

**TWINHEAD INTERNATIONAL CORP.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Three Months Ended March 31, 2020 and 2019**

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The independent auditors' review 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' review report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Review Report

To the Board of Directors
Twinhead International Corp.:

Introduction

We have reviewed the accompanying consolidated balance sheets of Twinhead International Corp. and its subsidiaries as of March 31, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4 (b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect the total assets amounting to \$92,881 thousand and \$100,724 thousand, constituting 8.34% and 8.38% of the consolidated total assets; and the total liabilities amounting to \$14,069 thousand and \$11,186 thousand, constituting 1.59% and 1.26% of the consolidated total liabilities as of March 31, 2020 and 2019, respectively; as well as the total comprehensive income (loss) amounting to \$(1,812) thousand and \$2,811 thousand, constituting 11.21% and (17.08)% of the consolidated total comprehensive income (loss) for the three months ended March 31, 2020 and 2019, respectively.

**Qualified Conclusion**

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Twinhead International Corp. and its subsidiaries as of March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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)
May 12, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors’ review 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’ review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2020 and 2019

TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020, December 31 and March 31, 2019

(Expressed in Thousands of New Taiwan Dollar)

	March 31, 2020		December 31, 2019		March 31, 2019		March 31, 2020		December 31, 2019		March 31, 2019		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Assets													
Current assets:													
1100 Cash and cash equivalents (note 6(a))	\$ 108,834	10	153,465	13	134,979	11	2100	\$ 625,000	56	590,000	52	590,000	49
1170 Accounts receivable, net (note 6(b))	93,924	8	84,994	7	99,295	8	2150	160	-	336	-	-	-
1200 Other receivables	15	-	-	-	15	-	2170	99,785	9	129,711	11	120,834	10
130x Inventories (note 6(c))	225,995	20	206,348	18	237,140	20	2200	38,614	3	50,860	4	43,840	4
1470 Prepayments and other current assets	18,650	2	16,899	2	12,893	1	2250	4,171	-	4,264	-	7,197	1
Total current assets	<u>447,418</u>	<u>40</u>	<u>461,706</u>	<u>40</u>	<u>484,322</u>	<u>40</u>	<u>2280</u>	<u>16,256</u>	<u>1</u>	<u>15,978</u>	<u>1</u>	<u>16,841</u>	<u>1</u>
Non-current assets:													
1517 Non-current financial assets at fair value through other comprehensive income (note 6(d))	12,570	1	18,082	1	33,174	3	2300	39,358	4	33,254	3	28,665	2
1600 Property, plant and equipment (notes 6(e) and 8)	293,369	26	294,685	26	299,449	24	2550	823,344	73	824,403	71	807,377	67
1755 Right-of-use assets (note 6(f))	72,665	7	76,960	7	95,109	8	2580	6,104	1	6,140	1	3,843	-
1760 Investment property, net (notes 6(g), 6(i) and 8)	198,665	18	199,727	17	205,344	17	2645	46,750	4	50,932	5	67,207	6
1840 Deferred tax assets	43,982	4	43,890	4	44,198	4	2670	6,722	1	6,748	1	6,978	1
1920 Refundable deposits	7,178	1	7,237	1	7,030	1		2,175	-	2,423	-	2,216	-
1995 Other non-current assets	37,961	3	41,377	4	33,116	3		61,751	6	66,243	7	80,244	7
Total non-current assets	<u>666,390</u>	<u>60</u>	<u>681,958</u>	<u>60</u>	<u>717,420</u>	<u>60</u>		<u>885,095</u>	<u>79</u>	<u>890,646</u>	<u>78</u>	<u>887,621</u>	<u>74</u>
Total non-current assets													
Equity attributable to owners of parent (note 6(m)):													
Share capital:													
Common shares	3110							1,959,240	176	1,989,314	174	1,989,314	166
Preferred shares	3120							84	-	84	-	84	-
Accumulated deficits	3350							(1,959,324)	176	(1,989,398)	174	(1,989,398)	166
Other equities:								(1,739,421)	(136)	(1,535,036)	(134)	(1,490,547)	(124)
Exchange differences on translation of foreign financial statements	3410							40,352	4	37,576	3	24,697	2
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	3420							(20,630)	(2)	(15,118)	(1)	(4,645)	-
Treasury shares	3500							19,722	2	22,458	2	20,052	2
Total equity attributable to owners of parent								-	-	(202,059)	(18)	(202,059)	(18)
Non-controlling interests	36xx							239,625	22	274,761	24	316,844	26
Total equity								(10,912)	(1)	(21,743)	(2)	(2,723)	-
Total liabilities and equity								228,713	21	253,018	22	314,121	26
	<u>\$ 1,113,808</u>	<u>100</u>	<u>1,143,664</u>	<u>100</u>	<u>1,201,742</u>	<u>100</u>		<u>\$ 1,113,808</u>	<u>100</u>	<u>1,143,664</u>	<u>100</u>	<u>1,201,742</u>	<u>100</u>

