

**LANNER ELECTRONICS INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**For the Years Ended December 31, 2015 and 2014
(With Independent Auditors' Report Thereon)**

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Independent Auditors' Report

The Board of Directors
LANNER ELECTRONICS INC.:

We have audited the accompanying consolidated balance sheets of LANNER ELECTRONICS INC. and subsidiaries (the Group) as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income as well as the consolidated statements of changes in stockholders' equity and of cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of certain subsidiaries were audited by other auditors, whose reports were finished to us. The total assets of those consolidated subsidiaries mentioned above amounted to \$601,388 thousand and \$492,390 thousand, constituting 14% and 13% of the consolidated totals assets as of December 31, 2015 and 2014, respectively. The net operating revenue for the years then ended December 31, 2015 and 2014 amounted to \$1,276,741 thousand and \$1,139,358 thousand, respectively, constituting 23% and 25% of the consolidated net operating revenue.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the generally accepted auditing standards in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentations. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial positions of the Group as of December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years ended December 31, 2015 and 2014, in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the R.O.C. Financial Supervisory Commission.



We have also audited the standalone financial statements of LANNER ELECTRONICS INC. for the years ended December 31, 2015 and 2014, on which we have issued a modified unqualified audit report.

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March 23, 2016

Note to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the International Financial Reporting Standards approved by the R.O.C. Financial Supervisory Commission. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying 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 auditors' report and financial statements, the Chinese version shall prevail.

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(Expressed in thousands of New Taiwan dollars)

Assets	December 31, 2015		December 31, 2014		December 31, 2015		December 31, 2014	
	Amount	%	Amount	%	Amount	%	Amount	%
Current assets:								
Cash and cash equivalents (note 6(a))	\$ 412,427	10	481,720	13	\$ 42,604	1	101,252	3
Notes receivable, net (note 6(b))	12,506	-	19,040	1	1,966	-	1,897	-
Accounts receivable, net (note 6(b))	1,061,641	25	951,472	25	829,130	19	623,585	17
Other receivables (note 6(b))	646	-	2,445	-	6,480	-	210	-
Inventories (note 6(c))	1,415,992	33	1,028,738	27	51,221	1	16,303	-
Other financial assets--current (note 8)	37,139	1	2,306	-	496,313	12	435,992	12
Prepayments	68,155	2	72,296	2	32,630	1	17,840	-
Other current assets	39,699	1	30,569	1	223,505	5	255,243	7
Total current assets	3,048,205	72	2,588,586	69	1,810,775	42	1,553,513	42
Non-current assets:								
Financial assets carried at cost--non-current (note 6(d))	1,000	-	1,000	-	23	-	-	-
Property, plant and equipment (notes 6(e) and 8)	1,157,649	27	1,103,385	30	42,440	1	42,844	1
Prepayments for equipment	18,343	-	13,440	-	32,881	1	30,729	1
Deferred income tax assets (note 6(f))	54,708	1	34,582	1	68,241	1	50,410	1
Other non-current assets (note 7)	7,674	-	5,434	-	29,168	1	27,571	1
Total non-current assets	1,239,374	28	1,157,841	31	552	-	768	-
					173,305	4	152,372	4
					1,984,080	46	1,705,835	46
Equity attributable to shareholders of the Company (notes 6(g), 6(j), 6(k) and 6(l)):								
Common stock					975,008	23	908,114	24
Capital surplus					462,135	11	384,347	10
Retained earnings:								
Legal reserve					163,059	4	132,687	4
Special reserve					2,225	-	2,225	-
Unappropriated retained earnings					628,724	15	539,231	14
					794,008	19	674,143	18
Other equity:								
Financial statements translation differences for foreign operations					19,995	-	31,206	1
Total equity attributable to shareholders of the Company					2,251,146	53	1,997,810	53
Non-controlling interests					52,353	1	42,782	1
Total equity					2,303,499	54	2,040,592	54
Total liabilities and stockholders' equity	\$ 4,287,579	100	\$ 3,746,427	100	\$ 4,287,579	100	\$ 3,746,427	100
Total assets								

See accompanying notes to the consolidated financial statements.

