</u>	<u>11</u>
8600 Net income(loss) attributable to:				
8610 Owners of parent	\$ 987,425	12	1,003,279	10
8620 Non-controlling interests	(196)	-	(71)	-
	<u>\$ 987,229</u>	<u>12</u>	<u>1,003,208</u>	<u>10</u>
8700 Total comprehensive income attributable to:				
8710 Owners of parent	\$ 965,423	12	1,074,139	11
8720 Non-controlling interests	(248)	-	(102)	-
	<u>\$ 965,175</u>	<u>12</u>	<u>1,074,037</u>	<u>11</u>
9750 Basic earnings per share (New Taiwan Dollars) (note 6(q))	<u>\$ 7.57</u>		<u>8.03</u>	
9850 Diluted earnings per share (New Taiwan Dollars) (note 6(q))	<u>\$ 6.69</u>		<u>6.89</u>	

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2023 and 2022****(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent						Financial statements translation differences for foreign operations	Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings			Total retained earnings				
			Legal reserve	Special reserve	Unappropriated retained earnings					
Balance at January 1, 2022	\$ 1,170,034	744,705	417,739	128,464	1,198,582	1,744,785	(135,875)	3,523,649	933	3,524,582
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	49,464	-	(49,464)	-	-	-	-	-
Special reserve	-	-	-	7,411	(7,411)	-	-	-	-	-
Cash dividends	-	-	-	-	(354,130)	(354,130)	-	(354,130)	-	(354,130)
Net income (loss)	-	-	-	-	1,003,279	1,003,279	-	1,003,279	(71)	1,003,208
Other comprehensive income (loss)	-	-	-	-	3,843	3,843	67,017	70,860	(31)	70,829
Total comprehensive income (loss)	-	-	-	-	1,007,122	1,007,122	67,017	1,074,139	(102)	1,074,037
Share-based payment arrangements	-	4,412	-	-	-	-	-	4,412	-	4,412
Issuance of shares for exercise of employee stock options	10,390	23,585	-	-	-	-	-	33,975	-	33,975
Balance at December 31, 2022	1,180,424	772,702	467,203	135,875	1,794,699	2,397,777	(68,858)	4,282,045	831	4,282,876
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	100,712	-	(100,712)	-	-	-	-	-
Special reserve	-	-	-	(67,017)	67,017	-	-	-	-	-
Cash dividends	-	-	-	-	(474,030)	(474,030)	-	(474,030)	-	(474,030)
Stock dividends	71,110	-	-	-	(71,110)	(71,110)	-	-	-	-
Net income (loss)	-	-	-	-	987,425	987,425	-	987,425	(196)	987,229
Other comprehensive income (loss)	-	-	-	-	(9,481)	(9,481)	(12,521)	(22,002)	(52)	(22,054)
Total comprehensive income (loss)	-	-	-	-	977,944	977,944	(12,521)	965,423	(248)	965,175
Conversion of convertible bonds	197,239	701,507	-	-	-	-	-	898,746	-	898,746
Share-based payment arrangements	-	1,689	-	-	-	-	-	1,689	-	1,689
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(583)	(583)
Issuance of shares for exercise of employee stock options	4,650	9,904	-	-	-	-	-	14,554	-	14,554
Balance at December 31, 2023	\$ 1,453,423	1,485,802	567,915	68,858	2,193,808	2,830,581	(81,379)	5,688,427	-	5,688,427

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	2023	2022
Cash flows from (used in) operating activities:		
Consolidated net income before tax	\$ 1,199,008	1,276,281
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	151,786	139,892
Reversal of impairment loss determined in accordance with IFRS9	(39)	(12,591)
Net gain on financial assets or liabilities at fair value through profit or loss	-	(1,737)
Interest expense	10,502	16,882
Interest income	(59,149)	(15,798)
Share-based payment transactions	1,689	4,412
Share of profit of associates accounted for using equity method	(4,040)	-
Loss (gain) on disposal of property, plant and equipment	1,461	(1,481)
Total adjustments to reconcile profit and loss	<u>102,210</u>	<u>129,579</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss	-	593,218
Notes receivable	2,497	(14,901)
Accounts receivable	724,661	(598,968)
Accounts receivable due from related parties	8,808	(10,604)
Other receivables	(2,945)	9,670
Inventories	695,139	(187,433)
Prepayments	5,230	8,423
Other current assets	25,764	26,960
Other financial assets – current	-	2,416
Total changes in operating assets, net	<u>1,459,154</u>	<u>(171,219)</u>
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	(7)	1,130
Contract liabilities	81,658	87,433
Accounts payable	(394,993)	(65,592)
Other payables	(35,505)	291,621
Provisions	31,579	20,499
Other current liabilities	(16,698)	(25,668)
Net defined benefit liabilities	(340)	(655)
Deferred revenue	(836)	5,529
Total changes in operating liabilities, net	<u>(335,142)</u>	<u>314,297</u>
Total changes in operating assets and liabilities, net	<u>1,124,012</u>	<u>143,078</u>
Total adjustments	<u>1,226,222</u>	<u>272,657</u>
Cash flow from operating activities	2,425,230	1,548,938
Interest income received	56,155	15,388
Interest paid	(7,417)	(14,376)
Income taxes paid	(219,062)	(91,755)
Net cash flows from operating activities	<u>2,254,906</u>	<u>1,458,195</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at amortised cost	(1,087,000)	-
Proceeds from disposal of financial assets at amortised cost	-	210,000
Acquisition of investments accounted for using equity method	-	(820)
Acquisition of property, plant and equipment	(52,764)	(143,488)
Proceeds from disposal of property, plant and equipment	668	1,732
Decrease (increase) in refundable deposits	1,047	(4,651)
Decrease in other non-current assets	2,829	10,561
Increase in prepayments for equipment	(1,517)	(2,349)
Net cash (used in) flows from investing activities	<u>(1,136,737)</u>	<u>70,985</u>
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	-	221,140
Decrease in short-term borrowings	(87,934)	(300,751)
Repayments of long-term borrowings	-	(949)
Payment of lease liabilities	(50,135)	(45,956)
Increase (decrease) in other non-current liabilities	(9,203)	3,201
Cash dividends paid	(474,030)	(354,130)
Proceeds from exercise of employee stock options	14,554	33,975
Changes in non-controlling interests	(583)	-
Net cash used in financing activities	<u>(607,331)</u>	<u>(443,470)</u>
Effect of exchange rate changes on cash and cash equivalents	(8,382)	58,839
Net increase in cash and cash equivalents	502,456	1,144,549
Cash and cash equivalents at beginning of period	2,677,165	1,532,616
Cash and cash equivalents at end of period	<u>\$ 3,179,621</u>	<u>2,677,165</u>

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

(1) Company history

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

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

The consolidated financial statements were authorized for issue by the Board of Directors and issued on March 14, 2024.

(3) New standards, amendments and interpretations adopted:

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

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2023:

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The Group has initially adopted the new amendment, which do not have a significant impact on its consolidated financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform – Pillar Two Model Rules”

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

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”

(Continued)

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

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

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

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IAS21 “Lack of Exchangeability”

(4) Summary of material accounting policies

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

- (a) Statement of compliance

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

- (b) Basis of preparation

- (i) Basis of measurement

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

- (ii) Functional and presentation currency

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

(Continued)

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

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

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

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

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

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

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

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

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

(Continued)

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

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

List of subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership		Note
			December 31, 2023	December 31, 2022	
The Company	LANNER ELECTRONICS USA, INC. (LANNER (USA))	Trading of computer peripheral products	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS (MAURITIUS) INC. (LANNER (MAURITIUS))	Investing	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS CANADA LTD. (LCA)	Trading of computer peripheral products	100.00 %	100.00 %	
The Company	LANNER TECHNOLOGY JAPAN CO., LTD. (LANNER (JAPAN))	Trading of computer peripheral products	- %	80.00 %	Note 1
The Company	Whitebox Solutions Inc. (Whitebox)	Trading of computer peripheral products	100.00 %	100.00 %	
The Company	LANNER EUROPE B.V.(LEU)	Trading of computer peripheral products	100.00 %	100.00 %	
The Company	LannerTech Electronics Inc. (LannerTech)	Research and development	100.00 %	100.00 %	
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	
LANCOM	L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral products	100.00 %	100.00 %	
LANCOM	Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral products	100.00 %	100.00 %	
L&S	Dongguan Lihua Haiwell Tech. Co., Ltd. (Haiwell)	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	

Note 1: LANNER TECHNOLOGY JAPAN CO., LTD. has been liquidated in November 2023.