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2020 and 2019

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

		For the three months ended March 31			
		2020		2019	
		Amount	%	Amount	%
4000	Operating revenue (note 6(o))	\$ 174,948	100	186,836	100
5000	Operating costs (notes 6(c) and 6(k))	<u>124,917</u>	<u>71</u>	<u>135,909</u>	<u>72</u>
5900	Gross profit	<u>50,031</u>	<u>29</u>	<u>50,927</u>	<u>28</u>
6000	Operating expenses (notes 6(i), 6(k) and 7):				
6100	Selling expenses	12,819	8	19,528	10
6200	Administrative expenses	29,673	17	33,137	18
6300	Research and development expenses	<u>22,780</u>	<u>13</u>	<u>27,441</u>	<u>15</u>
	Total operating expenses	<u>65,272</u>	<u>38</u>	<u>80,106</u>	<u>43</u>
6900	Net operating loss	<u>(15,241)</u>	<u>(9)</u>	<u>(29,179)</u>	<u>(15)</u>
7000	Non-operating income and expenses (notes 6(i) and 6(q)):				
7010	Other income	7,644	4	7,865	4
7020	Other gains and losses	(853)	-	6,522	3
7050	Finance costs	<u>(3,133)</u>	<u>(2)</u>	<u>(3,217)</u>	<u>(2)</u>
	Total non-operating income and expenses	<u>3,658</u>	<u>2</u>	<u>11,170</u>	<u>5</u>
	Loss from continuing operations before tax	(11,583)	(7)	(18,009)	(10)
7950	Less: Income tax expense (benefit) (note 6(l))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Net loss	<u>(11,583)</u>	<u>(7)</u>	<u>(18,009)</u>	<u>(10)</u>
8300	Other comprehensive income (note 6(m)):				
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	(5,512)	(3)	5,989	3
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>(5,512)</u>	<u>(3)</u>	<u>5,989</u>	<u>3</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	937	1	(4,439)	(2)
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>937</u>	<u>1</u>	<u>(4,439)</u>	<u>(2)</u>
8300	Other comprehensive income (loss), net	<u>(4,575)</u>	<u>(2)</u>	<u>1,550</u>	<u>1</u>
	Total comprehensive income (loss)	<u>\$ (16,158)</u>	<u>(9)</u>	<u>(16,459)</u>	<u>(9)</u>
	Net loss attributable to:				
8610	Loss attributable to owners of parent	\$ (9,254)	(6)	(13,587)	(8)
8620	Loss attributable to non-controlling interests	<u>(2,329)</u>	<u>(1)</u>	<u>(4,422)</u>	<u>(2)</u>
		<u>\$ (11,583)</u>	<u>(7)</u>	<u>(18,009)</u>	<u>(10)</u>
	Comprehensive income (loss) attributable to:				
8710	Comprehensive income (loss), attributable to owners of parent	\$ (11,990)	(7)	(12,044)	(7)
8720	Comprehensive income (loss), attributable to non-controlling interests	<u>(4,168)</u>	<u>(2)</u>	<u>(4,415)</u>	<u>(2)</u>
		<u>\$ (16,158)</u>	<u>(9)</u>	<u>(16,459)</u>	<u>(9)</u>
9750	Basic earnings per share (in New Taiwan dollar) (note 6(n))	<u>\$ (0.05)</u>		<u>(0.07)</u>	
9850	Diluted earnings per share (in New Taiwan dollar) (note 6(n))	<u>\$ (0.05)</u>		<u>(0.07)</u>	

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollar)

	Equity attributable to owners of parent										
	Total other equity interest										
	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
Balance at January 1, 2019	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	-	-	-	(13,587)	-	-	-	-	(13,587)	(4,422)	(18,009)
Other comprehensive income (loss)	-	-	-	-	(4,446)	5,989	1,543	-	1,543	7	1,550
Total comprehensive income (loss)	-	-	-	(13,587)	(4,446)	5,989	1,543	-	(12,044)	(4,415)	(16,459)
Balance at March 31, 2019	1,989,314	84	1,989,398	(1,490,547)	24,697	(4,645)	20,052	(202,059)	316,844	(2,723)	314,121
Balance at January 1, 2020	1,989,314	84	1,989,398	(1,535,036)	37,576	(15,118)	22,458	(202,059)	274,761	(21,743)	253,018
Net loss	-	-	-	(9,254)	-	-	-	-	(9,254)	(2,329)	(11,583)
Other comprehensive income (loss)	-	-	-	-	2,776	(5,512)	(2,736)	-	(2,736)	(1,839)	(4,575)
Total comprehensive income (loss)	-	-	-	(9,254)	2,776	(5,512)	(2,736)	-	(11,990)	(4,168)	(16,158)
Retirement of treasury share	(30,074)	-	(30,074)	(171,985)	-	-	-	202,059	-	-	-
Changes in ownership interests in subsidiaries	-	-	-	(23,146)	-	-	-	-	(23,146)	14,999	(8,147)
Balance at March 31, 2020	1,959,240	84	1,959,324	(1,739,421)	40,352	(20,630)	19,722	-	239,625	(10,912)	228,713

See accompanying notes to consolidated financial statements.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollar)

