

**TWINHEAD INTERNATIONAL CORP.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

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

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

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## Representation Letter

The entities that are required to be included in the combined financial statements of Twinhead International Corp. as of and for the year ended December 31, 2019 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 endorsed 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, Twinhead International Corp. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Twinhead International Corp.

Chairman: Kao, Yu-Jen

Date: March 16, 2020



安侯建業聯合會計師事務所

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## Independent Auditors' Report

To the Board of Directors of Twinhead International Corp.:

### Opinion

We have audited the consolidated financial statements of Twinhead International Corp. (the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 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"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### 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 for the year end December 31, 2019. 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.

#### 1. Impairment Assessment of Property, Plant, and Equipment and Investment Property

Please refer to note 4(l), note 5(b), note 6(e), and note 6(g) of the consolidated financial statements for details on the information about impairment assessment of property, plant, and equipment, and investment property.



Description of key audit matter:

Considering the Group has accumulated deficits, the Group may exist risks on impairment of assets because the book value of Property, Plant, and Equipment and Investment property have the overvaluation risk. The recoverable amount of Property, Plant, and Equipment and Investment property have been determined based on the discounted cash flow forecasted by the Group management and this process involved management's subjective judgment. Therefore, we consider it as a key audit matter.

Our principal audit procedures included:

In relation to the key audit matter above, we have performed certain key audit procedures that included obtaining the assets impairment valuation produced by the Group and understanding the significant assumptions of the valuation model; With regard to the Property, Plant, and Equipment and Investment property that may have indications of impairment losses, we assessed the reasonableness of the key assumptions used in the report from the third party appraisers engaged by the management, including evaluate the competency, qualifications, experience and objectivity of the third party appraisers whether market value target is appropriate. Understanding whether any significant matters occurred after the reporting date that may have an impact on the impairment test by requiring management, and reviewing whether the disclosure of impairment of Property, Plant, and Equipment and Investment property measurement made by the management is appropriate.

2. Inventory measurement

Please refer to note 4(h), note 5(a), and note 6(c) of the consolidated financial statements for details on the information about inventory measurement.

Description of key audit matter:

The inventory of the Group includes inventory for production and repair. Since the technology in the computer industry changes rapidly, market demand may change in the mean time. Because of the market change and aging situation, the carrying value of inventories may exceed its net realized value.

How the matter was addressed in our audit:

The key audit procedures performed is to understand management's accounting policy of inventory measurement and determine whether if it is reasonable and is being implement. The procedures includes reviewing the inventory aging documents and analyzing its changes; obtaining the documents of inventory measurement and evaluating whether if the basis used for net realizable value is reasonable; selecting samples and verifying them with the vouchers to test the accuracy of the amount; and reviewing whether the disclosure of inventory measurement made by the management is appropriate.

**Other Matter**

Twinhead International Corp. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unqualified audit opinion.

**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 IFRSs, IASs, interpretation as well as related guidance endorsed 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 are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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



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

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

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

KPMG

Taipei, Taiwan (Republic of China)

March 16, 2020

#### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated statement of 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' audit 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' audit report and consolidated financial statements, the Chinese version shall prevail.



(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
1100 Cash and cash equivalents (note 6(a))	\$ 153,465	13	154,279	14
1170 Accounts receivable, net (note 6(b))	84,994	7	111,758	10
130x Inventories (note 6(e))	206,348	18	227,337	20
1470 Prepayments and other current assets	16,899	2	14,350	1
<b>Total current assets</b>	<u>461,706</u>	<u>40</u>	<u>507,724</u>	<u>45</u>
<b>Non-current assets:</b>				
1517 Non-current financial assets at fair value through other comprehensive income (note 6(d))	18,082	1	27,185	2
1600 Property, plant and equipment (notes 6(c), 6(i) and 8)	294,685	26	298,540	26
1755 Right-of-use assets (note 6(f))	76,960	7	-	-
1760 Investment property, net (notes 6(g), 6(k) and 8)	199,727	17	204,737	18
1840 Deferred tax assets (note 6(m))	43,890	4	44,162	4
1920 Refundable deposits	7,237	1	7,024	1
1995 Other non-current assets	41,377	4	40,010	4
<b>Total non-current assets</b>	<u>681,958</u>	<u>60</u>	<u>621,658</u>	<u>55</u>
<b>Total assets</b>	<u>\$ 1,143,664</u>	<u>100</u>	<u>1,129,382</u>	<u>100</u>
<b>Liabilities and Equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings (notes 6(h) and 8)	\$ 590,000	52	590,000	52
Notes payable	336	-	592	-
Accounts payable	129,711	11	107,829	10
Other payables (note 6(i))	50,860	4	48,098	4
Provisions – current (note 6(i))	4,264	-	7,425	1
Current lease liabilities (note 6(j))	15,978	1	-	-
Other current liabilities	33,254	3	30,814	3
<b>Total current liabilities</b>	<u>824,403</u>	<u>71</u>	<u>784,758</u>	<u>70</u>
<b>Non-Current liabilities:</b>				
Provisions – non-current (note 6(i))	6,140	1	3,843	-
Non-current lease liabilities (note 6(j))	50,932	5	-	-
Guarantee deposits received	6,748	1	6,826	1
Other non-current liabilities	2,423	-	3,375	-
<b>Total non-current liabilities</b>	<u>66,243</u>	<u>7</u>	<u>14,044</u>	<u>1</u>
<b>Total liabilities</b>	<u>890,646</u>	<u>78</u>	<u>798,802</u>	<u>71</u>
<b>Equity attributable to owners of parent (note 6(n)):</b>				
Share capital:				
Common shares	1,989,314	174	1,989,314	176
Preferred shares	84	-	84	-
Accumulated deficits	1,989,398	174	1,989,398	176
Other equities:	(1,535,036)	(134)	(1,476,960)	(131)
Exchange differences on translation of foreign financial statements	37,576	3	29,143	3
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	(15,118)	(1)	(10,634)	(1)
Treasury shares	22,458	2	18,509	2
Total equity attributable to owners of parent	(202,059)	(18)	(202,059)	(18)
Non-controlling interests	274,761	24	328,888	29
Total equity	(21,743)	(2)	1,692	-
Total liabilities and equity	253,018	22	330,580	29
<b>Total liabilities and equity</b>	<u>\$ 1,143,664</u>	<u>100</u>	<u>1,129,382</u>	<u>100</u>

See accompanying notes to consolidated financial statements.