- (d) Foreign currency

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

(Continued)

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

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

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

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

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

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

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

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

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

(f) Cash and cash equivalents

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

(Continued)

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

(g) Financial instruments

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

(i) Financial assets

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

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

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

(Continued)

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

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

3) Fair value through profit or loss (FVTPL)

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

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

4) Impairment of financial assets

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

5) Derecognition of financial assets

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

(Continued)

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

2) Equity instrument

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

3) Treasury shares

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

4) Compound financial instruments

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

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

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

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

5) Financial liabilities

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

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

(Continued)

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

6) Derecognition of financial liabilities

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

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

7) Offsetting of financial assets and liabilities

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

8) Financial guarantee contract

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

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

(iii) Derivative financial instruments

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

(h) Inventories

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

(Continued)

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

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

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

The equity of associates is incorporated in the financial statements using the equity method. Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the changes in ownership interests of the associate in capital surplus in proportion to its ownership interests.

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

When the Group's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(j) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(Continued)

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

(iii) Depreciation

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

Land is not depreciated.

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

1) buildings	20~51 years
2) machinery	2~9 years
3) other equipment	1~20 years

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

(k) Leases

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

(i) As a lessee

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

(Continued)

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

(ii) As a lessor

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

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

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

(l) Impairment – non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

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

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

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

(Continued)

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

(m) Provisions

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

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

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

(n) Revenue from contracts with customers

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

(i) Sale of goods

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

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

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

(Continued)

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

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

(ii) Financing components

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

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

(iii) Short-term employee benefits

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

(Continued)

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

(p) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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

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

(q) Income tax

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

The Group has determined that the global minimum top-up tax – which it is required to pay under Pillar Two legislation – is an income tax in the scope of IAS 12. The Group has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

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

(Continued)

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

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

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

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

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

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

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

- (r) Earnings per share

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

(Continued)

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

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

(s) Operating segments

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

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

In preparing these consolidated financial statements, management has made judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

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

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

(a) Inventory measurement

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

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2023	December 31, 2022
Cash on hand	\$ 468	271
Demand deposits	818,975	755,499
Checking deposits	22,056	953
Foreign currency deposits	1,098,425	636,822
Time deposits	<u>1,239,697</u>	<u>1,283,620</u>
Cash and cash equivalents per statements of cash flow	<u><u>\$ 3,179,621</u></u>	<u><u>2,677,165</u></u>

(Continued)

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

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

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Financial liabilities designated at fair value through profit or loss:		
Contingent consideration assumed in a business combination	<u>\$ 11,653</u>	<u>11,660</u>

As of December 31, 2023 and 2022, the Group had no financial assets at fair value through profit or loss.

(c) Financial assets measured at amortized cost

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Time deposits	<u>\$ 1,137,000</u>	<u>50,000</u>
Interest rate (%)	1.31~1.41	0.53~1.175
Maturity dates	2024.01~ 2024.05	2023.02

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

The Group's financial assets measured at amortized cost had not pledged as collateral.

(d) Notes and accounts receivable

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Notes receivable	\$ 31,464	33,961
Accounts receivable	1,177,082	1,902,028
Accounts receivable—related parties	1,796	10,604
Less: allowance for impairment	<u>30,302</u>	<u>30,626</u>
	<u>\$ 1,180,040</u>	<u>1,915,967</u>

(Continued)

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

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision in Asia (except China), America, and Europe was determined as follows:

	December 31, 2023		
	Gross carrying amount	Weighted- average ECL rate	Lifetime ECLs
Current	\$ 848,464	0%~0.11%	472
1 to 30 days past due	65,045	0%~0.91%	365
31 to 60 days past due	679	0.24%~38.68%	31
61 to 90 days past due	450	21.08%~100%	95
91 to 120 days past due	198	43.75%~100%	139
More than 121 days past due	8,086	100%	8,086
	\$ 922,922		9,188

	December 31, 2022		
	Gross carrying amount	Weighted- average ECL rate	Lifetime ECLs
Current	\$ 1,565,963	0.02%~0.22%	679
1 to 30 days past due	76,152	0%~1.63%	692
31 to 60 days past due	12,011	8.81%~19.44%	1,059
61 to 90 days past due	80	37.57%~58.09%	30
91 to 120 days past due	7,359	56.04%~100%	4,124
More than 121 days past due	-	100%	-
	\$ 1,661,565		6,584

The loss allowance provision in China was determined as follows:

	December 31, 2023		
	Gross carrying amount	Weighted- average ECL rate	Lifetime ECLs
Current	\$ 234,496	0.07%~0.3%	628
1 to 30 days past due	9,627	0.31%~2.26%	110
31 to 60 days past due	28,033	0.85%~3.14%	876
61 to 90 days past due	-	0.77%~18.05%	-
91 to 120 days past due	-	100%	-
121 to 150 days past due	-	100%	-
151 to 180 days past due	-	100%	-
More than 181 days past due	15,264	100%	15,264
	\$ 287,420		16,878

(Continued)

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

	December 31, 2022		
	Gross carrying amount	Weighted- average ECL rate	Lifetime ECLs
Current	\$ 248,347	0%~0.22%	108
1 to 30 days past due	19,828	0.1%~4.88%	19
31 to 60 days past due	1,387	0.29%~11.95%	4
61 to 90 days past due	-	19.69%~24.15%	-
91 to 120 days past due	2	37.75%~44.75%	1
121 to 150 days past due	-	100%	-
151 to 180 days past due	-	100%	-
More than 181 days past due	15,464	100%	15,464
	\$ 285,028		15,596

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

	2023	2022
Balance at beginning of the period	\$ 30,626	42,086
Impairment losses reversed	(39)	(12,591)
Foreign exchange losses (gains)	(285)	1,131
Balance at end of the period	\$ 30,302	30,626

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

(e) Other receivables

	December 31, 2023	December 31, 2022
Other	\$ 53,669	51,720
Less: Loss allowance	37,880	38,630
	\$ 15,789	13,090

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

	2023	2022
Balance at beginning of period	\$ 38,630	38,039
Foreign exchange losses (gains)	(750)	591
Balance at end of period	\$ 37,880	38,630

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

(Continued)

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

(f) Inventories

	December 31, 2023	December 31, 2022
Merchandise	\$ 4,104	84
Finished goods	882,022	1,397,325
Work in process	411,742	380,863
Raw material	<u>727,256</u>	<u>941,991</u>
	<u>\$ 2,025,124</u>	<u>2,720,263</u>

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

As of December 31, 2023 and 2022, the Group's inventories had not pledged as collateral.