	For the three months ended March 31	
	2020	2019
Cash flows from (used in) operating activities:		
Net loss before tax	\$ (11,583)	(18,009)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation	7,723	7,981
Amortization	3,121	2,869
Interest expense	3,133	3,217
Interest income	(56)	(83)
Total adjustments to reconcile profit (loss)	13,921	13,984
Changes in operating assets and liabilities:		
Net changes in operating assets:		
Accounts receivable	(8,938)	12,460
Inventories	(19,610)	(9,803)
Prepayments and other current assets	(1,751)	1,105
Total changes in operating assets, net	(30,299)	3,762
Net changes in operating liabilities:		
Notes payable	(176)	(592)
Accounts payable	(29,926)	13,005
Other payables	(12,165)	(4,269)
Provisions	(129)	(228)
Other current liabilities	6,154	(2,062)
Other non-current liabilities	(248)	(1,159)
Total changes in operating liabilities, net	(36,490)	4,695
Total changes in operating assets and liabilities, net	(66,789)	8,457
Total adjustments	(52,868)	22,441
Cash inflow (outflow) generated from operating activities	(64,451)	4,432
Interest received	41	68
Interest paid	(2,835)	(2,638)
Income taxes paid	(50)	(84)
Net cash flows from (used in) operating activities	(67,295)	1,778
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(1,498)	(3,662)
Decrease in refundable deposits	69	-
Decrease (increase) in other non-current assets	295	(6,798)
Net cash used in investing activities	(1,134)	(10,460)
Cash flows from (used in) financing activities:		
Increase in short-term loans	50,000	65,000
Decrease in short-term loans	(15,000)	(65,000)
Increase (decrease) in guarantee deposits received	(26)	152
Payment of lease liabilities	(3,973)	(4,143)
Interest paid	(352)	(568)
Change in non-controlling interests	(8,147)	-
Net cash flows from (used in) financing activities	22,502	(4,559)
Effect of exchange rate changes on cash and cash equivalents	1,296	(6,059)
Net decrease in cash and cash equivalents	(44,631)	(19,300)
Cash and cash equivalents at beginning of period	153,465	154,279
Cash and cash equivalents at end of period	\$ 108,834	134,979

See accompanying notes to consolidated financial statements.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollar, 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 reported to the Board of Directors and issued on May 12, 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, 2020.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

- (b) 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

(Continued)

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

Those which may be relevant to the Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 23, 2020	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2019. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2019.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

(b) Basis of consolidation

Principles of preparation of the consolidated financial statements are the same as those of the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to note 4(c) of the consolidated financial statements for the year ended December 31, 2019.

List of subsidiaries included in the consolidated financial statements:

Name of investor	Name of investee	Scope of business	Percentage of ownership			Remarks
			March 31, 2020	December 31, 2019	March 31, 2019	
The Company	Durabook Americas Inc. (Durabook)	The trading of computers and computer peripheral equipment	80.000 %	52.000 %	52.000 %	Note 1

(Continued)

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

Name of investor	Name of investee	Scope of business	Percentage of ownership			Remarks
			March 31, 2020	December 31, 2019	March 31, 2019	
The Company	Twinhead (Asia) Pte Ltd. (Twinhead (Asia))	Investment holding	100.000 %	100.000 %	100.000 %	Note 2
The Company	Twintek International Corporation (Twintek)	The trading of computers and computer peripheral equipment	- %	99.974 %	99.974 %	Notes 2 and 3
The Company	Yu Feng Technology Co., Ltd. (Yu Feng)	The trading of computers and computer peripheral equipment	- %	99.975 %	99.975 %	Notes 2 and 4
Twinhead (Asia) Pte Ltd.	Twinhead Enterprises (BVI) Ltd.	Investment holding	100.000 %	100.000 %	100.000 %	Note 2
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 %	100.000 %	Note 2
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 %	100.000 %	Note 2

Note 1: The Company acquired 269 thousand shares of Durabook for \$8,128 thousand in February 2020, increasing shareholding ratio from 52% to 80%.

Note 2: Because they are non-significant subsidiaries, their financial statements were not reviewed by independent auditors.

Note 3: The Company acquired 9 thousand shares of Twintek for \$9 thousand in March 2020, increasing shareholding ratio from 99.974% to 100%; the Board of Directors approved the Company to merge with Twintek on March 9, 2020, in accordance with Corporate Merger and Acquisition Law.

Note 4: The Company acquired 10 thousand shares of Yu Feng for \$10 thousand in March 2020, increasing shareholding ratio from 99.975% to 100%; the Board of Directors approved the Company to merge with Yu Feng on March 9, 2020, in accordance with Corporate Merger and Acquisition Law.

(c) Income tax

Tax expense in the consolidated financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting".

Income tax expense for the period is best estimated by multiplying pretax income of the reporting period by the effective annual tax rate which was forecasted by the management. The outcome is then fully recognized as current tax expense.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(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 IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and 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.

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

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2019.

(6) Explanation of significant accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2019. Please refer to note 6 of the consolidated financial statements for the year ended December 31, 2019.

(a) Cash and cash equivalents

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Petty cash	\$ 294	262	305
Checking and savings deposits	108,540	153,203	134,674
Cash and cash equivalents per statements of cash flows	<u>\$ 108,834</u>	<u>153,465</u>	<u>134,979</u>

(b) Accounts receivable

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Accounts receivable	\$ 94,831	85,893	100,220
Less: loss allowance	907	899	925
	<u>\$ 93,924</u>	<u>84,994</u>	<u>99,295</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:

	<u>March 31, 2020</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 64,403	-	-
1 to 30 days past due	29,840	2.62%	781
31 to 60 days past due	79	4.72%	4
61 to 90 days past due	509	24.05%	122
	<u>\$ 94,831</u>		<u>907</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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	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>
	March 31, 2019		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 85,999	-	-
1 to 30 days past due	11,466	3.55%	407
31 to 60 days past due	2,050	4.72%	97
61 to 90 days past due	293	24.05%	71
91 to 180 days past due	412	85.01%	350
	<u>\$ 100,220</u>		<u>925</u>

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

	For the three months ended March 31	
	2020	2019
Beginning balance on January 1	\$ 899	922
Foreign exchange gain	8	3
Ending balance on March 31	<u>\$ 907</u>	<u>925</u>

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

(c) Inventories

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

	March 31, 2020	December 31, 2019	March 31, 2019
	Merchandise	\$ 7,075	5,549
Finished goods	51,549	54,125	62,418
Work in progress	23,757	6,139	30,002
Raw materials and supplies	139,017	134,706	139,597
Goods in transit	4,597	5,829	2,400
Total	<u>\$ 225,995</u>	<u>206,348</u>	<u>237,140</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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As of March 31, 2020, December 31 and March 31, 2019, the Group's inventories were not provided as pledged assets.