(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

	2019		2018	
	Amount	%	Amount	%
4000 Operating revenue (note 6(p))	\$ 829,029	100	919,537	100
5000 Operating costs (notes 6(c), 6(e), 6(f), 6(j), 6(k) and 6(l))	<u>602,351</u>	<u>73</u>	<u>685,383</u>	<u>75</u>
5900 Gross profit	<u>226,678</u>	<u>27</u>	<u>234,154</u>	<u>25</u>
6000 Operating expenses (notes 6(b), 6(e), 6(f), 6(j), 6(k), 6(l) and 7):				
6100 Selling expenses	75,556	9	73,215	8
6200 Administrative expenses	126,666	15	125,149	13
6300 Research and development expenses	<u>105,333</u>	<u>13</u>	<u>81,203</u>	<u>9</u>
Total operating expenses	<u>307,555</u>	<u>37</u>	<u>279,567</u>	<u>30</u>
6900 Net operating loss	<u>(80,877)</u>	<u>(10)</u>	<u>(45,413)</u>	<u>(5)</u>
7000 Non-operating income and expenses (notes 6(g), 6(j), 6(k) and 6(r)):				
7010 Other income	30,993	4	33,665	4
7020 Other gains and losses	(19,347)	(2)	(62,657)	(7)
7050 Finance costs	<u>(12,953)</u>	<u>(2)</u>	<u>(10,558)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(1,307)</u>	<u>-</u>	<u>(39,550)</u>	<u>(4)</u>
Loss from continuing operations before tax	(82,184)	(10)	(84,963)	(9)
7950 Less: Income tax expense (benefit) (note 6(m))	<u>16</u>	<u>-</u>	<u>(37)</u>	<u>-</u>
Net loss	<u>(82,200)</u>	<u>(10)</u>	<u>(84,926)</u>	<u>(9)</u>
8300 Other comprehensive income (note 6(n)):				
8310 Components of other comprehensive income that will not be reclassified to profit or loss				
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(4,484)	-	(4,711)	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Components of other comprehensive income that will not be reclassified to profit or loss	<u>(4,484)</u>	<u>-</u>	<u>(4,711)</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	9,122	1	2,650	-
8399 Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss	<u>9,122</u>	<u>1</u>	<u>2,650</u>	<u>-</u>
8300 Other comprehensive income (loss), net	<u>4,638</u>	<u>1</u>	<u>(2,061)</u>	<u>-</u>
Total comprehensive income (loss)	<u>\$ (77,562)</u>	<u>(9)</u>	<u>(86,987)</u>	<u>(9)</u>
Net loss attributable to:				
8610 Loss attributable to owners of parent	\$ (58,076)	(7)	(69,344)	(8)
8620 Loss attributable to non-controlling interests	<u>(24,124)</u>	<u>(3)</u>	<u>(15,582)</u>	<u>(1)</u>
	<u>\$ (82,200)</u>	<u>(10)</u>	<u>(84,926)</u>	<u>(9)</u>
Comprehensive income (loss) attributable to:				
8710 Comprehensive income (loss), attributable to owners of parent	\$ (54,127)	(6)	(72,040)	(8)
8720 Comprehensive income (loss), attributable to non-controlling interests	<u>(23,435)</u>	<u>(3)</u>	<u>(14,947)</u>	<u>(1)</u>
	<u>\$ (77,562)</u>	<u>(9)</u>	<u>(86,987)</u>	<u>(9)</u>
9750 Basic earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ (0.30)</u>		<u>(0.35)</u>	
9850 Diluted earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ (0.30)</u>		<u>(0.35)</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2019 and 2018**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent										
	Total other equity interest										
	Common shares	Share capital Preference share	Total share capital	Accumulated deficits	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total other equity interest	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
<b>Balance at January 1, 2018</b>	\$ 1,989,314	84	1,989,398	(1,406,234)	27,128	-	27,128	(202,059)	408,233	121	408,354
Effects of retrospective application	-	-	-	-	-	(5,923)	(5,923)	-	(5,923)	-	(5,923)
Balance at January 1, 2018 after adjustments	1,989,314	84	1,989,398	(1,406,234)	27,128	(5,923)	21,205	(202,059)	402,310	121	402,431
Net loss	-	-	-	(69,344)	-	-	-	-	(69,344)	(15,582)	(84,926)
Other comprehensive income (loss)	-	-	-	-	2,015	(4,711)	(2,696)	-	(2,696)	635	(2,061)
Total comprehensive income (loss)	-	-	-	(69,344)	2,015	(4,711)	(2,696)	-	(72,040)	(14,947)	(86,987)
Changes in ownership interests in subsidiaries	-	-	-	(1,382)	-	-	-	-	(1,382)	16,518	15,136
<b>Balance at December 31, 2018</b>	1,989,314	84	1,989,398	(1,476,960)	29,143	(10,634)	18,509	(202,059)	328,888	1,692	330,580
Net loss	-	-	-	(58,076)	-	-	-	-	(58,076)	(24,124)	(82,200)
Other comprehensive income (loss)	-	-	-	-	8,433	(4,484)	3,949	-	3,949	689	4,638
Total comprehensive income (loss)	-	-	-	(58,076)	8,433	(4,484)	3,949	-	(54,127)	(23,435)	(77,562)
<b>Balance at December 31, 2019</b>	\$ 1,989,314	84	1,989,398	(1,535,036)	37,576	(15,118)	22,458	(202,059)	274,761	(21,743)	253,018

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
For the years ended December 31, 2019 and 2018  
(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
<b>Cash flows from (used in) operating activities:</b>		
Net loss before tax	\$ (82,184)	(84,963)
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation	31,960	16,366
Amortization	12,383	10,326
Expected credit loss / Provision for bad debt expense	-	2
Interest expense	12,953	10,558
Interest income	(596)	(608)
Dividend income	-	(1,971)
Loss on disposal of property, plant and equipment	-	642
Gain on lease modification	(336)	-
Impairment loss on non-financial assets	-	61,126
Amortization of long-term prepaid rent	-	267
Total adjustments to reconcile profit (loss)	<u>56,364</u>	<u>96,708</u>
<b>Changes in operating assets and liabilities:</b>		
<b>Net changes in operating assets:</b>		
Accounts receivable	26,787	(31,488)
Other receivables	-	25
Inventories	21,034	(19,763)
Prepayments and other current assets	(3,115)	2,995
Total changes in operating assets, net	<u>44,706</u>	<u>(48,231)</u>
<b>Net changes in operating liabilities:</b>		
Notes payable	(256)	422
Accounts payable	21,882	3,885
Other payables	2,711	(14,825)
Provisions	(864)	2,785
Other current liabilities	2,477	(15,428)
Other non-current liabilities	(952)	867
Total changes in operating liabilities, net	<u>24,998</u>	<u>(22,294)</u>
Total changes in operating assets and liabilities, net	<u>69,704</u>	<u>(70,525)</u>
Total adjustments	<u>126,068</u>	<u>26,183</u>
Cash inflow (outflow) generated from operating activities	43,884	(58,780)
Interest received	596	608
Interest paid	(10,813)	(10,431)
Income taxes paid	(75)	(350)
<b>Net cash flows from (used in) operating activities</b>	<u>33,592</u>	<u>(68,953)</u>
<b>Cash flows from (used in) investing activities:</b>		
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	4,619	7,040
Proceeds from disposal of non-current assets held for sale	-	5,892
Acquisition of property, plant and equipment	(7,398)	(7,187)
Increase in refundable deposits	(252)	(36)
Increase in other non-current assets	(24,573)	(26,681)
Dividends received	-	1,971
<b>Net cash used in investing activities</b>	<u>(27,604)</u>	<u>(19,001)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	115,000	105,000
Decrease in short-term loans	(115,000)	(35,000)
(Decrease) increase in guarantee deposits received	(78)	3,558
Payment of lease liabilities	(16,820)	-
Interest paid	(2,089)	-
Change in non-controlling interests	-	13,447
<b>Net cash flows from financing activities</b>	<u>(18,987)</u>	<u>87,005</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>12,185</u>	<u>5,142</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(814)	4,193
<b>Cash and cash equivalents at beginning of period</b>	<u>154,279</u>	<u>150,086</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 153,465</u>	<u>154,279</u>

See accompanying notes to consolidated financial statements.



(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2019 and 2018**

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

**(1) Company history**

TWINHEAD INTERNATIONAL CORP. (the Company) was incorporated on February 27, 1984, as a company limited by shares under the laws of the Republic of China (ROC). The consolidated financial statements comprise the Company and its subsidiaries (the Group) and the interests of the Group in associate companies. The Group is mainly engaged in the design, manufacture, sale and development of computers, computer components, peripherals, software, ASIC chips and workstations, and operation of telecommunication-related business.

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

The consolidated financial statements were approved by the Board of Directors and issued on March 16, 2020.

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

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019. The differences between the current version and the previous version are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except IFRS 16 “Leases”, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4(j).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(ii) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17:

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(iii) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

(iv) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$99,205 thousands of right-of-use assets and \$88,061 thousands of lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.59%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 76,087
Recognition exemption for:	
leases of low-value assets	(72)
Extension and termination options reasonably certain to be exercised	19,776
	<b>\$ 95,791</b>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 88,061
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	<b>\$ 88,061</b>

(b) The impact of IFRS endorsed by FSC that will soon take effect

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

The Group assessed that the above IFRSs may not be relevant to the Group.

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

The significant accounting policies presented in the consolidated financial statements are summarized as follows. The following accounting policies have been applied consistently throughout the presented periods in the consolidated financial statements.

(a) Statement of compliance

The 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 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 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.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The Company controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee.

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. Transactions and balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The comprehensive income from subsidiaries is allocated to the Company and its non-controlling interests, even if doing so causes the non-controlling interests to have 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.

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

List of subsidiaries included in the consolidated financial statements:

Name of investor	Name of investee	Scope of business	Percentage of ownership		Remarks
			December 31, 2019	December 31, 2018	
The Company	Durabook Americas Inc. (Durabook)	The trading of computers and computer peripheral equipment	52.000 %	52.000 %	
The Company	Twinhead (Asia) Pte Ltd. (Twinhead (Asia))	Investment holding	100.000 %	100.000 %	
The Company	Twintek International Corporation (Twintek)	The trading of computers and computer peripheral equipment	99.974 %	99.974 %	
The Company	Yu Feng Technology Co., Ltd. (Yu Feng)	The trading of computers and computer peripheral equipment	99.975 %	99.975 %	
Twinhead (Asia) Pte Ltd.	Twinhead Enterprises (BVI) Ltd.	Investment holding	100.000 %	100.000 %	
Twinhead (Asia) Pte Ltd.	Twinhead Kunshan Technology Co., Ltd. (Twinhead Kunshan)	Sales and production of PDAs, calculators and their parts, and computer keyboards	100.000 %	100.000 %	
Twinhead (Asia) Pte Ltd.	Kunshan Lun Teng System Co., Ltd. (Kunshan Lun Teng)	Import and export of computers, electronic components, and digital cameras, and technical consultant services	100.000 %	100.000 %	

(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.

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**TWINHEAD INTERNATIONAL CORP. 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:

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

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

- (i) An asset is classified as current under one of the following criteria, and all other assets are classified as noncurrent.
- 1) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
  - 2) It is held primarily for the purpose of trading;
  - 3) It is expected to be realized within twelve months after the reporting period; or
  - 4) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
- (ii) A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.
- 1) It is expected to be settled in the normal operating cycle;
  - 2) It is held primarily for the purpose of trading;
  - 3) It is due to be settled within twelve months after the reporting period; or
  - 4) The Group 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.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in 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.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(g) Financial instruments

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

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) equity investment and FVTPL.