A side from charging operating costs through the ordinary sale of inventories, other gains and losses directly recorded under operating costs in the years 2023 and 2022 were as follows:

	2023	2022
Loss on market value of inventory	\$ 22,777	95,499
Loss from scrapped inventory	50,721	45,554
Loss (gain) on physical count	<u>1,869</u>	<u>(2)</u>
Total	<u>\$ 75,367</u>	<u>141,051</u>

(g) Property, plant and equipment

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

	Land	Buildings	Machinery	Other equipment	Total
Cost:					
Balance as of January 1, 2023	\$ 521,992	681,444	270,794	562,694	2,036,924
Additions	-	-	13,936	38,828	52,764
Disposals	-	-	(5,000)	(4,460)	(9,460)
Reclassification	-	-	-	1,278	1,278
Effect of changes in exchange rates	<u>(15)</u>	<u>(4,209)</u>	<u>(440)</u>	<u>(1,987)</u>	<u>(6,651)</u>
Balance as of December 31, 2023	<u>\$ 521,977</u>	<u>677,235</u>	<u>279,290</u>	<u>596,353</u>	<u>2,074,855</u>
Balance as of January 1, 2022	\$ 519,167	674,347	163,945	573,145	1,930,604
Additions	-	-	115,522	27,966	143,488
Disposals	-	-	(13,978)	(47,914)	(61,892)
Reclassification	-	-	4,062	4,004	8,066
Effect of changes in exchange rates	<u>2,825</u>	<u>7,097</u>	<u>1,243</u>	<u>5,493</u>	<u>16,658</u>
Balance as of December 31, 2022	<u>\$ 521,992</u>	<u>681,444</u>	<u>270,794</u>	<u>562,694</u>	<u>2,036,924</u>

(Continued)

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Total</u>
Depreciation:					
Balance as of January 1, 2023	\$ -	192,980	131,774	430,930	755,684
Depreciation	-	23,193	25,231	55,805	104,229
Disposal	-	-	(2,979)	(4,352)	(7,331)
Reclassification	-	(1,913)	2	1,911	-
Effect of changes in exchange rates	-	(1,014)	(223)	(1,113)	(2,350)
Balance as of December 31, 2023	<u>\$ -</u>	<u>213,246</u>	<u>153,805</u>	<u>483,181</u>	<u>850,232</u>
Balance as of January 1, 2022	\$ -	165,981	131,411	416,876	714,268
Depreciation	-	25,097	13,544	58,539	97,180
Disposal	-	-	(13,978)	(47,663)	(61,641)
Effect of changes in exchange rates	-	1,902	797	3,178	5,877
Balance as of December 31, 2022	<u>\$ -</u>	<u>192,980</u>	<u>131,774</u>	<u>430,930</u>	<u>755,684</u>
Carrying amounts:					
December 31, 2023	<u>\$ 521,977</u>	<u>463,989</u>	<u>125,485</u>	<u>113,172</u>	<u>1,224,623</u>
December 31, 2022	<u>\$ 521,992</u>	<u>488,464</u>	<u>139,020</u>	<u>131,764</u>	<u>1,281,240</u>
January 1, 2022	<u>\$ 519,167</u>	<u>508,366</u>	<u>32,534</u>	<u>156,269</u>	<u>1,216,336</u>

Please refer to note 8 for the information of the pledged property, plant and equipment, as of December 31, 2023 and 2022.

(h) Right-of-use assets

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

	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2023	\$ 135,268	8,854	144,122
Additions	32,964	1,400	34,364
Write-off	(17,021)	(1,565)	(18,586)
Lease modification	(1,200)	(2,922)	(4,122)
Effect of changes in foreign exchange rates	(1,587)	-	(1,587)
Balance at December 31, 2023	<u>\$ 148,424</u>	<u>5,767</u>	<u>154,191</u>
Balance at January 1, 2022	\$ 128,692	16,202	144,894
Additions	14,063	1,784	15,847
Write-off	(10,266)	(9,132)	(19,398)
Effect of changes in foreign exchange rates	2,779	-	2,779
Balance at December 31, 2022	<u>\$ 135,268</u>	<u>8,854</u>	<u>144,122</u>

(Continued)

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

	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Depreciation:			
Balance at January 1, 2023	\$ 61,552	4,373	65,925
Depreciation	45,220	2,337	47,557
Write-off	(17,021)	(1,565)	(18,586)
Lease modification	(536)	(1,831)	(2,367)
Effect of changes in foreign exchange rates	(1,073)	-	(1,073)
Balance at December 31, 2023	<u>\$ 88,142</u>	<u>3,314</u>	<u>91,456</u>
Balance at January 1, 2022	\$ 32,600	9,355	41,955
Depreciation	38,562	4,150	42,712
Write-off	(10,266)	(9,132)	(19,398)
Effect of changes in foreign exchange rates	656	-	656
Balance at December 31, 2022	<u>\$ 61,552</u>	<u>4,373</u>	<u>65,925</u>
Carrying value:			
December 31, 2023	<u>\$ 60,282</u>	<u>2,453</u>	<u>62,735</u>
December 31, 2022	<u>\$ 73,716</u>	<u>4,481</u>	<u>78,197</u>
January 1, 2022	<u>\$ 96,092</u>	<u>6,847</u>	<u>102,939</u>

The Group did not pledge any collateral on right-of-use assets.

(i) Short-term borrowings

	<u>December 31, 2022</u>		
	<u>Currency</u>	<u>Interest rate (%)</u>	<u>Maturity year</u>
Secured loans	RMB	3.2	2023
			<u>\$ 87,796</u>

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

As of December 31, 2023 and 2022, the unused credit facilities of the Group's short-term borrowings amounted to \$1,608,757 thousand and \$1,733,413 thousand, respectively.

The Group has mortgaged their assets as collateral of loans. Please refer to note 8.

(Continued)

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

(j) Provision-current

	<u>Warranty provision</u>	<u>Onerous contracts</u>	<u>Total</u>
Balance as of January 1, 2023	\$ 75,478	-	75,478
Provisions made during the year	39,148	24,298	63,446
Provisions used during the year	(26,456)	-	(26,456)
Reversal of provisions during the year	(5,985)	-	(5,985)
Effect of changes in exchange rates	574	-	574
Balance as of December 31, 2023	<u>\$ 82,759</u>	<u>24,298</u>	<u>107,057</u>
Balance as of January 1, 2022	\$ 54,979	-	54,979
Provisions made during the year	53,186	-	53,186
Provisions used during the year	(30,699)	-	(30,699)
Reversal of provisions during the year	(2,950)	-	(2,950)
Effect of changes in exchange rates	962	-	962
Balance as of December 31, 2022	<u>\$ 75,478</u>	<u>-</u>	<u>75,478</u>

In 2023 and 2022, provisions are estimated based on the historical data of trading of interment communications equipment, which are mainly associated with the Group's business products. The Group anticipates the warranties to occur in the following year of the sales.

In 2023, in order to meet its obligation in the purchase contracts, the Group expected the benefit to be lower than the expected cost. The Group accrued its provision according to the contracts, and the adjustment was recorded under cost of goods sold..

(k) Bonds payable

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Total amount of convertible bonds upon issuance	\$ 900,000	900,000
Unamortized discount on bonds payable	-	6,992
Less: Accumulated converted balance due within a year	(900,000)	-
Ending balance of bonds payable	<u>\$ -</u>	<u>-</u>
Equity component — conversion options (recorded as capital surpluses — share options)	<u>\$ -</u>	<u>22,680</u>
	<u>2023</u>	<u>2022</u>
Interest expenses	<u>\$ 5,738</u>	<u>7,565</u>

(Continued)

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

(ii) On June 19, 2020, the first domestic unsecured convertible bonds issued by the Group were approved at the shareholders' meeting under the private placement, fully funded on November 19, 2020, and fully converted on October 2, 2023, respectively. The primary term and conditions of the bonds are as follows:

- 1) Principal amount: \$900,000 thousand.
- 2) Issue price: 100% of the principal amount of the bonds, with a par value of \$100 thousand.
- 3) Coupon rate: 0%.
- 4) Repayment method: The Group may redeem the bonds in cash at 100% par value of the bonds upon maturity, with the exception of those converted into ordinary shares of the Group by the private bondholders in accordance with Article 10 of the issuance and conversion method.
- 5) Issue period: 3 years (December 4, 2020 to December 4, 2023).
- 6) Conversion Period:

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

- 7) Conversion price and adjustment:

The conversion price was set at \$55.62 per share. On August 23, 2023, August 12, 2022 and August 10, 2021, the adjustment conversion price was \$45.63, \$50.28 and \$52.44, respectively. After the issuance of the converted bonds, if the Group issue additional common share (included but not limited to capital increase by issuing additional stock shares through public or private placement, capital increased out of retained earnings, capitalization of reserves, company merged or issuance of new shares due to acquisition of shares of another company, stock split or cash capital increase through issue oversea depositary receipt) apart from common shares that entitled to conversion rights or stock options to exchange for common shares or when new shares are issued for employee compensation, the conversion price shall be adjusted according to the formula in the issuance terms as follows. Adjustment price will be based on the Ex-date of the new issuance share and be disclose on the Taiwan Market Observation Post System. However, if there is a scheduled payment date then the adjustment price will be based on the date when payment fully received. If the priced changed after the Ex-date then the price per share shall be adjusted according to the formula. If the adjustment price after the calculation is lower than the Ex-date price then the price will be re-announced.