Except for operating costs arising from the ordinary sale of inventories, other gains and losses directly recorded under operating costs were as follows:

	For the three months ended March 31	
	2020	2019
Loss on decline in market value of inventory	\$ 304	649

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

	March 31, 2020	December 31, 2019	March 31, 2019
Equity investments at fair value through other comprehensive income:			
Unlisted stocks (domestic)	\$ 12,446	15,815	27,752
Unlisted stocks (overseas)	124	2,267	5,422
Total	\$ 12,570	18,082	33,174

- (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.

No strategic investments were disposed for the three months ended March 31, 2020 and 2019, 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(r).

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

- (e) Property, plant and equipment

	Land	Buildings	Machinery	Other equipment	Total
Carrying value:					
January 1, 2020	\$ <u>107,832</u>	<u>169,694</u>	<u>5,002</u>	<u>12,157</u>	<u>294,685</u>
March 31, 2020	\$ <u>107,832</u>	<u>168,931</u>	<u>4,671</u>	<u>11,935</u>	<u>293,369</u>
January 1, 2019	\$ <u>107,832</u>	<u>174,153</u>	<u>3,528</u>	<u>13,027</u>	<u>298,540</u>
March 31, 2019	\$ <u>107,832</u>	<u>173,007</u>	<u>3,491</u>	<u>15,119</u>	<u>299,449</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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For the three months ended March 31, 2020 and 2019, the Group did not have any significant purchase, disposal, or provision (reversal) of impairment on property, plant and equipment. For the information on depreciation expenses for the three months ended March 31, 2020 and 2019, please refers to note 12; for pledged property, plant and equipment, please refers to note 8; for other relative information, please refers to note 6(e) of the consolidated financial statements for the year ended December 31, 2019.

(f) Right-of-use assets

	<u>Land</u>	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Carrying value:				
January 1, 2020	\$ 10,444	64,166	2,350	76,960
March 31, 2020	\$ 10,307	60,140	2,218	72,665
March 31, 2019	\$ 11,327	83,782	-	95,109

For the three months ended March 31, 2020 and 2019, the Group did not have any significant purchase, disposal, or provision (reversal) of impairment on right-of-use assets. For the information on depreciation expenses of right-of-use assets for the three months ended March 31, 2020 and 2019, please refers to note 12; for other relative information, please refers to note 6(f) of the consolidated financial statements for the year ended December 31, 2019.

(g) Investment property

For the three months ended March 31, 2020 and 2019, the Group did not have any significant purchase, disposal, or provision (reversal) of impairment on investment properties. For the information on depreciation expenses of investment property for the three months ended March 31, 2020 and 2019, please refers to note 12; for pledged investment properties, please refers to note 8; for other related information, please refers to note 6(g) of the consolidated financial statements for the year ended December 31, 2019.

The fair value of the Group's investment properties does not significantly differ from the information disclosed in note 6(g) of the consolidated financial statements for the year ended December 31, 2019.

(h) Short-term loans

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

	<u>March 31, 2020</u>			
	<u>Currency</u>	<u>Range of interest rates (%)</u>	<u>Year of maturity</u>	<u>Amount</u>
Unsecured loans	TWD	1.82~2.00	2020	\$ 305,000
Secured bank loans	TWD	1.49~1.80	2020~2021	320,000
Total				<u>\$ 625,000</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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December 31, 2019			
Currency	Range of interest rates (%)	Year of maturity	Amount
Unsecured loans	TWD	1.82~2.00	2020 \$ 270,000
Secured bank loans	TWD	1.66~1.80	320,000
Total			<u>\$ 590,000</u>
March 31, 2019			
Currency	Range of interest rates (%)	Year of maturity	Amount
Unsecured loans	TWD	1.82~2.00	2019 \$ 270,000
Secured bank loans	TWD	1.66~1.81	2019~2020 320,000
Total			<u>\$ 590,000</u>

As of March 31, 2020, December 31 and March 31, 2019, the unused credit facilities amounted to \$481,320 thousand, \$515,320 thousand and \$488,680 thousand, respectively.

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

(i) Lease liabilities

The Group's lease liabilities were as follow:

	March 31, 2020	December 31, 2019	March 31, 2019
Current	<u>\$ 16,256</u>	<u>15,978</u>	<u>16,841</u>
Non-current	<u>\$ 46,750</u>	<u>50,932</u>	<u>67,207</u>

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

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31	
	2020	2019
Interest on lease liabilities	<u>\$ 379</u>	<u>568</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 146</u>	<u>57</u>

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

	For the three months ended March 31	
	2020	2019
Total cash outflow for leases	<u>\$ 4,471</u>	<u>4,768</u>

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

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, 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.