The Group shall reclassify all affected financial assets on the first day of the first reporting period only when it changes its business model for 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.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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.

3) 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 and guarantee deposit paid).

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 and contract assets are always measured at an amount equal to lifetime ECL.

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

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

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

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

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

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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. 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.

4) 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 agreements and the definitions of a financial liability and equity instrument.

2) Equity instrument

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

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Discretionary dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders.

Preferred share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

The Group classifies preferred share capital with the characteristics of a financial liability issued before January 1, 2006, as equity in accordance with Rule No. 10000322083 issued by the FSC.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES****Notes to the Consolidated Financial Statements**

Compound financial instruments issued by the Group comprise convertible notes that can be converted into share capital at the option of the holder, when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially 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 re-measured subsequent to initial recognition.

Interest, gains, or losses related to financial liabilities are recognized in profit or loss, and recorded under non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

3) **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.

4) **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.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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5) 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.

(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 costs of finished goods and work in progress adopt the standard cost method. The difference between standard and actual costing is fully classified as operating cost and allocated to the ending balance of inventories.

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

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

Property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

(iii) 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.

(iv) 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.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

1) Buildings	4~62 years
2) Machinery	2~15 years
3) Other equipment	2~10 years

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

(j) Leases

Applicable commencing January 1, 2019

(i) Identifying a lease

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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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(ii) 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 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.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- 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:

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

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

(Continued)



**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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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 right-of-use assets that do not meet the definition of investment and 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 the leases of its low-value assets, including its office and dormitory. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) 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.

Applicable before January 1, 2019

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term.

(ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Property, plant and equipment obtained by finance lease is accounted for in accordance with the accounting policy applicable to the asset.

(Continued)

**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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Other leases are operating leases and are not recognized in the Group's balance sheets. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, or for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently measured under the cost model, and depreciation expense is calculated using the depreciable amount. The depreciation method, useful life, and residual amount are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property and any other cost.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(l) Impairment of 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 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.

(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.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

(n) Revenue

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 is mainly engaged in the manufacture, sale and development of computers, computer components, and peripherals, and operation of telecommunication-related business. 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.

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 pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term employee benefits

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

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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(p) Income tax

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

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

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

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

Deferred taxes are measured at tax rates that are applied to temporary differences when they reserve, using tax rates enacted or substantively enacted at the reporting date.

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.

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(q) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. An increase in common stock which is from appropriation of retained earnings or capital surplus, or a decrease in common stock which is to offset accumulated deficit, is added to or deducted from the shares outstanding retroactively. The shares outstanding are also adjusted retroactively if the recording date of the appropriation or share-based payment transaction is within the subsequent period. 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.

(r) Operating segments

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

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

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

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

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) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates 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. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(c) for further description of the valuation of inventories.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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(b) Impairment of property, plant and equipment, and investment property

In the process of evaluating the potential impairment of tangible assets the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups considering of the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies and could result in significant impairment charges or reversal in future years. Refer to note 6(e) and 6(g) for further description of the key assumptions used to determine the recoverable amount.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Petty cash	\$ 262	327
Checking and savings deposits	153,203	153,952
Cash and cash equivalents per statements of cash flows	<u>\$ 153,465</u>	<u>154,279</u>

The Group's exposure to interest rate risk and the sensitivity analysis for the financial instruments held by the Group are disclosed in note 6(s).

(b) Accounts receivable

	December 31, 2019	December 31, 2018
Accounts receivable	\$ 85,893	112,680
Less: loss allowance	899	922
	<u>\$ 84,994</u>	<u>111,758</u>

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

	December 31, 2019		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 78,277	-	-
1 to 30 days past due	6,302	12.17%	766
31 to 60 days past due	949	4.72%	45
61 to 90 days past due	365	24.05%	88
	<u>\$ 85,893</u>		<u>899</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2018</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 66,814	-	-
1 to 30 days past due	27,196	-	-
31 to 60 days past due	17,326	-	-
61 to 90 days past due	248	-	-
91 to 180 days past due	1,096	84.02%	922
	<b>\$ 112,680</b>		<b>922</b>

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

	<b>2019</b>	<b>2018</b>
Beginning balance on January 1	\$ 922	893
Impairment losses recognized	-	2
Amounts written off	-	(2)
Foreign exchange gain (losses)	(23)	29
Ending balance on December 31	<b>\$ 899</b>	<b>922</b>

The Group did not hold any collateral for the collectible amounts.

(c) Inventories

The components of the Group's inventories were as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Merchandise	\$ 5,549	3,455
Finished goods	54,125	73,405
Work in progress	6,139	8,114
Raw materials and supplies	134,706	137,028
Goods in transit	5,829	5,335
Total	<b>\$ 206,348</b>	<b>227,337</b>

As of December 31, 2019 and 2018, the Group's inventories were not provided as pledged assets.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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Except for operating costs arising from the ordinary sale of inventories, other gains and losses directly recorded under operating costs were as follows:

	<u>2019</u>	<u>2018</u>
Loss on decline in market value of inventory	\$ 2,449	3,401
Loss from scrapped inventory	1,672	3,667
Loss on physical count	<u>1,019</u>	<u>931</u>
Total	<u>\$ 5,140</u>	<u>7,999</u>

(d) Non-current financial assets at fair value through other comprehensive income

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Equity investments at fair value through other comprehensive income:		
Unlisted stocks (domestic)	\$ 15,815	19,642
Unlisted stocks (overseas)	<u>2,267</u>	<u>7,543</u>
Total	<u>\$ 18,082</u>	<u>27,185</u>

(i) Equity investments at fair value through other comprehensive income

The Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes.

On May 24, 2019 and May 22, 2018, resolutions were approved during the shareholders' meeting of EUROCC Venture Capital Corp. to reduce its capital by cash, resulting in the Group to receive the refunds of \$4,619 thousand and \$7,040 thousand in July 2019 and 2018, respectively.

No strategic investments were disposed for the years ended December 31, 2019 and 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(ii) For credit risk and market risk, please refer to note 6(s).

(iii) The Group did not hold any collateral for the collectible amounts.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(e) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Total</u>
Cost or deemed cost:					
Balance at January 1, 2019	\$ 118,425	429,851	181,970	111,093	841,339
Additions	-	130	2,783	4,485	7,398
Disposal	-	-	(2,696)	(2,563)	(5,259)
Reclassification	-	-	-	(58)	(58)
Effect of changes in exchange rates	-	-	(161)	(254)	(415)
Balance at December 31, 2019	<u>\$ 118,425</u>	<u>429,981</u>	<u>181,896</u>	<u>112,703</u>	<u>843,005</u>
Balance at January 1, 2018	\$ 118,425	517,791	554,787	137,981	1,328,984
Additions	-	2,246	96	8,574	10,916
Disposal	-	-	(13,081)	(3,308)	(16,389)
Reclassification to investment property	-	(91,824)	-	-	(91,824)
Reclassification to non-current assets held for sale	-	-	(367,190)	(33,009)	(400,199)
Other reclassification	-	-	-	230	230
Effect of changes in exchange rates	-	1,638	7,358	625	9,621
Balance at December 31, 2018	<u>\$ 118,425</u>	<u>429,851</u>	<u>181,970</u>	<u>111,093</u>	<u>841,339</u>
Depreciation and impairment loss:					
Balance at January 1, 2019	\$ 10,593	255,698	178,442	98,066	542,799
Depreciation	-	4,589	1,293	5,269	11,151
Disposal	-	-	(2,696)	(2,563)	(5,259)
Reclassification	-	-	-	(39)	(39)
Effect of changes in exchange rates	-	-	(145)	(187)	(332)
Balance at December 31, 2019	<u>\$ 10,593</u>	<u>260,287</u>	<u>176,894</u>	<u>100,546</u>	<u>548,320</u>
Balance at January 1, 2018	\$ 10,593	280,457	482,458	126,719	900,227
Depreciation	-	5,581	4,538	3,814	13,933
Disposal	-	-	(12,439)	(3,308)	(15,747)
Reclassification to investment property	-	(30,905)	-	-	(30,905)
Reclassification to non-current assets held for sale	-	-	(302,292)	(29,674)	(331,966)
Effect of changes in exchange rates	-	565	6,177	515	7,257
Balance at December 31, 2018	<u>\$ 10,593</u>	<u>255,698</u>	<u>178,442</u>	<u>98,066</u>	<u>542,799</u>
Carrying value:					
December 31, 2019	<u>\$ 107,832</u>	<u>169,694</u>	<u>5,002</u>	<u>12,157</u>	<u>294,685</u>
January 1, 2018	<u>\$ 107,832</u>	<u>237,334</u>	<u>72,329</u>	<u>11,262</u>	<u>428,757</u>
December 31, 2018	<u>\$ 107,832</u>	<u>174,153</u>	<u>3,528</u>	<u>13,027</u>	<u>298,540</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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(i) Impairment loss and subsequent reversal

As of December 31, 2019 and 2018, the accumulated property impairment amounted to \$10,593 thousand. The above accumulated asset impairment was recognized based on the carrying value of the factory building and machinery at Da Fa Industrial exceeding its estimated recoverable amount. After assessment, no additional impairment loss should be recognized for the years ended December 31, 2019 and 2018.