(Continued)

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

(l) Lease liabilities

The Group's lease liabilities were as follow:

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Current	\$ <u>39,420</u>	<u>39,386</u>
Non-current	\$ <u>23,379</u>	<u>38,878</u>

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

The amounts recognized in profit or loss were as follows:

	<u>2023</u>	<u>2022</u>
Interest on lease liabilities	\$ <u>2,575</u>	<u>3,252</u>
Expenses relating to short-term leases	\$ <u>4,008</u>	<u>4,098</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>2,174</u>	<u>2,737</u>

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

	<u>2023</u>	<u>2022</u>
Total cash outflow for leases	\$ <u>58,892</u>	<u>56,043</u>

(m) Employee benefits

(i) Defined benefit plans

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

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
The present value of the defined benefit obligations	\$ 62,951	54,563
Fair value of plan assets	<u>(18,531)</u>	<u>(19,284)</u>
The net defined benefit liability	\$ <u>44,420</u>	<u>35,279</u>

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement.

1) Composition of plan assets

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

(Continued)

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$18,531 thousand as of December 31, 2023. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in present value of the Group's defined benefit plan obligation for the years ended December 31, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Defined benefit obligation at 1 January	\$ 54,563	63,221
Current service costs and interest	1,052	607
Remeasurements of the net defined benefit liability		
– Due to changes in financial assumption of actuarial (losses) gains	9,633	(1,998)
Benefits paid by the plan	<u>(2,297)</u>	<u>(7,267)</u>
Defined benefit obligation at December 31	<u>\$ 62,951</u>	<u>54,563</u>

3) Movements in fair value of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Fair value of plan assets, January 1	\$ 19,284	23,444
Interest income	283	131
Remeasurements of the net defined benefit liability		
– Return on plan assets (excluding amounts included in net interest expense)	152	1,845
Contributions made	1,109	1,131
Benefits paid by the plan	<u>(2,297)</u>	<u>(7,267)</u>
Fair value of plan assets, December 31	<u>\$ 18,531</u>	<u>19,284</u>

(Continued)

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

4) Expenses recognized in profit or loss

The expenses recognized on profit or loss for the years ended December 31, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Current service cost	\$ 240	259
Net interest on the defined benefit liability	<u>529</u>	<u>217</u>
	<u>\$ 769</u>	<u>476</u>
	<u>2023</u>	<u>2022</u>
Operating costs	\$ 391	376
Operating expenses	<u>378</u>	<u>100</u>
	<u>\$ 769</u>	<u>476</u>

5) Actuarial assumptions

The principal actuarial assumption used to determine the present value of the defined benefit obligation on December 31, 2023 and 2022 is as follows:

	<u>2023.12.31</u>	<u>2022.12.31</u>
Discount rate	1.625 %	1.750 %
Future salary increases rate	3.300 %	3.300 %

The Group expects to make contributions of \$1,128 thousand to the defined benefit plans in the next year starting from the reporting date of 2023.

The weighted average duration of the defined benefit obligation is 11.27 years.

6) Sensitivity analysis

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

As of December 31, 2023 and 2022, the impacts on present value of defined benefit obligation due to the changes in the actuarial assumptions were as :

	The impact on defined benefit obligation	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2023		
Discount rate	\$ (742)	766
Future salary increase	732	(715)
December 31, 2022		
Discount rate	(871)	898
Future salary increase	868	(841)

(Continued)

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

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2023 and 2022.

(ii) Defined contribution plans

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

The Group's pension costs under the defined contribution method were \$40,296 thousand and \$39,132 thousand for 2023 and 2022, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

(iii) Short-term employee benefit

	December 31, 2023	December 31, 2022
Annual leave benefit	\$ 36,139	33,309

(n) Income tax

(i) Income tax expenses

The amount of income tax expense for 2023 and 2022 were as follows:

	2023	2022
Current tax expense (benefit)		
Current period	\$ 232,068	295,183
Adjustment for prior periods	(26,793)	(21,963)
	<u>205,275</u>	<u>273,220</u>
Deferred income tax expense (benefit)		
Origination and reversal of temporary differences	6,504	(147)
Income tax expense (benefit) from continuing operations	\$ 211,779	273,073

(Continued)

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

Reconciliation of the Company's income tax expense and the profit before tax for 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Net income before tax	<u>\$ 1,199,008</u>	<u>1,276,281</u>
Income tax using the Company's domestic tax rate	\$ 239,802	255,256
Effect of tax rates in foreign jurisdiction	9,341	(7,823)
Previously overestimate income tax	(26,793)	(21,963)
Non-deductible expenses	84	16,151
R&D tax credits utilized	(40,850)	(33,338)
Current-year loss for which no deferred tax asset was recognized	18,684	9,488
Change in unrecognized temporary difference	(6,290)	17,215
Others	<u>17,801</u>	<u>38,087</u>
Total	<u>\$ 211,779</u>	<u>273,073</u>

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

Deferred income tax assets have not been recognized in respect of the following items:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Deductible temporary differences	\$ 43,699	68,859
Tax losses	<u>183,011</u>	<u>37,956</u>
	<u>\$ 226,710</u>	<u>106,815</u>

Tax losses are subject to local income tax laws, taxation may be made on its net income after deduction of losses incurred in the previous years. Deferred tax assets have not been recognized in respect of these items because it is not probable that the combined company will have sufficient taxable income in the future which the Group can utilize the benefits therefrom.

The Group estimated unused loss carry-forwards up to December 31, 2023 was as follows:

<u>Year of loss</u>	<u>Unused amount</u>	<u>Year of expiry</u>
Subsidiaries in the PRC:		
2022	\$ 87,504	2027
2023	43,578	2028
Subsidiaries in the Netherlands:		
2021	2,099	None
2022	31,670	None
2023	<u>18,160</u>	None
	<u>\$ 183,011</u>	

(Continued)

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

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2023 and 2022 were as follows:

Deferred income tax assets:

	Allowance for inventory valuation	Unrealized profit from sales	Tax differences from sales	Others	Total
Balance at January 1, 2023	\$ 29,802	54,759	13,106	32,741	130,408
Recognized in profit or loss and other	<u>16,173</u>	<u>(13,107)</u>	<u>(2,150)</u>	<u>2,425</u>	<u>3,341</u>
Balance at December 31, 2023	<u>\$ 45,975</u>	<u>41,652</u>	<u>10,956</u>	<u>35,166</u>	<u>133,749</u>
Balance at January 1, 2022	\$ 26,562	34,972	10,713	27,760	100,007
Recognized in profit or loss and other	<u>3,240</u>	<u>19,787</u>	<u>2,393</u>	<u>4,981</u>	<u>30,401</u>
Balance at December 31, 2022	<u>\$ 29,802</u>	<u>54,759</u>	<u>13,106</u>	<u>32,741</u>	<u>130,408</u>

Deferred income tax liabilities:

	Foreign investment income accounted for using equity method	Others	Total
Balance at January 1, 2023	\$ (246,960)	-	(246,960)
Recognized in profit or loss	<u>(9,886)</u>	<u>-</u>	<u>(9,886)</u>
Balance at December 31, 2023	<u>\$ (256,846)</u>	<u>-</u>	<u>(256,846)</u>
Balance at January 1, 2022	\$ (216,613)	(93)	(216,706)
Recognized in profit or loss	<u>(30,347)</u>	<u>93</u>	<u>(30,254)</u>
Balance at December 31, 2022	<u>\$ (246,960)</u>	<u>-</u>	<u>(246,960)</u>

(iii) Assessment of tax

The tax returns of the Company have been assessed by the tax authorities through 2021.