(j) Operating leases

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 is as follows:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Less than one year	\$ 24,226	24,757	25,070
One to two years	6,182	12,399	25,070
Two to three years	-	-	6,227
Total undiscounted lease payments	<u>\$ 30,408</u>	<u>37,156</u>	<u>56,367</u>

(k) Employee benefits

The Group recognized pension costs of the defined contribution plans in profit or loss as follows:

	For the three months ended March 31	
	<u>2020</u>	<u>2019</u>
Operating costs	\$ 372	346
Operating expenses	<u>1,361</u>	<u>1,685</u>
Total	<u>\$ 1,733</u>	<u>2,031</u>

For other relative information, please refers to note 6(l) to the consolidated financial statements for the year ended December 31, 2019.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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(l) Income tax

Income tax expense was best estimated by multiplying pretax loss for the interim reporting period by the effective tax rate which was forecasted by the management.

The Group's income tax expense (benefits) is as follows:

	For the three months ended March 31	
	2020	2019
Current income tax expense (benefits)		
Current period	\$ <u>-</u>	<u>-</u>
Income tax expense (benefits) on continuing operations	\$ <u>-</u>	<u>-</u>

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

(m) Capital and other equity

As of March 31, 2020, December 31 and March 31, 2019, 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 195,924 thousand, 198,931 thousand and 198,931 thousand ordinary shares were issued, respectively. In addition, 8 thousand preferred shares were issued. All issued capital was fully paid in. The preferred shares were classified under equity.

For the three months ended March 31, 2020 and 2019, the reconciliation of outstanding shares of the Company was as follows:

	(Express in thousand shares)			
	Ordinary shares		Preferred shares	
	2020	2019	2020	2019
Beginning balance on January 1	198,931	198,931	8	8
Retirement of treasury shares	<u>(3,007)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance on March 31	<u>195,924</u>	<u>198,931</u>	<u>8</u>	<u>8</u>

(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.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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- 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.
- 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.
- 6) The Board of Directors approved the Company to reduce the number of ordinary shares through retirement of treasury stock, amounting to 3,007 thousand shares.

(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, 2019 and 2018, 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 \$399 thousand, \$395 thousand and \$382 thousand as of March 31, 2020, December 31 and March 31, 2019, respectively, will be recognized and distributed if approved in the shareholders' meeting.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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(iii) Treasury stock

The Board of Directors approved the Company to merge with its subsidiaries (Twintek and Yu Feng) on March 9, 2020, in accordance with Corporate Merger and Acquisition Law. Because of the merger, the Company retired 3,007 thousand shares of treasury stocks, which had been held by its subsidiaries.

As of December 31 and March 31, 2019, the subsidiaries of the Company both held 3,007 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. For the three months ended March 31, 2019, none of the Company's share hold by its subsidiaries were sold. As of December 31 and March 31, 2019, the market value of the Company's shares held by the subsidiaries amounted to \$6,466 thousand and \$9,684 thousand, respectively.

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

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Twintek International Corporation	\$ -	103,259	103,259
Yu Feng Technology Co., Ltd.	-	98,800	98,800
	<u>\$ -</u>	<u>202,059</u>	<u>202,059</u>

(iv) Other equities (net of tax)

	<u>Exchange differences on translation of foreign financial statements</u>	<u>Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income</u>	<u>Total</u>
Balance at January 1, 2020	\$ 37,576	(15,118)	22,458
Foreign exchange differences arising from foreign operation	2,776	-	2,776
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	(5,512)	(5,512)
Balance at March 31, 2020	<u>\$ 40,352</u>	<u>(20,630)</u>	<u>19,722</u>

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	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	(4,446)	-	(4,446)
Unrealized gains from financial assets measured at fair value through other comprehensive income	-	5,989	5,989
Balance at March 31, 2019	<u>\$ 24,697</u>	<u>(4,645)</u>	<u>20,052</u>

(n) Earnings per share

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

(i) Basic earnings per share

	For the three months ended March 31	
	2020	2019
Net loss of the Company	\$ (9,254)	(13,587)
Dividends on non-redeemable preferred shares	(4)	(4)
Net loss attributable to common shareholders of the Company	<u>\$ (9,258)</u>	<u>(13,591)</u>
Weighted-average number of common shares	<u>195,924</u>	<u>195,924</u>
Basic earnings per share (in NT dollars)	<u>\$ (0.05)</u>	<u>(0.07)</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.

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Notes to the Consolidated Financial Statements

- (o) Revenue from contracts with customers — disaggregation of revenue

	For the three months ended March 31	
	2020	2019
Primary geographical markets:		
United States	\$ 51,239	59,276
Taiwan	45,769	27,194
Germany	35,422	44,560
France	11,896	10,341
Others	30,622	45,465
	\$ 174,948	186,836
Major products/services lines:		
Laptop	\$ 112,553	132,503
Mainboard	36,958	28,053
Sales of Materials and others	25,437	26,280
	\$ 174,948	186,836

- (p) 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.

As of March 31, 2020, December 31 and March 31, 2019, 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.