(ii) Collateral

As of December 31, 2019 and 2018, the Group's property, plant and equipment were provided as pledged assets; please refer to note 8.

(f) Right-of-use assets

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

	<u>Land</u>	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:				
Balance at January 1, 2019	\$ -	-	-	-
Effects of retrospective application	11,144	88,061	-	99,205
Balance at January 1, 2019	11,144	88,061	-	99,205
Additions	-	8,796	2,641	11,437
Disposal	-	(17,434)	-	(17,434)
Effect of changes in exchange rates	(445)	(227)	-	(672)
Balance at December 31, 2019	<u>\$ 10,699</u>	<u>79,196</u>	<u>2,641</u>	<u>92,536</u>
Accumulated depreciation:				
Balance at January 1, 2019	\$ -	-	-	-
Depreciation	265	17,495	291	18,051
Disposal	-	(2,426)	-	(2,426)
Effect of changes in exchange rates	(10)	(39)	-	(49)
Balance at December 31, 2019	<u>\$ 255</u>	<u>15,030</u>	<u>291</u>	<u>15,576</u>
Carrying value:				
December 31, 2019	<u>\$ 10,444</u>	<u>64,166</u>	<u>2,350</u>	<u>76,960</u>

The Group leases offices under operating leases for the years ended December 31, 2018; please refer to note 6(k).

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## (g) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2019	\$ 95,830	175,601	271,431
Effect of changes in exchange rates	-	(3,533)	(3,533)
Balance at December 31, 2019	<u>\$ 95,830</u>	<u>172,068</u>	<u>267,898</u>
Balance as at January 1, 2018	\$ 95,830	87,010	182,840
Reclassification	-	91,824	91,824
Effect of changes in exchange rates	-	(3,233)	(3,233)
Balance at December 31, 2018	<u>\$ 95,830</u>	<u>175,601</u>	<u>271,431</u>
Depreciation and impairment loss:			
Balance at January 1, 2019	\$ -	66,694	66,694
Depreciation	-	2,758	2,758
Effect of changes in exchange rates	-	(1,281)	(1,281)
Balance at December 31, 2019	<u>\$ -</u>	<u>68,171</u>	<u>68,171</u>
Balance at January 1, 2018	\$ -	34,462	34,462
Depreciation	-	2,433	2,433
Reclassification	-	30,905	30,905
Effect of changes in exchange rates	-	(1,106)	(1,106)
Balance at December 31, 2018	<u>\$ -</u>	<u>66,694</u>	<u>66,694</u>
Carrying value:			
Balance at December 31, 2019	<u>\$ 95,830</u>	<u>103,897</u>	<u>199,727</u>
Balance at January 1, 2018	<u>\$ 95,830</u>	<u>52,548</u>	<u>148,378</u>
Balance at December 31, 2018	<u>\$ 95,830</u>	<u>108,907</u>	<u>204,737</u>
Fair value:			
Balance at December 31, 2019			<u>\$ 509,630</u>
Balance at January 1, 2018			<u>\$ 410,432</u>
Balance at December 31, 2018			<u>\$ 509,630</u>

Investment property is commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 1~3 years. Subsequent renewals are negotiable with the lessee, and no contingent rents are charged. Please refer to note 6(j) for further information.

The fair value of investment property is based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The valuation is based on market price. The parameters used by the fair value valuation technique belong to the third hierarchy.

As of December 31, 2019 and 2018, the Group's investment properties were provided as pledged assets; please refer to note 8.

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## (h) Short-term loans

The details of the Group's short-term borrowings were as follows:

	<b>December 31, 2019</b>			<b>Amount</b>
	<b>Currency</b>	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>	
Unsecured loans	TWD	1.82~2.00	2020	\$ 270,000
Secured bank loans	TWD	1.66~1.80	2020	<u>320,000</u>
Total				<u>\$ 590,000</u>

  

	<b>December 31, 2018</b>			<b>Amount</b>
	<b>Currency</b>	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>	
Unsecured loans	TWD	1.82~2.00	2019	\$ 270,000
Secured bank loans	TWD	1.66~1.80	2019	<u>320,000</u>
Total				<u>\$ 590,000</u>

As of December 31, 2019 and 2018, the unused credit facilities amounted to \$515,320 thousand and \$488,280 thousand, respectively.

Please refer to note 6(s) for the Group's risk exposures relating to interest rate, currency, and liquidity risk.

The Group has pledged certain assets against the loans; please refers to note 8 for additional information.

## (i) Provisions

	<b>Restoration liabilities</b>	<b>Other</b>	<b>Total</b>
Balance at January 1, 2019	\$ 3,729	7,539	11,268
Provisions made during the year	-	5,941	5,941
Provisions used during the year	-	(6,658)	(6,658)
Provisions reversed during the year	-	(80)	(80)
Effect of changes in exchange rates	-	(67)	(67)
Balance at December 31, 2019	<u>\$ 3,729</u>	<u>6,675</u>	<u>10,404</u>
Current	\$ -	4,264	4,264
Non-current	<u>3,729</u>	2,411	6,140
	<u>\$ 3,729</u>	<u>6,675</u>	<u>10,404</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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	<b>Restoration liabilities</b>	<b>Other</b>	<b>Total</b>
Balance at January 1, 2018	\$ -	4,754	4,754
Provisions made during the year	3,729	6,303	10,032
Provisions used during the year	-	(3,371)	(3,371)
Provisions reversed during the year	-	(242)	(242)
Effect of changes in exchange rates	-	95	95
Balance at December 31, 2018	<u>\$ 3,729</u>	<u>7,539</u>	<u>11,268</u>
Current	\$ -	7,425	7,425
Non-current	<u>3,729</u>	<u>114</u>	<u>3,843</u>
	<u>\$ 3,729</u>	<u>7,539</u>	<u>11,268</u>

(i) Restoration liabilities

The provision was the estimation for removing, moving and restoring the lease assets according to the lease contract, which were recognized as long-term liabilities. The future cost shall result in an uncertainty of provision due to the long-term lease of the office. Related costs are expected to occur after the lease term reaches its maturity.

(ii) Other provisions

Provisions were estimated based on the historical data on warranties on merchandise and services, which are mainly associated with the Group's business products. The Group expects to settle the majority of the liability over the next one to three years.

(j) Lease liabilities

The Group's lease liabilities were as follow:

	<b>December 31, 2019</b>
Current	<u>\$ 15,978</u>
Non-current	<u>\$ 50,932</u>

For the maturity analysis, please refer to note 6(s) financial instruments.

The amounts recognized in profit or loss were as follows:

	<b>2019</b>
Interest on lease liabilities	<u>\$ 2,089</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 435</u>

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

	<b>2019</b>
Total cash outflow for leases	<u>\$ 19,344</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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(i) Real estate leases

As of December 31, 2019, the Group leases land and buildings for its office space. The leases of its office space typically run for a period of 5 to 7 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

(ii) Other leases

The Group leases vehicles and equipment, with lease terms of five years. The Group has options to purchase the assets at the end of the contract term.

The Group also leases office and dormitory with contract terms of 1 to 2 years. These leases are leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(k) Operating leases

(i) Leases as lessee

The future minimum non-cancellable rental payables of operating leases were as follows:

	<b>December 31, 2018</b>
Less than one year	\$ 16,800
Between one and five years	<u>59,287</u>
	<u><u>\$ 76,087</u></u>

The Group leases offices and factory facilities under operating leases. The leases typically run for a period of 2 to 5 years, with an option to renew the lease. The lease payment will be adjusted to reflect market price when renewing the contract.

For the years ended December 31, 2018, lease expenses were \$19,238 thousand.

(ii) Leases as lessor

The Group leases out its investment property. The Group has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to note 6(g) sets out information about the operating leases of investment property.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

	<b>December 31, 2019</b>
Less than one year	\$ 24,757
One to two years	<u>12,399</u>
Total undiscounted lease payments	<u><u>\$ 37,156</u></u>

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The future minimum lease payments under non-cancellable leases are as follows:

	<b>December 31, 2018</b>
Less than one year	\$ 22,350
Between one and five years	<u>31,414</u>
	<u><u>\$ 53,764</u></u>

Rental income from investment properties were \$24,934 thousand and \$18,594 thousand for the years ended December 31, 2019 and 2018, respectively.

(l) Employee benefits

(i) Defined contribution plans

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

The employees of the Durabook Americas Inc. could choose a specific ratio (adjusted by the inflation rate) to contribute their own pensions under the definition of the pension plan. The employees contribute 50% of the pension voluntarily and the contribution shall not exceed a specific ratio of the salary. In addition, the Durabook Americas Inc. contributes an extra amount to the pension fund based on the profit. If an employee resigns within two years, other than collecting the pension made by the employee, the employee can also collect the pension contributed by Durabook Americas Inc. based on the profit. The employee can collect 20% of the pension contributed by Durabook Americas Inc. each year for the following 5 years.