(Continued)

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

(iv) Global minimum top-up tax

The consolidated subsidiaries operate in the Netherlands, which has enacted a new legislation to implement the global minimum top-up tax that has come into effect since January 1, 2024. Hence, there is no effect on the income tax expense for the Group as of December 31, 2023. If the new tax rules became effective in 2023, the effect on the income tax expense would not be material considering the consolidated subsidiaries recognized pre-tax net losses in 2023 in the said country of operation.

(o) Capital and other equity

As of December 31, 2023 and 2022, the ordinary shares with par value of \$10 per share, amounted to \$2,000,000 thousand; also, of which 145,342 thousand and 118,042 thousand common stocks, respectively, were issued from the shares mentioned above. All issued shares were paid up upon issuance.

Reconciliations of the Company's outstanding shares for the years ended December 31, 2023 and 2022 were as follows:

	Unit: thousands shares	
	2023	2022
Balance at January 1	118,042	117,003
Exercise of employee share options	465	1,039
Capitalization of retained earnings	7,111	-
Conversion of convertible bonds	19,724	-
Balance at December 31	145,342	118,042

(i) Issue of common stock

For the year ended December 31, 2023 and 2022, the Company' 465 thousand shares and 1,039 thousand shares of common stocks, respectively, as its employees exercised their stock option at \$31.3 per share and \$32.7 per share, respectively.

On June 21, 2023, the shareholders' meeting approved a resolution to transfer the undistributed earnings of \$71,110 thousand for the issuance of 7,111 thousand shares of common stocks, with a face value of \$10 dollars per share. The relevant statutory registration procedures have since been completed.

For the years ended December 31, 2023, the Company's convertible bonds of \$900,000 thousand, were converted to 19,724 thousand shares of common stocks, at \$45.63 per share.

(Continued)

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

(ii) Capital surplus

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

	December 31, 2023	December 31, 2022
Share premium from issuance	\$ 1,446,824	709,058
Changes in equity of subsidiaries	17,539	17,539
Employee share options	10,860	13,925
Share options	-	22,680
Employee share options expired	<u>10,579</u>	<u>9,500</u>
	<u>\$ 1,485,802</u>	<u>772,702</u>

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

(iii) Retained earnings

1) Legal reserve

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

2) Special earnings reserve

By choosing to apply exemptions granted under IFRS 1 First-time Adoption of International Financial Reporting Standards during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments (gains) recognized under shareholders' equity were reclassified to retained earnings at the adoption date. An increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special earnings reserve during earnings distribution. However, when adjusted retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC are insufficient for the appropriation of a special earnings reserve at the transition date, the Company may appropriate a special earnings reserve up to the amount of increase in retained earnings. Upon the use, disposal, or reclassification of related assets, the Company may reverse the special earnings reserve proportionately. As a result of elections made according to IFRS 1, the Company has reclassified \$(13,624) thousand to retained earnings and is not required to appropriate a special earnings reserve.

(Continued)

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

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

3) Earnings distribution

In accordance with the Company's articles of incorporation that after-tax earnings from the current year shall first be used to offset against any prior year's deficit and pay income tax; and 10% of the remaining balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Special reserve may be appropriated for operations or to meet regulations. After the distribution of dividends, the remaining earnings, if any, may be appropriated according to the proposal presented in the annual stockholders' meetings by the board of directors. Distribution plan shall be executed after a resolution by the shareholders' meeting. The Company authorizes the Distribution plan paid in cash shall be executed after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

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

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

(Continued)

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

The amount of cash dividends on the appropriations of earning for 2022 and 2021 was approved during the board meeting on May 4, 2023 and May 5, 2022, respectively, the remaining appropriations of earnings were approved in the shareholders' meeting on June 21, 2023 and June 17, 2022, respectively. The amounts of the dividends distributed to the shareholders were as follows:

	2022		2021	
	Amount per share (NTD)	Total Amount	Amount per share (NTD)	Total Amount
Dividends distributed to ordinary stockholders:				
Cash	\$ 4.00	474,030	3.00	354,130
Shares	0.60	<u>71,110</u>	-	<u>-</u>
Total		<u><u>\$ 545,140</u></u>		<u><u>354,130</u></u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation
Balance at January 1, 2023	\$ (68,858)
Foreign exchange differences arising from foreign operation	(13,785)
Disposal of other equity in foreign operations reclassified to profit or loss	<u>1,264</u>
Balance at December 31, 2023	<u><u>\$ (81,379)</u></u>
Balance at January 1, 2022	\$ (135,875)
Foreign exchange differences arising from foreign operation	<u>67,017</u>
Balance at December 31, 2022	<u><u>\$ (68,858)</u></u>

(Continued)

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

(p) Share-based payment

On December 9, 2019, the Securities and Futures Bureau approved the Company's issuance of 3,000 units of Employee's Stock option; with each unit representing 1,000 shares of common stock, wherein a total of 3,000 thousand shares may be subscribed. The option holder is eligible, two years after issuance until five years maturity of issuance, to convert a certain percentage of options to common stocks at the price designated on the issuance date. Under such circumstances as changes in equity or distribution of cash dividends, the exercise price per share and the number of subscriptions per option are to be adjusted using a specific formula. However, the adjusted exercise price should not be lower than the par value. All options were granted on March 19, 2020 and their fair value on the grant date was priced using the Black Scholes option pricing model. The weighted-average data of each assumption were as follows:

Dividend rate	-
Expected volatility	25.78 %
Risk-free interest rate	0.4750 %
Expected life	5 years

The Company estimates the compensation to be \$22,105 thousand based on the above assumptions. The compensation will be amortized over three years. Under the fair value method, the compensation of the option were estimated to be \$1,689 thousand and \$4,412 thousand for the year ended December 31, 2023 and 2022. The additional paid-in capital also increased due to the stock option plan.

The outstanding stock option rights were as follows:

<u>Employee stock options in 2019</u>	<u>2023</u>	
	<u>Units</u>	<u>Exercise price (dollars)</u>
Outstanding balance as of January 1	1,816	\$ 31.30
Options granted	-	-
Options exercised	465	31.30
Options cancelled	-	-
Options expired	85	-
Outstanding balance as of December 31	<u>1,266</u>	28.40
Exercisable as of December 31	<u>574</u>	-
Exercisable shares per unit as of December 31	<u>1,000</u>	
Fair market value	<u>\$ 8.6</u>	

(Continued)

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

<u>Employee stock options in 2019</u>	<u>2022</u>	
	<u>Units</u>	<u>Exercise price (dollars)</u>
Outstanding balance as of January 1	2,940	\$ 32.70
Options granted	-	-
Options exercised	1,039	32.70
Options cancelled	-	-
Options expired	85	-
Outstanding balance as of December 31	<u>1,816</u>	31.30
Exercisable as of December 31	<u>389</u>	-
Exercisable shares per unit as of December 31	<u>1,000</u>	
Fair market value	<u>\$ 8.6</u>	

As of December 31, 2023 and 2022, the expected duration of the employee stock option issued in 2019 was 1.22 years and 2.22 years, respectively.