- (q) Non-operating income and expenses

- (i) Other income

	For the three months ended March 31	
	2020	2019
Interest income	\$ 56	83
Rental income	6,952	7,244
Others	636	538
Total other income	\$ 7,644	7,865

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(ii) Other gains and losses

	For the three months ended March 31	
	2020	2019
	Foreign exchange gains (losses)	\$ (176)
Others	(677)	(697)
Other gains and losses, net	\$ (853)	6,522

(iii) Finance costs

	For the three months ended March 31	
	2020	2019
	Interest expense	\$ (3,133)

(r) Financial instruments

Except as noted below, there were no significant changes in the Group's exposure to credit risk due to financial instruments. Please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2019.

(i) 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
March 31, 2020						
Non-derivative financial liabilities						
Secured bank loan	\$ 320,000	321,110	321,110	-	-	-
Unsecured bank loan	305,000	306,427	306,427	-	-	-
Notes payable	160	160	160	-	-	-
Accounts payable	99,785	99,785	99,785	-	-	-
Other payables	38,614	38,614	38,614	-	-	-
Lease liabilities	63,006	65,763	17,506	17,506	30,751	-
Guarantee deposits received	6,722	6,722	-	6,622	100	-
Preferred shares (including preferred shares dividends)	84	483	483	-	-	-
	\$ 833,371	839,064	784,085	24,128	30,851	-

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2019						
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	50,860	50,860	50,860	-	-	-
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>\$ 844,649</u>	<u>851,189</u>	<u>791,726</u>	<u>24,143</u>	<u>35,320</u>	<u>-</u>
March 31, 2019						
Non-derivative financial liabilities						
Secured bank loan	\$ 320,000	321,568	321,568	-	-	-
Unsecured bank loan	270,000	271,180	271,180	-	-	-
Accounts payable	120,834	120,834	120,834	-	-	-
Other payables	43,840	43,840	43,840	-	-	-
Lease liabilities	84,048	89,502	18,843	70,659	-	-
Guarantee deposits received	6,978	6,978	-	-	6,978	-
Preferred shares (including preferred shares dividends)	84	466	466	-	-	-
	<u>\$ 845,784</u>	<u>854,368</u>	<u>776,731</u>	<u>70,659</u>	<u>6,978</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.

(ii) Currency risk

1) Exposure to foreign currency risk

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

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
March 31, 2020			
Financial assets:			
Monetary assets:			
USD	\$ 16,009	30.23	483,952
Financial liabilities:			
Monetary liabilities:			
USD	\$ 1,772	30.23	53,568

(Continued)

TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
December 31, 2019			
Financial assets:			
Monetary assets:			
USD	\$ 17,662	29.98	529,507
Financial liabilities:			
Monetary liabilities:			
USD	\$ 2,068	29.98	61,999
March 31, 2019			
Financial assets:			
Monetary assets:			
USD	\$ 15,495	30.82	477,556
Financial liabilities:			
Monetary liabilities:			
USD	\$ 1,939	30.82	59,760

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 March 31, 2020 and 2019, with all other variable factors remaining constant, would have increased (decreased) the net loss before tax by \$4,304 thousand and \$4,178 thousand, respectively. The analysis was performed on the same basis for both periods with all other variable factors remaining constant, gains.

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 gains (losses), including realized and unrealized, were \$(176) thousand and \$7,219 thousand for the three months ended March 31, 2020 and 2019, respectively.

(iii) 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.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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If the interest rate had increased/decreased by 1%, the Group's net loss before tax would have both increased/decreased by \$1,563 thousand and \$1,475 thousand for the three months ended March 31, 2020 and 2019, respectively, with all other variable factors remaining constant. This is mainly due to the Group's borrowing at floating rates.

(iv) Fair value

1) Categories and fair value of financial instruments

The carrying amount and fair value of the Group's financial assets and liabilities were as follows; however, except for the followings, the carrying amounts of the Group's financial assets and liabilities are valued approximately to their fair value. No additional fair value disclosure is required in accordance to the regulations:

	Carrying amount	March 31, 2020			Total
		Fair value			
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Unlisted stocks (domestic)	\$ 12,446	-	-	12,446	12,446
Unlisted stocks (overseas)	124	-	-	124	124
Subtotal	12,570	-	-	12,570	12,570
Financial assets measured at amortized cost					
Cash and cash equivalents	108,834	-	-	-	-
Notes and accounts receivable	93,924	-	-	-	-
Other receivables	15	-	-	-	-
Refundable deposits	7,178	-	-	-	-
Subtotal	209,951	-	-	-	-
Total	\$ 222,521	-	-	12,570	12,570
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 625,000	-	-	-	-
Notes and accounts payable	99,945	-	-	-	-
Other payables	38,614	-	-	-	-
Lease liabilities	63,006	-	-	-	-
Guarantee deposits received	6,722	-	-	-	-
Preferred shares	84	-	-	-	-
Total	\$ 833,371	-	-	-	-