Except for the two subsidiaries of the Group, namely, Twinhead (Asia) Pte. Ltd. and Twinhead Enterprises (BVI) Ltd., which are not eligible for the pension plan, the defined benefit plan of the other subsidiaries (Twinhead Kunshan Technology Co., LTD., and Kunshan Lun Teng System Co., Ltd. ) are based on the local regulations of their respective locations; and all the contributions made to such plans are recognized as current expenses.

The Group's pension costs under the defined contribution plan were \$8,046 thousand and \$7,852 thousand for the years ended December 31, 2019 and 2018, respectively.

(ii) Short-term employee benefit liabilities

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Compensated absence liabilities	<u>\$ 7,541</u>	<u>8,268</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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## (m) Income tax

## (i) Income tax expenses

The amount of the Company's income tax for the years ended December 31, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Current income tax expense (benefits)		
Current period	\$ 52	370
Adjustment for prior periods	<u>(36)</u>	<u>(407)</u>
	<u>16</u>	<u>(37)</u>
Deferred tax expense		
Origination and reversal of temporary differences	-	5,802
Adjustment in tax rate	<u>-</u>	<u>(5,802)</u>
Income tax expense (benefits) on continuing operations	<u>\$ 16</u>	<u>(37)</u>

Reconciliations of the Group's income tax expenses (benefit) and the loss before tax for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Loss before tax	<u>\$ (82,184)</u>	<u>(84,963)</u>
Income tax using the Company's domestic tax rate	\$ (16,437)	(16,997)
Effect of tax rates in foreign jurisdiction	(3,622)	(5,621)
Adjustment in tax rate	-	(5,802)
Adjustment under tax laws	2,759	12,845
Loss from equity investments under the equity method	4,232	16,804
Dividend income	-	(394)
Unrecognized temporary differences	15,383	1,967
Adjustment for prior periods	(36)	(407)
Others	<u>(2,263)</u>	<u>(2,432)</u>
Income tax expense (benefit)	<u>\$ 16</u>	<u>(37)</u>

## (ii) Deferred income tax assets and liabilities

## 1) Unrecognized deferred tax assets

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deductible temporary differences	\$ 19,855	25,578
The carryforward of unused tax losses	<u>257,010</u>	<u>257,585</u>
	<u>\$ 276,865</u>	<u>283,163</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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Tax losses of a company can be carried forward to offset its future taxable income for a period of ten years in accordance with the Income Tax Act. Based on the local tax credit regulations, losses incurred by foreign consolidated subsidiaries can be deducted from their income tax. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2019, the information of the Group's unutilized business losses for which no deferred tax assets were recognized are as follows:

a) Taiwan

<u>Year of tax loss occurred</u>	<u>Amount</u>	<u>Year of expiration</u>
2010	\$ 534	2020
2011	240	2021
2012	146,935	2022
2013	93,922	2023
2014	85,584	2024
2015	94,893	2025
2016	508,319	2026
2017	71,614	2027
2018	291	2028
2019	27,878	2029
	<u>\$ 1,030,210</u>	

b) United States (Federal tax)

<u>Year of tax loss occurred</u>	<u>Amount</u>	<u>Year of expiration</u>
2012	\$ 9,238	2032
2013	15,861	2033
2014	6,557	2034
2015	43,073	2035
2016	44,710	2036
2018	8,025	2038
2019	51,398	2039
	<u>\$ 178,862</u>	

(Continued)

**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Recognized deferred tax assets

Changes in the amount of deferred tax assets for 2019 and 2018 were as follows:

Deferred tax assets:

	Loss carryforwards	Allowance for inventory valuation	Impairment loss	Others	Total
Balance at January 1, 2019	\$ 5,086	22,967	11,200	4,909	44,162
Recognized in profit or loss	713	576	-	(1,289)	-
Foreign currency translation differences for foreign operations	(144)	(90)	-	(38)	(272)
<b>Balance at December 31, 2019</b>	<b>\$ 5,655</b>	<b>23,453</b>	<b>11,200</b>	<b>3,582</b>	<b>43,890</b>
Balance at January 1, 2018	\$ 4,458	25,747	9,520	4,084	43,809
Recognized in profit or loss	475	(2,894)	1,680	739	-
Foreign currency translation differences for foreign operations	153	114	-	86	353
<b>Balance at December 31, 2018</b>	<b>\$ 5,086</b>	<b>22,967</b>	<b>11,200</b>	<b>4,909</b>	<b>44,162</b>

(iii) Income tax assessment

The ROC income tax authorities have examined the Company's income tax returns for all years through 2017.

(n) Capital and other equity

As of December 31, 2019 and 2018, the total value of authorized ordinary shares amounted to \$7,000,000 thousand, with par value of \$10 per share. The number of authorized shares included ordinary shares and preferred shares, of which 198,931 thousand ordinary shares were issued. In addition, 8 thousand preferred shares were issued in both 2019 and 2018. All issued capital was fully paid in. The preferred shares were classified under equity.

(i) Capital stock

According to the Company's articles of incorporation, the rights and obligations of the 20% cumulative convertible preferred stockholders are as follows:

- 1) Annual earnings, after making up accumulated deficits and appropriating legal reserve, are distributed, at 20% of par value, as dividends and bonus to the cumulative convertible preferred stockholders.
- 2) Dividends and bonus are paid annually after being approved and declared in the annual common stockholders' meeting. Dividends are calculated based on the prior year's days outstanding; however, upon conversion of their preferred stock into common stock, the cumulative convertible preferred stockholders waive their rights to the current year's profit distribution.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES****Notes to the Consolidated Financial Statements**

- 3) Dividends and bonus in arrears must be made up in a later year before profits are distributed to common stockholders. Upon conversion of preferred stock into common stock, dividends and bonus in arrears should be paid in full, and a cumulative convertible preferred stockholder is precluded from sharing in the prior years' profit distribution with the common stockholders. Except for the differences in dividend distribution, a 20% cumulative convertible preferred stockholder shares the same rights or obligations as the common stockholders.
- 4) One year after issuance, the cumulative convertible preferred stockholders may, at their option, in June of every year, exchange their convertible preferred shares for common shares at a 1:1 ratio.
- 5) A cumulative convertible preferred stockholder has a higher claim than the common stockholders to the remaining assets in the event of the Company's liquidation, and is limited to the issuance amount of the cumulative convertible preferred stock. Unless otherwise stipulated in the articles of incorporation, a cumulative preferred stockholder has no other rights or obligations.

(ii) Retained earnings—Distribution of retained earnings

The Company's article of incorporation stipulates that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

The remainder can be distributed as dividends in consideration of the overall industry circumstances, the Company's financial structure, and the investors' best interests, but at least 50% of the remainder should be distributed. Such distribution, considering the capital surplus, retained earnings, future profitability, and maintenance of the dividend distribution level, shall be no more than 40% in cash and the rest in stock dividends.

As of December 31, 2018 and 2017, the Company had incurred accumulated deficits. Therefore, no dividends were distributed. Related information would be available at the Market Observation Post System Website.

The Company's accumulated undistributed preferred stock dividend of \$395 thousand and \$378 thousand as of December 31, 2019 and 2018, respectively, will be recognized and distributed if approved in the shareholders' meeting.

(iii) Treasury stock

For the years ended December 31, 2019 and 2018, none of the shares of the Company held by its subsidiaries were sold.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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As of December 31, 2019 and 2018, the subsidiaries of the Company both held 3,008 thousand shares of common stock of the Company. The shares held by the subsidiaries, recorded under treasury stock, were due to the conversion of the Company's convertible bonds which were purchased by the subsidiaries of the Company in prior years. As of December 31, 2019 and 2018, the market value of the Company's shares held by the subsidiaries amounted to \$6,466 thousand and \$13,022 thousand, respectively.

Shares owned by the Company's subsidiaries were treated as treasury stock. The details are as follows:

	December 31, 2019	December 31, 2018
Twintek International Corporation	\$ 103,259	103,259
Yu Feng Technology Co., Ltd.	98,800	98,800
	<u>\$ 202,059</u>	<u>202,059</u>

(iv) Other equities (net of tax)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance at January 1, 2019	\$ 29,143	(10,634)	18,509
Foreign exchange differences arising from foreign operation	8,433	-	8,433
Unrealized gains from financial assets measured at fair value through other comprehensive income	-	(4,484)	(4,484)
Balance at December 31, 2019	<u>\$ 37,576</u>	<u>(15,118)</u>	<u>22,458</u>
Balance at January 1, 2018	\$ 27,128	-	27,128
Effects of retrospective application	-	(5,923)	(5,923)
Balance at January 1, 2018 after adjustments	27,128	(5,923)	21,205
Foreign exchange differences arising from foreign operation	2,015	-	2,015
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	(4,711)	(4,711)
Balance at December 31, 2018	<u>\$ 29,143</u>	<u>(10,634)</u>	<u>18,509</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (o) Earnings per share

The calculation of the Company's basic earnings per share and diluted earnings per share were as follows:

## (i) Basic earnings per share

	<u>2019</u>	<u>2018</u>
Net loss of the Company	\$ (58,076)	(69,344)
Dividends on non-redeemable preferred shares	(17)	(17)
Net loss attributable to common shareholders of the Company	<u>\$ (58,093)</u>	<u>(69,361)</u>
Weighted-average number of common shares	<u>195,923</u>	<u>195,923</u>
Basic earnings per share (in NT dollars)	<u>\$ (0.30)</u>	<u>(0.35)</u>

## (ii) Diluted earnings per share

Due to the anti-dilutive effect, the Company's preferred shares was not included in the weighted-average number of shares outstanding for the calculation of diluted earnings per share.