(q) Earnings per share

The calculation of the Group's basic earnings per share and diluted earnings per share for years ended December 31, 2023 and 2022 were as follows:

(i) Basic earnings per share

	<u>2023</u>	<u>2022</u>
Net income attributable to ordinary shareholders of the Company	<u>\$ 987,425</u>	<u>1,003,279</u>
Weighted-average number of ordinary shares	<u>130,428</u>	<u>124,926</u>
Basic earnings per share (in NTD)	<u>\$ 7.57</u>	<u>8.03</u>

(ii) Diluted earnings per share

	<u>2023</u>	<u>2022</u>
Net income of the company	\$ 987,425	1,003,279
Effect of after tax interest expense of conversion bonds	4,591	6,052
Net income attributable to ordinary shareholders of the Company (diluted)	<u>\$ 992,016</u>	<u>1,009,331</u>
Weighted-average number of ordinary shares (basic)	130,428	124,926
Effect of dilutive potential ordinary shares		
Effect of employee stock bonus	2,072	2,740
Effect of employee stock option	931	934
Effect of conversion of convertible bonds	14,860	17,900
Weighted-average number of shares outstanding – diluted	<u>148,291</u>	<u>146,500</u>
Diluted EPS (New Taiwan dollars)	<u>\$ 6.69</u>	<u>6.89</u>

(Continued)

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

Unearned revenue, net for the Group's amounted to \$(984) thousand and \$5,071 thousand for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, accumulated unearned revenue amounted to \$56,623 thousand and \$57,459 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(ii) Contract balance

	December 31, 2023	December 31, 2022	January 1, 2022
Current contract liabilities	\$ <u>257,385</u>	<u>175,727</u>	<u>88,294</u>

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

The amount of revenue recognized for the years ended December 31, 2023 and 2022 that was included in the contract liability balance at the beginning of the period was \$162,178 thousand and \$88,294 thousand, respectively.

The contract liabilities primarily relate to the advance consideration received from customers for the electronic components sales contracts, for which revenue is recognized when products are delivered to customers.

(s) Remuneration to employees and directors

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

For the years ended December 31, 2023 and 2022, the Company recognized its employee remuneration of \$185,066 thousand and \$221,180 thousand, respectively, and directors' remuneration of \$17,083 thousand and \$17,694 thousand, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. Related information would be available at the Market Observation Post System website.

The amounts, as stated in the consolidated financial statements, are identical to those of the resolutions in Board of directors for 2023 and 2022.

(t) Non-operating income and expenses

(i) Interest income

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

	2023	2022
Interest income from bank deposits	\$ <u>59,149</u>	<u>15,798</u>

(Continued)

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

(ii) Other income

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

	<u>2023</u>	<u>2022</u>
Rent income	\$ 4,233	6,114
Other income	20,760	31,937
Total other income	<u>\$ 24,993</u>	<u>38,051</u>

(iii) Other gains and losses

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

	<u>2023</u>	<u>2022</u>
Gains (losses) on disposal of property, plant and equipment	\$ (1,461)	1,481
Losses on disposal of investments	(1,358)	-
Gains (losses) on foreign exchange, net	(34,993)	48,052
Gains on financial assets (liabilities) at fair value through profit	-	1,737
Other losses	(1,604)	(1,047)
Net on other gains and losses	<u>\$ (39,416)</u>	<u>50,223</u>

(iv) Finance costs

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

	<u>2023</u>	<u>2022</u>
Interest expense	<u>\$ 10,502</u>	<u>16,882</u>

(u) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

Approximately, 16% and 9% each constituting of the Group's total sales were derived from a single client in 2023 and 2022, respectively. Region wise, approximately 75% and 81% of the sales were significantly concentrated in Asia and America in 2023 and 2022, respectively.

(Continued)

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

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	2-5 years	Over 5 years
December 31, 2023						
Non-derivative financial liabilities						
Accounts payable	\$ 1,192,817	1,192,817	1,192,817	-	-	-
Other payables	917,077	917,077	917,077	-	-	-
Lease liabilities	62,799	65,418	41,379	17,867	6,172	-
Guarantee deposits received	2,248	2,248	-	-	-	2,248
Contingent consideration	11,653	11,653	11,653	-	-	-
	<u>\$ 2,186,594</u>	<u>2,189,213</u>	<u>2,162,926</u>	<u>17,867</u>	<u>6,172</u>	<u>2,248</u>
December 31, 2022						
Non-derivative financial liabilities						
Short-term borrowings	\$ 87,796	89,936	89,936	-	-	-
Accounts payable	1,587,810	1,587,810	1,587,810	-	-	-
Other payables	957,810	957,810	957,810	-	-	-
Bonds payable(including due within a year)	893,008	900,000	900,000	-	-	-
Lease liabilities	78,264	81,900	42,094	26,993	12,813	-
Guarantee deposits received	3,244	3,244	-	-	-	3,244
Contingent consideration	11,660	11,660	11,660	-	-	-
	<u>\$ 3,619,592</u>	<u>3,632,360</u>	<u>3,589,310</u>	<u>26,993</u>	<u>12,813</u>	<u>3,244</u>

(iii) Currency risk

1) Exposure to foreign currency risk

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

	Foreign currency	Exchange rate	NTD
December 31, 2023			
Financial assets:			
Monetary items:			
USD (note)	\$ 65,369	30.658	2,004,082
Financial liabilities:			
Monetary items:			
USD (note)	\$ 28,747	30.658	881,326
December 31, 2022			
Financial assets:			
Monetary items:			
USD (note)	\$ 86,495	30.675	2,653,228
Financial liabilities:			
Monetary items:			
USD (note)	\$ 40,171	30.675	1,232,259

Note: Amounts are designated before consolidation.

(Continued)

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

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade receivables and other payables that are denominated in foreign currency. A 1 dollar appreciation (depreciation) of the NTD against the USD as of December 31, 2023 and 2022 would have increased or decreased the net income before tax by \$36,622 thousand and \$46,324 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on Monetary items is disclosed by total amount. For the years ended December 31, 2023 and 2022, foreign exchange gains (losses) (including realized and unrealized abortions) amounted to \$(34,993) thousand and \$48,052 thousand, respectively.

(iv) Interest rate analysis

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

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

If the interest rate increases or decreases by 1%, the Group's net income before tax will increase or decrease by \$42,951 thousand and \$26,391 thousand, respectively, for the years ended December 31, 2023 and 2022, with all other variable factors remain constant. This is mainly due to the Group's bank deposits, financial assets measured at amortized cost and borrowings in variable rates.

(Continued)

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

(v) Information of fair value

1) Categories and fair value of financial instruments

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

	December 31, 2023				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss					
Contingent consideration assumed in a business combination	\$ <u>11,653</u>	<u>-</u>	<u>-</u>	<u>11,653</u>	<u>11,653</u>
	December 31, 2022				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss					
Contingent consideration assumed in a business combination	\$ <u>11,660</u>	<u>-</u>	<u>-</u>	<u>11,660</u>	<u>11,660</u>
Financial liabilities measured at amortized cost					
Bonds payable	<u>893,008</u>	<u>-</u>	<u>893,008</u>	<u>-</u>	<u>893,008</u>
Total	<u>\$ 904,668</u>	<u>-</u>	<u>893,008</u>	<u>11,660</u>	<u>904,668</u>

2) Valuation techniques and assumptions used in fair value determination

The financial instruments of the Group are evaluated by using the publicly-adopted valuation models. Open-ended funds are based on net assets value. Forward contracts are referred to the evaluation outcomes from financial institutions. The financial instrument in China is evaluated based on the market value. Contingent consideration assumed in a business combination is measured at fair value using discounted cash flow methodology and incorporates the probability of occurrence.

(v) Financial risk management

(i) Overview

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

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

(Continued)

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

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

(ii) Risk management framework

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

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

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

(iii) Credit risk

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

1) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by each customer's condition. However, management also considers the demographics of the customers, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances. The Group's accounts receivable and notes receivable are mainly due from customers in Asia and America, accounting 92% of the total amount of the receivables as of December 31, 2023. The Group's accounts receivable and notes receivable are mainly due from customers in Europe and America, accounting 81% of the total amount of the receivables as of December 31, 2022.