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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		December 31, 2019				
		Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
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	-	-	-	-
Accounts receivable		84,994	-	-	-	-
Refundable deposits		7,237	-	-	-	-
Subtotal		<u>245,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$	<u><u>263,778</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>18,082</u></u>	<u><u>18,082</u></u>
Financial liabilities measured at amortized cost						
Short-term borrowings	\$	590,000	-	-	-	-
Notes and accounts payable		130,047	-	-	-	-
Other payables		50,860	-	-	-	-
Lease liabilities		66,910	-	-	-	-
Guarantee deposits received		6,748	-	-	-	-
Preferred shares		84	-	-	-	-
Total	\$	<u><u>844,649</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
		March 31, 2019				
		Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income						
Unlisted stocks (domestic)	\$	27,752	-	-	27,752	27,752
Unlisted stocks (overseas)		5,422	-	-	5,422	5,422
Subtotal		<u>33,174</u>	<u>-</u>	<u>-</u>	<u>33,174</u>	<u>33,174</u>
Financial assets measured at amortized cost						
Cash and cash equivalents		134,979	-	-	-	-
Accounts receivable		99,295	-	-	-	-
Other receivables		15	-	-	-	-
Refundable deposits		7,030	-	-	-	-
Subtotal		<u>241,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$	<u><u>274,493</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>33,174</u></u>	<u><u>33,174</u></u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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		March 31, 2019				
		Carrying amount	Fair value			Total
			Level 1	Level 2	Level 3	
Financial liabilities measured at amortized cost						
Short-term borrowings	\$	590,000	-	-	-	-
Notes and accounts payable		120,834	-	-	-	-
Other payables		43,840	-	-	-	-
Lease liabilities		84,048	-	-	-	-
Guarantee deposits received		6,978	-	-	-	-
Preferred shares		84	-	-	-	-
Total		\$ 845,784	-	-	-	-

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 widen 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

	Fair value through other comprehensive income <hr/> Unquoted equity instruments
Balance at January 1, 2020	\$ 18,082
Total loss recognized:	
In other comprehensive income	(5,512)
Balance at March 31, 2020	<u>\$ 12,570</u>
Balance at January 1, 2019	\$ 27,185
Total gain recognized:	
In other comprehensive income	5,989
Balance at March 31, 2019	<u>\$ 33,174</u>

The aforementioned total gain (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"> · Multiplier of price-to-book ratio (As of March 31, 2020, December 31 and March 31, 2019 was 0.08~0.99, 1.07~2.58 and 0.58~5.15, respectively.) · Market illiquidity discount rate (As of March 31, 2020, December 31 and March 31, 2019 were 20%) 	<p>The estimated fair value would increase (decrease) if</p> <ul style="list-style-type: none"> · the multiplier were higher (lower) · the market illiquidity discount were lower (higher)

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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:

	<u>Input</u>	<u>Assumptions</u>	<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
March 31, 2020				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	\$ 786	(786)
December 31, 2019				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	1,130	(1,130)
March 31, 2019				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	2,073	(2,073)

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.

- (s) Financial risk management

The objectives and policies of the Group's financial risk management are the same as these in note 6(t) of the consolidated financial statements for the year ended December 31, 2019.

- (t) Capital management

The objectives, policies, and procedures of the Group's capital management are the same as those in the consolidated financial statements for the year ended December 31, 2019. There were no material changes in the Group's quantitative information from that disclosed in the consolidated financial statements for the year ended December 31, 2019. For further information, please refer to note 6(u) to the consolidated financial statements for the year ended December 31, 2019.

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

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

For the three months ended March 31, 2020 and 2019, the reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2020	Cash flows	Non-cash changes		March 31, 2020
			Foreign exchange movement	Other	
Short-term borrowings	\$ 590,000	35,000	-	-	625,000
Lease liabilities	66,910	(3,973)	42	27	63,006
Total liabilities from financing activities	<u>\$ 656,910</u>	<u>31,027</u>	<u>42</u>	<u>27</u>	<u>688,006</u>

	January 1, 2019	Cash flows	Non-cash changes		March 31, 2019
			Foreign exchange movement	Other	
Short-term borrowings	\$ 590,000	-	-	-	590,000
Lease liabilities	88,061	(4,143)	130	-	84,048
Total liabilities from financing activities	<u>\$ 678,061</u>	<u>(4,143)</u>	<u>130</u>	<u>-</u>	<u>674,048</u>

(7) **Related-party transactions**

The compensation of the key management personnel comprised the following:

	For the three months ended March 31	
	2020	2019
Short-term employee benefits	\$ 4,245	4,074
Post-employment benefits	54	54
	<u>\$ 4,299</u>	<u>4,128</u>

(8) **Pledged assets**

The carrying values of pledged assets were as follows:

Pledged assets	Object	March 31, 2020	December 31,	
			2019	March 31, 2019
Land	Short-term borrowings	\$ 107,832	107,832	107,832
Buildings	Short-term borrowings	167,793	168,907	172,248
Investment property	Short-term borrowings	145,219	145,570	146,623
		<u>\$ 420,844</u>	<u>422,309</u>	<u>426,703</u>

(9) **Commitments and contingencies: None.**

(10) **Losses Due to Major Disasters: None.**

(11) **Subsequent Events: None.**

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

(12) Other

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

By nature	By function Three months ended March 31, 2020			Three months ended March 31, 2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	7,097	34,435	41,532	8,897	45,680	54,577
Labor and health insurance	706	2,834	3,540	909	3,293	4,202
Pension	372	1,361	1,733	346	1,685	2,031
Remuneration of directors	-	625	625	-	558	558
Others	417	829	1,246	385	851	1,236
Depreciation (note)	1,187	5,859	7,046	1,174	6,110	7,284
Amortization	-	3,121	3,121	-	2,869	2,869

Note: Excluding depreciation expenses for investment property recognized under other income and expenses amounted to \$677 thousand and \$697 thousand for the three months ended March 31, 2020 and 2019, respectively.