## (p) Revenue from contracts with customers—disaggregation of revenue

	<u>2019</u>	<u>2018</u>
Primary geographical markets:		
United States	\$ 313,966	354,162
Taiwan	140,145	176,940
Germany	132,396	122,465
France	47,020	61,948
Others	<u>195,502</u>	<u>204,022</u>
	<u>\$ 829,029</u>	<u>919,537</u>
Major products/services lines:		
Laptop	\$ 598,103	638,777
Mainboard	155,248	182,620
Sales of Materials and others	<u>75,678</u>	<u>98,140</u>
	<u>\$ 829,029</u>	<u>919,537</u>

## (q) Employee compensation and directors' and supervisors' remuneration

In accordance with the Articles of incorporation the Company should contribute no less than 10% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the Board of Directors. The recipients of shares and cash may include the employees of the Company's controlling or affiliated companies who meet certain conditions.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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As of December 31, 2019 and 2018, the Company had incurred accumulated deficits. Therefore, no remuneration to employees, as well as directors and supervisors were accrued by the Company. Related information would be available at the Market Observation Post System Website.

(r) Non-operating income and expenses

(i) Other income

	<u>2019</u>	<u>2018</u>
Interest income	\$ 596	608
Rental income	28,422	25,268
Dividend income	-	1,971
Others	<u>1,975</u>	<u>5,818</u>
Total other income	<u>\$ 30,993</u>	<u>33,665</u>

(ii) Other gains and losses

	<u>2019</u>	<u>2018</u>
Losses on disposal of property, plant and equipment	\$ -	(642)
Gains on lease modification	336	-
Foreign exchange gains (losses)	(16,750)	2,179
Impairment loss on non-current assets or disposal groups held for sale	-	(61,126)
Others	<u>(2,933)</u>	<u>(3,068)</u>
Other gains and losses, net	<u>(19,347)</u>	<u>(62,657)</u>

(iii) Finance costs

	<u>2019</u>	<u>2018</u>
Interest expense	<u>\$ (12,953)</u>	<u>(10,558)</u>

(s) Financial instruments

(i) Credit risk

1) Credit risk exposure

The maximum credit risk exposure of the Group's financial assets is equal to their carrying amount. As of December 31, 2019 and 2018, the maximum credit risk exposure amounted to \$263,778 thousand and \$300,246 thousand, respectively.

2) Concentration of credit risk

As of December 31, 2019 and 2018, 41% and 27%, respectively, of the accounts receivable were from the sales to one customer. In addition, for the years ended December 31, 2019 and 2018, 75% and 73%, respectively, of the sales of the Group concentrated in the Americas and Europe.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
<b>December 31, 2019</b>						
Non-derivative financial liabilities						
Secured bank loan	\$ 320,000	321,036	321,036	-	-	-
Unsecured bank loan	270,000	271,976	271,976	-	-	-
Notes payable	336	336	336	-	-	-
Accounts payable	129,711	129,711	129,711	-	-	-
Other payables	16,066	16,066	16,066	-	-	-
Lease liabilities	66,910	70,043	17,328	17,495	35,220	-
Guarantee deposits received	6,748	6,748	-	6,648	100	-
Preferred shares (including preferred shares dividends)	84	479	479	-	-	-
	<u>\$ 809,855</u>	<u>816,395</u>	<u>756,932</u>	<u>24,143</u>	<u>35,320</u>	<u>-</u>
<b>December 31, 2018</b>						
Non-derivative financial liabilities						
Secured bank loan	\$ 320,000	321,675	321,675	-	-	-
Unsecured bank loan	270,000	271,424	271,424	-	-	-
Notes payable	592	592	592	-	-	-
Accounts payable	107,829	107,829	107,829	-	-	-
Other payables	19,452	19,452	19,452	-	-	-
Guarantee deposits received	6,826	6,826	822	-	6,004	-
Preferred shares (including preferred shares dividends)	84	462	462	-	-	-
	<u>\$ 724,783</u>	<u>728,260</u>	<u>722,256</u>	<u>-</u>	<u>6,004</u>	<u>-</u>

The Group does not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

## (iii) Currency risk

## 1) Exposure to foreign currency risk

The Group's financial assets and financial liabilities exposed to significant currency risk were as follows:

	Foreign currency	Exchange rate	TWD
<b>December 31, 2019</b>			
Financial assets:			
Monetary assets:			
USD	\$ 17,662	29.98	529,507
Financial liabilities:			
Monetary liabilities:			
USD	\$ 2,068	29.98	61,999

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	Foreign currency	Exchange rate	TWD
<b>December 31, 2018</b>			
Financial assets:			
Monetary assets:			
USD	\$ 16,403	30.72	503,900
Financial liabilities:			
Monetary liabilities:			
USD	\$ 1,504	30.72	46,203

2) Sensitivity analysis

The Group's exposure to foreign currency risk arose from cash and cash equivalents, accounts receivable, accounts payable and other payables that were denominated in foreign currencies. 1% appreciation (depreciation) of the TWD against the USD as of December 31, 2019 and 2018, would have increased (decreased) the net loss before tax by \$4,677 thousand and \$4,577 thousand, respectively. The analysis was performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary item

Due to the numerous types of functional currency of the Group, the Group aggregately discloses its exchange gains and losses on monetary items. The Group's exchange losses, including realized and unrealized, were \$(16,750) thousand and \$2,179 thousand for the years ended December 31, 2019 and 2018, respectively.

(iv) Interest rate risk analysis

Please refer to the notes on liquidity risk management for the interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For floating-rate instruments, the sensitivity analysis assumes the liabilities with a floating rate as of the reporting date are outstanding for the whole year.

If the interest rate had increased/decreased by 1%, the Group's net loss before tax would have both increased/decreased by \$5,900 thousand for the years ended December 31, 2019 and 2018, with all other variable factors remaining constant. This is mainly due to the Group's borrowing at floating rates.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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## (v) Fair value

## 1) Categories and fair value of financial instruments

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

	December 31, 2019				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Unlisted stocks (domestic)	\$ 15,815	-	-	15,815	15,815
Unlisted stocks (overseas)	2,267	-	-	2,267	2,267
Subtotal	<u>18,082</u>	<u>-</u>	<u>-</u>	<u>18,082</u>	<u>18,082</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	153,465	-	-	-	-
Notes and accounts receivable	84,994	-	-	-	-
Refundable deposits	7,237	-	-	-	-
Subtotal	<u>245,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 263,778</u>	<u>-</u>	<u>-</u>	<u>18,082</u>	<u>18,082</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 590,000	-	-	-	-
Notes and accounts payable	130,047	-	-	-	-
Other payables	16,066	-	-	-	-
Lease liabilities	66,910	-	-	-	-
Guarantee deposits received	6,748	-	-	-	-
Preferred shares	84	-	-	-	-
Total	<u>\$ 809,855</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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	December 31, 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Unlisted stocks (domestic)	\$ 19,642	-	-	19,642	19,642
Unlisted stocks (overseas)	7,543	-	-	7,543	7,543
Subtotal	<u>27,185</u>	<u>-</u>	<u>-</u>	<u>27,185</u>	<u>27,185</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	154,279	-	-	-	-
Notes and accounts receivable	111,758	-	-	-	-
Refundable deposits	7,024	-	-	-	-
Subtotal	<u>273,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 300,246</u>	<u>-</u>	<u>-</u>	<u>27,185</u>	<u>27,185</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 590,000	-	-	-	-
Notes and accounts payable	108,421	-	-	-	-
Other payables	19,452	-	-	-	-
Guarantee deposits received	6,826	-	-	-	-
Preferred shares	84	-	-	-	-
Total	<u>\$ 724,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2) Valuation techniques for financial instruments measured at fair value— Non-derivative financial instruments

If there are quoted prices in active markets for financial instruments, the fair value of those prices may be based on the quoted market prices. The market prices announced by Securities Exchange and Over the Counter are the benchmarks used for the fair value of equity instruments and liability instruments traded in active markets.

If the quoted prices from stock exchanges, brokers, underwriters, industry associations, pricing agencies or authorities are timely and frequently, and that the price fairly presents the market transaction, the financial instrument is regarded to have a quoted price in an active market. If the aforementioned conditions are not fulfilled, the market is regarded as inactive. Generally, large or significantly wide bid-ask spread, or significantly low trading volume are indications of an inactive market.