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

(Continued)

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

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

2) Investments

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

3) Guarantees

The Group's policy provides endorsements and guarantees to be offered only to companies who it has business relationship with, as well as to those companies who hold more than 50% of the voting rights of the consolidated company, either directly or indirectly. As of December 31, 2023 and 2022, the Group did not provide any endorsement and guarantees.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of the expected cash flows on financial liabilities (other than trade payables) over the succeeding 60 days. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As of December 31, 2023 and 2022, the Group's unused credit line were amounted to \$1,608,757 thousand and \$1,733,413 thousand, respectively.

(v) Market Risk

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

(Continued)

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

In order to manage market risk, the Group conducts derivative transactions and incurs financial liabilities. All such transactions are within the guidelines set by the Board of Directors. Generally, the Group seeks to apply trade date accounting in order to manage volatility in profit or loss.

1) Currency risk

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

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

2) Interest rate risk

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

(w) Capital management

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

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

	December 31, 2023	December 31, 2022
Total liabilities	\$ 3,448,985	4,772,233
Less: cash and cash equivalents	<u>3,179,621</u>	<u>2,677,165</u>
Net debt	\$ 269,364	2,095,068
Total equity	\$ 5,688,427	4,282,876
Debt-to-adjusted-capital ratio	<u>5 %</u>	<u>49 %</u>

The decreased of the debt to capital equity ratio as of December 31, 2023 was due to the decrease in convertible bonds.

As of December 31, 2023, no changes have been made on the capital management.

(Continued)

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

(x) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities for the years ended December 31, 2023 and 2022 were as follows:

	<u>January 1, 2023</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>December 31, 2023</u>
			<u>Foreign exchange movement</u>	<u>Amortization of discount</u>	<u>Others</u>	
Short-term borrowings	\$ 87,796	(87,934)	138	-	-	-
Bonds payable	893,008	-	-	5,738	(898,746)	-
Lease liabilities	78,264	(50,135)	(514)	-	35,184	62,799
Guarantee deposits received	3,244	-	-	-	(996)	2,248
Total liabilities from financing activities	<u>\$ 1,062,312</u>	<u>(138,069)</u>	<u>(376)</u>	<u>5,738</u>	<u>(864,558)</u>	<u>65,047</u>

	<u>January 1, 2022</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>December 31, 2022</u>
			<u>Foreign exchange movement</u>	<u>Amortization of discount</u>	<u>Others</u>	
Short-term borrowings	\$ 164,258	(79,611)	3,149	-	-	87,796
Bonds payable	885,443	-	-	7,565	-	893,008
Long-term borrowings (including current portion)	879	(949)	70	-	-	-
Lease liabilities	102,993	(45,956)	2,128	-	19,099	78,264
Guarantee deposits received	957	2,287	-	-	-	3,244
Total liabilities from financing activities	<u>\$ 1,154,530</u>	<u>(124,229)</u>	<u>5,347</u>	<u>7,565</u>	<u>19,099</u>	<u>1,062,312</u>

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

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2023, were as follows. For right-of-use assets under leases in the years ended December 31, 2022, please refer to note 6(h).

(i) For right-of-use assets under leases, please refer to note 6(h).

(ii) For conversion of convertible bonds to ordinary shares, please refer to note 6(k).

(7) Related-party transactions

(a) Related-party and relationship between the Company

The Group has transactions with its related parties as follows:

<u>Related-parties</u>	<u>Relationship between the Company</u>
Wanmily Investment Development Ltd. (Wanmily)	Chairman of the Company also serves as a director of the related-party
Lanner electronics cultural and educational foundation	Substantive related party
LANNER KOREA INC.	The Group recognized associates under equity method.
Mr. Yang Chen-Wei	Key management of Consolidated Company

(Continued)

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

(b) Significant related party transactions

(i) Operating revenue

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

	<u>2023</u>	<u>2022</u>
Associates	<u>\$ 137,742</u>	<u>10,573</u>

The sales price with related parties is not significantly different from normal transactions. The credit terms were about 60 days net from date of invoice, which were no significantly different from the credit terms with other customers.

(ii) Purchases

The amount of purchase transactions between the Group and related parties were as follows:

	<u>2023</u>	<u>2022</u>
Associates	<u>\$ 4,512</u>	<u>-</u>

There were no significant differences in purchase prices and payment terms between related parties and non-related suppliers.

(iii) Receivables from related parties

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

<u>Account</u>	<u>Type of related parties</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Account receivable— related parties	Associates	<u>\$ 1,796</u>	<u>10,604</u>

(iv) Payables to related parties

The payables due to related parties were as follows:

<u>Account</u>	<u>Type of related parties</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Other payable	Key management of Consolidated Company	<u>\$ 54,926</u>	<u>54,582</u>

(v) Leases

1) Lessee

Lease contracts with the period from June 2020 to May 2025 were signed with other related party on April 2020. In accordance with the contract, the Group provided \$175 thousand as deposit and booked the same amount under non-current assets. For the years ended December 31, 2023 and 2022, the Group recognized the amount of \$35 as interest expense, respectively. As of December 31, 2023 and 2022, the balance of lease liabilities amounted to \$1,821 thousand and \$3,106 thousand, respectively.

(Continued)

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

In addition, the rental expenses incurred by the Group due to short-term lease were as follows:

	2023	2022
Key management of Consolidated Company	\$ 923	-
2) Lessor		
	2023	2022
Other related parties:		
Lanner Foundation	\$ 327	326

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

(vi) Contribution

The Group agreed to contribute \$5,000 thousand and \$3,000 thousand to Lanner Foundation for the years ended December 31, 2023 and 2022, respectively, recorded under operating expenses.

(c) Key management personnel compensations

Key management personnel compensation comprised:

	2023	2022
Short-term employee benefits	\$ 138,492	148,850
Post-employment benefits	861	824
	\$ 139,353	149,674

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2023	December 31, 2022
Certificate of deposits (recorded under other financial assets – current)	Guarantee for customs	\$ 1,000	1,000
Property, plant and equipment:			
Building	Guarantee for short-term borrowings	-	176,911
		\$ 1,000	177,911

(Continued)

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

(9) Commitments and contingencies

A litigation against the Group was filed by a customer that disputed the quality of the products for which the Group had already taken out product liability insurance. However, the Group has hired a lawyer to deal with the matter, so as to protect its interest.

In addition, the Group submitted a counterclaim, demanding that the customer should pay the price specified in the contract. As of December 31, 2023, the result was pending.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other

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

By function	Year ended December 31 2023			Year ended December 31 2022		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
By nature						
Employee benefits						
Salary	216,180	906,529	1,122,709	235,822	1,059,950	1,295,772
Labor and health insurance	24,702	62,276	86,978	22,103	55,678	77,781
Pension	9,860	31,205	41,065	10,670	28,938	39,608
Others	14,282	33,074	47,356	14,614	32,935	47,549
Depreciation	60,570	91,216	151,786	46,518	93,374	139,892
Amortization	-	-	-	-	-	-

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(13) Other disclosures

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

(i) Loans to other parties: None.

(ii) Guarantees and endorsements for other parties:

No.	Name of company	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for one party	Highest balance for guarantees and endorsements during the year	Ending balance of guarantees and endorsements	Amount actually drawn	Property pledged on guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum allowable amount for guarantees and endorsements	Parent company endorsement / guarantees to third parties on behalf of subsidiary	Subsidiary endorsement / guarantees to third parties on behalf of parent company	Endorsements / guarantees to third parties on behalf of company in Mainland China
		Name	Relationship with the Company										
0	The Company	Haiwell	(2)	1,137,685	66,578	-	-	-	- %	2,844,214	Y	N	Y
0	The Company	L&S	(2)	1,137,685	102,086	-	-	-	- %	2,844,214	Y	N	Y

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

- (1) A company with which it does business.
- (2) A company in which the public company directly and indirectly holds more than 50 percent of the voting shares.
- (3) A company that directly and indirectly holds more than 50 percent of the voting shares in the public company.
- (4) A company in which the public company holds, directly and indirectly, 90 percent or more of voting shares.
- (5) A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
- (6) A company that all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages.
- (7) Companies in the same industry provide among themselves joint and several securities for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

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

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

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

(iii) Information regarding securities held at the reporting date (subsidiaries, associates and joint ventures not included): None

(iv) Information regarding purchase or sale of securities for the period exceeding 300 million or 20% of the Company's paid-in capital: None.