- (b) Seasonality or cyclical 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 three months ended March 31, 2020:

- (i) Loans extended to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of March 31, 2020 (excluding investment in subsidiaries, associates and joint ventures):

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

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance				Remarks
				Number of shares	Book value	Holding percentage	Market value	
The Company	EUROC Venture Capital Corp.	-	Non-current financial assets at fair value through other comprehensive income	1,225	12,446	10.000 %	12,446	
The Company	II, Inc.	-	Non-current financial assets at fair value through profit or loss	400	-	2.125 %	-	Note 1
The Company	Trigem Computer Inc.	-	Non-current financial assets at fair value through profit or loss	-	-	0.006 %	-	Note 1
The Company	Printec Japan Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	-	50	9.000 %	50	
The Company	Ambicion Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1	74	0.748 %	74	
The Company	Adolite Inc.	-	Non-current financial assets at fair value through other comprehensive income	400	-	0.535 %	-	Note 1

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

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

(in Thousands of New Taiwan Dollars)

Name of related party	Counter-party	Relationship	Balance of receivables from related party (Notes 1, 3 and 4)	Turnover rate	Overdue amount		Amounts received in subsequent period (Note 2)	Allowances for bad debts
					Amount	Action taken		
The Company	Twinhead Kunshan Technology Co., Ltd.	Indirect subsidiary	360,178 (note 3)	-	360,178 (Note 3)	The receivable has been traced and recognized as long-term accounts receivable	-	-

Note 1: Includes the amount recorded under long-term accounts receivables.

Note 2: Until May 12, 2020.

Note 3: As of March 31, 2020, the Company's accounts receivable and accounts payable of \$476,616 thousand and \$116,438 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 \$360,178 thousand.

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

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

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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(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	12,040	The transaction is not significantly different from normal transactions	6.88 %
0	The Company	Kunshan Lun Teng	1	Sales revenue	3,739	The transaction is not significantly different from normal transactions	2.14 %
0	The Company	Durabook	1	Accounts receivable – related parties	41,760 (note 3)	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	3.75 %
0	The Company	Twinhead Kunshan	1	Long-term accounts receivable – related parties	76,168 (note 4)	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	6.84 %

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: As of March 31, 2020, the Company's account receivable of \$88,430 thousand, which was offset against the investment of \$46,670 thousand, accounted for using the equity method of Durabook.

Note 4: As of March 31, 2020, the Company's accounts receivable and accounts payable of \$476,616 thousand and \$116,438 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 \$360,178 thousand, which was offset against the investment of \$284,010 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 three months ended March 31, 2020 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Scope of business	Original cost		Ending balance			Net income (loss) of investee	Investment income (losses)	Remarks
				March 31, 2020	December 31, 2019	Shares	Percentage of ownership	Book value			
The Company	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	73,442	53,079	769	80.000 %	- (note 3)	(8,591)	(5,149)	Subsidiary (note 2)
The Company	Twinhead (Asia)	Singapore	Investment holding	539,919	539,919	5,872	100.000 %	- (note 4)	(3,003)	(3,003)	Subsidiary (notes 2 and 7)
The Company	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,542	328,533	-	- %	-	(728)	(728)	Subsidiary (notes 2, 5 and 7)
The Company	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,910	397,900	-	- %	-	(547)	(547)	Subsidiary (notes 2, 6 and 7)
Twintek	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	-	42,463	-	- %	-	(8,591)	(647)	Notes 2 and 5
Yu Feng	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	-	25,803	-	- %	-	(8,591)	(466)	Notes 2 and 6
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000 %	1,366	(34)	(34)	Indirect subsidiary (notes 2 and 7)

Note 1: The exchange rate as of March 31, 2020: USD1=TWD30.23

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

Note 3: Please refer to note 13(a)(x) note 3.

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

Note 5: Please refer to note 4(b) note 3.

Note 6: Please refer to note 4(b) note 4.

Note 7: The amounts of investment income (loss), were recognized under the equity method based the financial statements which were not reviewed by the auditors of the Company

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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(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, 2020	Investment flow during current period		Cumulative investment (amount) from Taiwan as of March 31, 2020	Net income (losses) of investee	Direct / indirect investment holding percentage	Investment income (losses) (Note 2)	Book value as of March 31, 2020	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	377,875 (USD12,500)	(2)	377,875 (USD12,500)	-	-	377,875 (USD12,500)	(1,512)	100.00 %	(1,512)	(294,826)	-
Twinhead Huazhong Technology Limited Corp.	Installation and sales of laptop parts and accessories; sales and production of related software	120,920 (USD4,000)	(2)	60,460 (USD2,000)	-	-	60,460 (USD2,000)	-	- %	-	-	-
Kunshan Lun Teng	Import and export of computers, electronic components, and digital cameras, and technical consultant services	6,348 (USD210)	(2)	6,348 (USD210)	-	-	6,348 (USD210)	(1,293)	100.00 %	(1,293)	11,784	-

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 amounts of investment income (loss), were recognized under the equity method based on the financial statements which were not reviewed by the auditors of the Company

Note 3: The exchange rate as of March 31, 2020: USD1=TWD30.23

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

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount in Mainland China as of March 31, 2020 (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	483,982 (USD16,010)	483,982 (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 March 31, 2020: USD1=TWD30.23.

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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(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Kaos Enterprise Co., Ltd.		31,391	15.77 %
Protegas Futuro Holdings, LLC		30,040	15.10 %
Outstanding Corporation		12,992	6.53 %
KANG EEL SHIUAN Co., Ltd.		10,992	5.52 %

(14) Segment 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.