If the financial instrument held by the Group is an equity investment without an active market, its fair value will have to be derived using the market approach. The fair value can be estimated based on the valuation of the comparable company and the quoted price provided by third parties, as well as the equity value of the comparable company and its operating performances. Whereas the liquidity discount is a significant unobservable input in valuing equity investment, its potential changes will not cause material impact on financial figures, and therefore, its quantitative information need not be disclosed.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
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3) Reconciliation of Level 3 fair values

	<b>Fair value through other comprehensive income</b> <b>Unquoted equity instruments</b>
Balance at January 1, 2019	\$ 27,185
Total loss recognized:	
In other comprehensive income	(4,484)
Return of capital for the period	(4,619)
Balance at December 31, 2019	<u>\$ 18,082</u>
Balance at January 1, 2018	\$ 38,936
Total loss recognized:	
In other comprehensive income	(4,711)
Return of capital for the period	(7,040)
Balance at December 31, 2018	<u>\$ 27,185</u>

The aforementioned total loss was included in unrealized gains and losses from financial assets fair value through other comprehensive income.

4) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income—equity investments without an active market	Comparative listed company	<ul style="list-style-type: none"> <li>· Multiplier of price-to-book ratio (As of December 31, 2019 and 2018 was 1.07~2.58 and 0.59~5.98, respectively.)</li> <li>· Market illiquidity discount rate (As of December 31, 2019 and 2018 were 20%)</li> </ul>	<p>The estimated fair value would increase (decrease) if</p> <ul style="list-style-type: none"> <li>· the multiplier were higher (lower)</li> <li>· the market illiquidity discount were lower (higher)</li> </ul>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 5) Fair value measurements in Level 3 — sensitivity analysis of reasonably possible alternative assumptions.

The Group's measurement of the fair value of financial instruments is reasonable, but the use of different evaluation models or parameters may result in different results. For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

	Input	Assumptions	Other comprehensive income	
			Favorable	Unfavorable
<b>December 31, 2019</b>				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	\$ 1,130	(1,130)
<b>December 31, 2018</b>				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	1,699	(1,699)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique.

(t) Financial risk management

(i) Overview

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

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

This note discloses information about the Group's exposure to the aforementioned risks, and its goals, policies, and procedures regarding the measurement and management of these risks. For additional quantitative disclosures of these risks, please refer to the notes regarding each risk disclosed throughout the financial report.

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board is also responsible for developing and monitoring the Group's risk management policies.

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

(Continued)

**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(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) Accounts receivable and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes the history of transactions with the counter-party, its financial position, and geographic considerations. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval; these limits are reviewed on a periodic basis. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group has established an allowance of doubtful accounts to reflect actual and estimated potential losses resulting from uncollectible account and trade receivables. The allowance of doubtful accounts consists primarily of specific losses regarding individual customers and estimates of potential losses based on statistics from payment histories of similar customer groups.

2) Investments

The credit risk exposure in the bank deposits and other financial instruments is measured and monitored by the Group's finance department. Since those who transact with the Group are banks and other external parties with good credit standing, there is no significant credit risk.

3) Guarantees

The Group's policy only allows it to provide financial guarantees to wholly owned subsidiaries. As of December 31, 2019 and 2018, no other guarantees were provided.

(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 has 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.

(Continued)

**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in currencies other than the respective functional currencies of the Group, primarily the NTD, USD and CNY. The currencies used in these transactions are the NTD, EUR, USD, JPY, GBP and CNY.

The Group relies on immediate foreign exchange transactions to ensure the net exposure to foreign exchange risk is maintained within prescribed limits in order to manage market risk.

The Group's foreign currency assets and liabilities are influenced by foreign exchange rates. However, the amount is not significant after offsetting the assets against the liabilities. Therefore, market risk is maintained within prescribed limits.

2) Interest rate risk

The interest rates of the Group's short-term borrowings are floating. Hence, changes in market conditions will cause fluctuations in the effective interest rate and the future cash flow of the aforementioned loans. Because of the stable financial environment of the Group and the stable fluctuating range of the market interest rate, it should not cause significant risks due to the changes in interest rate.

(u) Capital management

The Group's objectives for managing capital are to safeguard the capacity to continue to operate, to provide a return to shareholders and benefits to other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, or issue new shares to settle long-term liabilities.

The Group uses the debt ratio to manage capital. This ratio is debt divided by total assets. Debt is derived from the total liabilities on the balance sheet. Total assets include share capital, capital surplus, retained earnings, other equity, and non-controlling interests plus debt.

The Group's debt ratio at the reporting date was as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Total liabilities	\$ <u>890,646</u>	<u>798,802</u>
Total assets	\$ <u>1,143,664</u>	<u>1,129,382</u>
Debt ratio	<u>78 %</u>	<u>71 %</u>

(Continued)

**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(v) Investing and financing activities not affecting current cash flow

The Group did not have any non-cash flow transactions on its investing activities for the years ended December 31, 2019 and 2018.

For the years ended December 31, 2019 and 2018, the reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flows	Non-cash changes		December 31, 2019
			Foreign exchange movement	Other	
Short-term borrowings	\$ 590,000	-	-	-	590,000
Lease liabilities	88,061	(16,820)	(182)	(4,149)	66,910
Total liabilities from financing activities	<u>\$ 678,061</u>	<u>(16,820)</u>	<u>(182)</u>	<u>(4,149)</u>	<u>656,910</u>

  

	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Foreign exchange movement	Other	
Short-term borrowings	\$ 520,000	70,000	-	-	590,000
Total liabilities from financing activities	<u>\$ 520,000</u>	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>590,000</u>

(7) Related-party transactions

The compensation of the key management personnel comprised the following:

	2019	2018
Short-term employee benefits	\$ 18,720	18,474
Post-employment benefits	216	216
	<u>\$ 18,936</u>	<u>18,690</u>

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2019	December 31, 2018
Land	Short-term borrowings	\$ 107,832	107,832
Buildings	Short-term borrowings	168,907	173,361
Investment property	Short-term borrowings	145,570	146,974
		<u>\$ 422,309</u>	<u>428,167</u>

(9) Commitments and contingencies: None.

(10) Losses due to major disasters: None.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(11) Subsequent events**

- (a) In order to enhance the overall efficiency of the Group's integration, the Board of Directors approved the Company to merge with its subsidiaries (Twintek International Corporation and Yu Feng Technology Co., Ltd.) on March 9, 2020. The Company is the surviving company, and the subsidiaries are dissolved companies after the merger record date, March 16, 2020. After the merger, the surviving company will assume assets and liabilities and all the rights and obligations, continuing to use the name "Twinhead International Corp."; due to the aforementioned merger, the Company will cancel the treasury shares held by the subsidiaries of \$202,059 thousand (3,008 thousand shares).
- (b) The Group signed a share purchase contract on December 31, 2019, and it acquired 269 thousand shares of Durabook Americas Inc. for \$8,128 thousand (USD269 thousand) in February 2020, increasing shareholding ratio from 52% to 80%.

**(12) Other**

- (a) The employee benefit expenses, depreciation, and amortization, categorized by function, were as follows:

By nature	By function	Years ended December 31, 2019			Years ended December 31, 2018		
		Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits							
Salary		32,027	164,046	196,073	28,124	139,912	
Labor and health insurance		3,251	11,887	15,138	3,446	10,544	
Pension		1,491	6,555	8,046	1,487	6,365	
Remuneration of directors		-	2,385	2,385	-	2,277	
Others		1,883	3,766	5,649	1,900	4,089	
Depreciation (note)		4,716	24,486	29,202	6,357	7,576	
Amortization		-	12,383	12,383	-	10,326	

Note: Depreciation expenses for investment property recognized under other income and expenses amounted to \$2,758 thousand and \$2,433 thousand for the years ended December 31, 2019 and 2018, respectively.

- (b) Seasonality or cyclicity of interim operations

The business of the Group is neither seasonal nor cyclical.

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the 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 for the years ended December 31, 2019:

- (i) Loans extended to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(in Thousands of New Taiwan Dollars / in thousands of sharsers)

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance			Market value	Maximum investment in 2019	Remarks
				Number of shares	Book value	Holding percentage			
The Company	EUROC Venture Capital Corp.	-	Non-current financial assets at fair value through other comprehensive income	1,225	15,815	10.000 %	15,815	16,501	
The Company	Il, Inc.	-	Non-current financial assets at fair value through profit or loss	400	-	2.125 %	-	30,800	Note 1
The Company	Trigem Computer Inc.	-	Non-current financial assets at fair value through profit or loss	-	-	0.006 %	-	63,609	Note 1
The Company	Printec Japan Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	-	-	9.000 %	-	2,715	Note 1
The Company	Ambicion Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1	2,267	0.748 %	2,267	5,015	
The Company	Adolite Inc.	-	Non-current financial assets at fair value through other comprehensive income	400	-	0.535 %	-	8,969	Note 1
Twintek International Corporation	Twinhead International Corp.	Parent company	Non-current financial assets at fair value through other comprehensive income	1,536	3,302	0.772 %	3,302	103,259	Note 2
Yu Feng Technology Co., Ltd.	Twinhead International Corp.	Parent company	Non-current financial assets at fair value through other comprehensive income	1,472	3,164	0.740 %	3,164	98,800	Note 2

Note 1: The securities were written down due to impairment loss.