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

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

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

Unit: thousand dollars

Name of Company	Counter-party	Relationship	Transaction details				The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
The Company	LANNER (USA)	Subsidiary	(Sales)	(1,762,432)	(28) %	90 days	-	-	308,919	36 %	
LANNER (USA)	The Company	Subsidiary	Purchase	1,762,432	96 %	90 days	-	-	(308,919)	(96) %	
The Company	LCA	Subsidiary	(Sales)	(414,570)	(6) %	90 days	-	-	122,303	14 %	
LCA	The Company	Subsidiary	Purchase	414,570	92 %	90 days	-	-	(122,303)	(99) %	
The Company	LANNER KOREA	Associates	(Sales)	(137,742)	(2) %	60 days	-	-	1,796	- %	
Haiwell	L&S	Subsidiary	(Sales)	(578,555)	(72) %	60 days	-	-	-	- %	
L&S	Haiwell	Subsidiary	Purchase	578,555	100 %	60 days	-	-	-	- %	

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

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

Unit: thousand dollars

Name of related party	Counter-party	Relationship	Balance of receivables from related party (Note)	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	LANNER (USA)	Subsidiary	308,919	3.23	-		308,919 (Until March 14, 2024)	-
The Company	LCA	Subsidiary	122,303	2.27	-		106,619 (Until March 14, 2024)	-

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

(ix) Information regarding trading in derivative financial instruments: None.

(x) Significant transactions and business relationship between the parent company and its subsidiaries in December 31, 2023:

Unit: thousand dollars

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	LANNER (USA)	1	Sales	1,762,432	No significant differences	21.05%
0	The Company	LANNER KOREA	1	Sales	137,742	No significant differences	1.65 %
0	The Company	LCA	1	Sales	414,570	No significant differences	4.95 %
0	The Company	LANNER (USA)	1	Accounts receivable	308,919	No significant differences	3.38 %
0	The Company	LANNER KOREA	1	Accounts receivable	1,796	No significant differences	0.02 %
0	The Company	LCA	1	Accounts receivable	122,303	No significant differences	1.34 %
1	Haiwell	L&S	3	Sales	578,555	No significant differences	6.91 %
1	Haiwell	L&S	3	Advance receipts	84,885	No significant differences	0.93 %

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
- (2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) "1" represents downstream transactions.
- (2) "2" represents upstream transactions.
- (3) "3" represents sidestream transactions.

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

(b) Information on investees:

The following are the information on investees for the years ended December 31, 2023 (excluding information on investees in Mainland China):

Unit: thousand dollars/thousand shares

Name of investor	Investor investee	Address	Scope of business.	Original cost		Ending balance			Maximum investment in 2023	Net income of investee	Investment income (losses)	Remarks
				December 31, 2023	December 31, 2022	Shares	Ratio of shares	Book value				
The Company	LANNER ELECTRONICS USA, INC.	USA	Trading of computer peripheral equipment	248,819	248,819	7,850	100 %	385,657	248,819	42,459	42,459	(Note 1)
The Company	LANNER ELECTRONICS (MAURITIUS) INC.	Mauritius	Investing	119,282	119,282	3,853	100 %	905,688	119,282	(16,075)	(16,075)	(Note 1)
The Company	LANNER ELECTRONICS CANADA LTD.	Canada	Trading of computer peripheral equipment	153,926	153,926	5,105	100 %	176,896	153,926	10,113	10,113	(Note 1)
The Company	LANNER TECHNOLOGY JAPAN CO., LTD.	Japan	Trading of computer peripheral equipment	-	8,145	-	- %	-	8,145	(982)	(786)	(Note 1)
The Company	Whitebox Solutions Inc.	Taiwan	Trading of computer peripheral equipment	7,500	7,500	750	100 %	7,469	7,500	44	44	(Note 1)
The Company	Lanner Europe B.V	Netherlands	Trading of computer peripheral equipment	91,724	59,862	2,780	100 %	32,147	91,724	(18,160)	(18,160)	(Note 1)
The Company	LannerTech Electronics Inc.	Taiwan	Research and development	6,000	6,000	600	100 %	141	6,000	(87)	(87)	(Note 1)
The Company	LANNER KOREA INC.	South Korea	Trading of computer peripheral equipment	820	820	7	35 %	4,398	820	11,437	4,040	
LANNER ELECTRONICS (MAURITIUS) INC.	LANCOM HOLDING CO.,LTD.	Samoa	Investing	112,543	112,543	3,823	100 %	924,059	112,543	(15,868)	(15,868)	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation financial statements.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the scope of businesses and products, and other information:

Unit: thousand dollars

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2023	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2023	Net income (losses) on investee	Direct / indirect investment holding percentage	Maximum investment in 2023	Investment income (losses) (Note 2)	Book value (Note 2)	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount							
L&S	Trading of computer peripheral equipment	118,388	(2)	110,274	-	-	110,274	(22,971)	100.00 %	118,388	(22,971)	877,692	-
Haiwell	Manufacture and trading of computer peripheral products	92,037	(3)	-	-	-	-	913	100.00 %	92,037	(6,165)	76,547	-
Lanner Technology	Trading of computer peripheral equipment	22,099	(2)	-	-	-	-	5,742	100.00 %	22,099	5,742	16,004	-

Note 1: The method of investment is divided into the following three categories:

- (1) Direct investment in Mainland China.
- (2) Indirectly investment in Mainland China through companies registered in a third region- Investing in Mainland China through LANCOM HOLDING CO., LTD.
- (3) Other methods – Investing in Mainland China through L & S Lancom Platform Tech. Co., Ltd.

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

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

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount remitted from Taiwan to Mainland China at the end of the period	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	110,274	391,185	- (Note 1)

Note 1: The Company was certified as an operations center by the Industrial Development Bureau, Ministry of Economic Affairs, in approval letter No. 11020425720, and the certification is valid from 2021 to 2024. The Company has no limitation on investment in Mainland China during the abovementioned period.

(iii) Significant transactions with investees in Mainland China:

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

(d) Major shareholders:

Unit : Shares

Shareholder's Name	Shareholding	Shares	Percentage
Delta Electronics, Inc.		26,893,540	18.50 %
I-Wen Chou		10,823,754	7.44 %

(Continued)

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

(14) Segment information

(a) General information

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

(b) Geographic information

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

<u>Geographic information</u>	<u>2023</u>	<u>2022</u>
Revenue from external customers:		
United States	\$ 2,520,799	4,116,257
Emerging Europe	1,207,239	832,083
China	1,043,569	1,332,171
Israel	867,022	688,810
Canada	401,768	1,141,898
Others	2,330,940	1,707,867
Total	<u>\$ 8,371,337</u>	<u>9,819,086</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2023</u>	<u>2022</u>
Non-current assets:		
Taiwan	\$ 952,204	985,440
China	256,070	298,960
United States	66,857	73,667
Canada	14,446	3,364
Others	267	252
Total	<u>\$ 1,289,844</u>	<u>1,361,683</u>

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

(c) Information about major customers

	<u>2023</u>
Customer A	\$ 1,373,943
Customer B	842,868
Total	<u>\$ 2,216,811</u>

There was no major customer whose revenue was more than 10% of operating revenue of the Consolidated Company for the year ended December 31, 2022.