Note 2: Deemed to be treasury shares.

- (iv) Accumulated holding amount of a single security in excess of NT\$300 million or 20% of the Company's issued share capital: None.
- (v) Acquisition of real estate in excess of NT\$300 million or 20% of the Company's issued share capital: None.
- (vi) Disposal of real estate in excess of NT\$300 million or 20% of the Company's issued share capital: None.
- (vii) Sales to and purchases from related parties in excess of \$100 million or 20% of the Company's issued share capital:

(in Thousands of New Taiwan Dollars)

Name of company	Counter-party	Relationship	Transaction details				Status and reason for deviation from arm's-length transaction		Accounts / notes receivable (payable)		Remarks
			Purchase / (sale)	Amount	Percentage of total purchases (sales)	Credit period	Unit price	Credit period	Balance (Note 3)	Percentage of total accounts / notes receivable (payable)	
The Company	Durabook Americas Inc.	Subsidiary	(Sale)	(196,996)	26 %	Receivables from these companies are offset with the accounts payable or to be received within 60-180 days after sales.	(Note 1)	Receivables from these companies are offset with the accounts payable or to be received within 60-180 days after sales.	80,040	35 %	Note 4
Durabook Americas Inc.	The Company	Parent company	Purchase	196,996	96 %	Payments to these companies are offset with the accounts receivable or to be paid within 30-60 days after purchase.	(Note 2)	Payments to these companies are offset with the accounts receivable or to be paid within 30-60 days after purchase.	(80,040)	(95) %	Note 4

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## TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Note 1: Determined based on costs.

Note 2: Determined based on related parties cost.

Note 3: As of December 31, 2019, the Company's accounts receivable of \$97,023 thousand, which was offset against the investments of \$16,983 thousand.

Note 4: The transactions within the Group were eliminated in the consolidated financial statements.

(viii) Receivables from related parties in excess of NT\$100 million or 20% of the Company's issued share capital: None.

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

(x) Business relationships and significant intercompany transactions:

(in Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counter- party	Existing relationship with the counter-party (Note 2)	Transaction details			
				Account name	Amount (Note 5)	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	Durabook	1	Sales revenue	196,996	The transaction is not significantly different from normal transactions	23.76%
0	The Company	Kunshan Lun Teng	1	Sales revenue	31,759	The transaction is not significantly different from normal transactions	3.83 %
0	The Company	Durabook	1	Accounts receivable — related parties	80,040 (note 3)	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	7.00 %
0	The Company	Twinhead Kunshan	1	Long-term accounts receivable— related parties	75,577 (note 4)	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	6.61 %

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: Please refer to note 13(a)(vii).

Note 4: As of December 31, 2019, the Company's accounts receivable and accounts payable of \$473,474 thousand and \$115,475 thousand, respectively, were derived from the purchasing of supplies on behalf of, and the purchasing of goods from, Twinhead Kunshan, resulting in the net accounts receivable to be \$357,999 thousand, which was offset against the investment of \$282,422 thousand, accounted for using the equity method of Twinhead Kunshan.

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

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Scope of business	Original cost		Ending balance			Maximum investment in 2019	Net income (loss) of investee	Investment income (losses)	Remarks
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Book value				
The Company	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	53,079	53,079	297	30.890 %	- (note 3)	53,079	(50,258)	(15,525)	52% jointly owned by the Company and its subsidiaries. (note 2)
The Company	Twinhead (Asia)	Singapore	Investment holding	539,919	539,919	5,872	100.000 %	- (note 4)	539,919	5,266	5,266	Subsidiary (note 2)
The Company	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,533	328,533	32,853	99.974 %	(5,208)	328,533	(6,314)	(6,314)	Subsidiary (note 2)
The Company	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,900	397,900	39,790	99.975 %	(2,941)	397,900	(4,589)	(4,589)	Subsidiary (note 2)
Twintek	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	42,463	42,463	118	12.270 %	(5,589)	42,463	(50,258)	(6,166)	52% jointly owned by the Company and its subsidiaries. (note 2)
Yu Feng	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	25,803	25,803	85	8.840 %	(4,027)	25,803	(50,258)	(4,443)	52% jointly owned by the Company and its subsidiaries. (note 2)
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000 %	1,400	1,388	(70)	(70)	Indirect subsidiary (note 2)

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Note 1: The exchange rate as of December 31, 2019: USD1=TWD29.98

Note 2: The transactions within the Group were eliminated in the consolidated financial statements

Note 3: Please refer to note 13(a)(vii) note 3

Note 4: Please refer to note 13(a)(x) note 4

(c) Information on investment in Mainland China:

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

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2019	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2019	Net income (losses) of investee	Direct / indirect investment holding percentage	Maximum investment in 2018	Investment income (losses) (Note 2)	Book value as of December 31, 2019	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount							
Twinhead Kunshan	Sales and production of PDAs, calculators and their parts, and computer keyboards	374,750 (USD12,500)	(2)	374,750 (USD12,500)	-	-	374,750 (USD12,500)	5,060	100.00%	374,750 (USD12,500)	5,060	(294,748)	-
Twinhead Huazhong Technology Limited Corp	Installation and sales of laptop parts and accessories, sales and production of related software	119,920 (USD4,000)	(2)	59,960 (USD2,000)	-	-	59,960 (USD2,000)	-	- %	59,960 (USD2,000)	-	-	-
Kunshan Lun Teng	Import and export of computers, electronic components, and digital cameras, and technical consultant services	6,296 (USD210)	(2)	6,296 (USD210)	-	-	6,296 (USD210)	531	100.00%	6,296 (USD210)	531	13,159	-

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

- (1) Remittance from third-region companies to invest in Mainland China (Through Twinhead (Asia) Ptd Ltd invest in Mainland china)
- (2) Through transferring the investment to third-region existing companies then investing in Mainland China
- (3) Through the establishment of third-region companies then investing in Mainland China
- (4) Other methods: EX: delegated investments

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

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount in Mainland China as of December 31, 2019 (Note 1)	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	479,980 (USD16,010)	479,980 (USD16,010)	- (Note 3)

Note 1: Including the amount of USD1,300 thousand wired to Twinhead Beijing Technology Co., Ltd.

Note 2: The exchange rate as of December 31, 2019: USD1=TWD29.98.

Note 3: In accordance with the "Regulations on Permission for Investment or Technical Cooperation in Mainland China" and the Principles for Examination of Applications for Investment or Technical Cooperation in Mainland China amended and ratified by the Executive Yuan on August 22, 2008, the Company met the criteria for operational headquarters under the Statute for Industrial Innovation and obtained approval from the Industrial Development Bureau Ministry of Economic Affairs, on June 21, 2017. As it has an operational headquarters status, the Company is not subject to the limitation as to the amount of investment in Mainland China during the period from June 13, 2017 to June 12, 2020.

(iii) Significant transactions with investees in Mainland China:

Related information is provided in note 13(a)(x).

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(14) Segment information****(a) General information**

The Group is mainly engaged in the design, manufacture and sale of computers, as well as related products. The management regularly reviews the Group's overall performance to evaluate the efficiency of each segment and allocate its resources accordingly. The Group is identified as a sole operating segment.

**(b) Information about the products and services**

Revenue from the external customers of the Group was as follows:

<u>Products and services</u>	<u>2019</u>	<u>2018</u>
Laptop	\$ 598,103	638,777
Mainboard	155,248	182,620
Sales of materials and others	<u>75,678</u>	<u>98,140</u>
Total	<u>\$ 829,029</u>	<u>919,537</u>

**(c) Geographical information**

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

<u>Geographical information</u>	<u>2019</u>	<u>2018</u>
Revenue from external customers:		
United States	\$ 313,966	354,162
Taiwan	140,145	176,940
Germany	132,396	122,465
France	47,020	61,948
China	37,523	38,697
Russia	23,055	28,399
Singapore	13,742	19,094
Poland	33,359	17,186
Other countries	<u>87,823</u>	<u>100,646</u>
Total	<u>\$ 829,029</u>	<u>919,537</u>

<u>Geographical information</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current assets:		
Taiwan	\$ 535,308	470,457
China	68,475	70,171
United States	<u>8,966</u>	<u>2,659</u>
Total	<u>\$ 612,749</u>	<u>543,287</u>

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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Non-current assets include property, plant and equipment, right-of-use assets, investment property and other assets, not including financial instruments, deferred tax assets, and rights arising from insurance contract.

(d) Information about major customers

For the years ended December 31, 2019 and 2018, the Group's major customers whose revenue was 10% or more of the net sales were as follows:

<u>Name of customer</u>	<u>2019</u>	<u>2018</u>
Customer P	\$ 105,570	113,807
Customer M	Note 1	95,140
Customer N	92,332	Note 2

Note 1: Revenue from aforementioned customers was not 10% or more of the net sales in 2019.

Note 1: Revenue from aforementioned customers was not 10% or more of the net sales in 2018.