LANNER ELECTRONICS INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014
(Expressed in thousands of New Taiwan dollars)

	2015		2014	
	Amount	%	Amount	%
Operating revenue (notes 6(n) and 7)	\$ 5,439,499	100	4,535,864	100
Operating costs (notes 6(c), 6(h), 6(i), 6(k), 6(l), 6(o) and 7)	<u>3,877,383</u>	<u>71</u>	<u>3,257,419</u>	<u>72</u>
Gross profit, net	<u>1,562,116</u>	<u>29</u>	<u>1,278,445</u>	<u>28</u>
Operating expenses (notes 6(b), 6(i), 6(k), 6(l), 6(o) and 7):				
Selling expenses	446,070	8	413,212	9
Administrative expenses	348,103	7	243,512	5
Research and development expenses	<u>426,525</u>	<u>8</u>	<u>345,216</u>	<u>8</u>
Total operating expenses	<u>1,220,698</u>	<u>23</u>	<u>1,001,940</u>	<u>22</u>
Operating profit	<u>341,418</u>	<u>6</u>	<u>276,505</u>	<u>6</u>
Non-operating income and expenses (notes 6(d), 6(g), 6(p) and 7):				
Other income	100,479	2	72,281	1
Other gains and losses	(5,834)	-	36,452	1
Financial costs	<u>(8,116)</u>	<u>-</u>	<u>(9,187)</u>	<u>-</u>
Total non-operating income and expenses	<u>86,529</u>	<u>2</u>	<u>99,546</u>	<u>2</u>
Net income before tax	427,947	8	376,051	8
Less: income tax expenses (note 6(j))	<u>98,831</u>	<u>2</u>	<u>64,017</u>	<u>1</u>
Net income	<u>329,116</u>	<u>6</u>	<u>312,034</u>	<u>7</u>
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurements of the defined benefit plans	(1,662)	-	1,997	-
Income tax benefit (expense) related to items that will not be reclassified subsequently	-	-	-	-
Total Items that may be reclassified subsequently to profit or loss	<u>(1,662)</u>	<u>-</u>	<u>1,997</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Financial statements translation differences for foreign operations	(12,352)	-	19,811	-
Income tax expense relating to components of other comprehensive income (loss)	-	-	-	-
Total Items that may be reclassified subsequently to profit or loss	<u>(12,352)</u>	<u>-</u>	<u>19,811</u>	<u>-</u>
Other comprehensive income (loss), net of tax	<u>(14,014)</u>	<u>-</u>	<u>21,808</u>	<u>-</u>
Total comprehensive income	<u>\$ 315,102</u>	<u>6</u>	<u>333,842</u>	<u>7</u>
Net income attributable to:				
Shareholders of the parent company	\$ 318,404	6	303,717	7
Non-controlling interests	<u>10,712</u>	<u>-</u>	<u>8,317</u>	<u>-</u>
	<u>\$ 329,116</u>	<u>6</u>	<u>312,034</u>	<u>7</u>
Total comprehensive income attributable to:				
Shareholders of the parent company	\$ 305,531	6	324,085	7
Non-controlling interests	<u>9,571</u>	<u>-</u>	<u>9,757</u>	<u>-</u>
	<u>\$ 315,102</u>	<u>6</u>	<u>333,842</u>	<u>7</u>
Basic earnings per share (in New Taiwan dollars) (note 6(m))	<u>\$ 3.29</u>		<u>3.23</u>	
Diluted earnings per share (in New Taiwan dollars) (note 6(m))	<u>\$ 3.04</u>		<u>2.99</u>	

See accompanying notes to the consolidated financial statements.

(Expressed in thousands of New Taiwan dollars)

See accompanying notes to the consolidated financial statements.

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

	2015	2014
Cash flows from operating activities:		
Consolidated net income before tax	\$ 427,947	376,051
Adjustments:		
Adjustments to reconcile profit and loss		
Depreciation	74,994	65,716
Bad debt provision	572	325
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	42	(142)
Interest expenses	8,116	9,187
Interest income	(1,783)	(1,340)
Remuneration cost of employee stock options	3,612	2,908
Loss on disposal of property, plant and equipment, net	375	2,084
Total adjustments to reconcile profit and loss	<u>85,928</u>	<u>78,738</u>
Changes in assets / liabilities relating to operating activities:		
Net changes in operating assets:		
Notes receivable	6,534	(7,147)
Accounts receivable	(110,725)	(139,861)
Other receivable	1,799	3,264
Inventories	(387,254)	(97,192)
Prepayments	4,141	(43,792)
Other current assets	(9,130)	(6,716)
Other financial assets	(28)	(28)
Total changes in operating assets, net	<u>(494,663)</u>	<u>(291,472)</u>
Net changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	-	(242)
Notes payable	-	(169)
Accounts payable	205,545	237,586
Accounts payable—related parties	6,270	210
Other payable	113,612	153,458
Provisions	14,790	1,426
Other current liabilities	20,361	617
Net defined benefit liabilities	(65)	151
Long-term deferred revenue	7,526	11,941
Total changes in operating liabilities, net	<u>368,039</u>	<u>404,978</u>
Total changes in operating assets / liabilities, net	<u>(126,624)</u>	<u>113,506</u>
Total adjustments	<u>(40,696)</u>	<u>192,244</u>
Cash provided by operating activities	387,251	568,295
Interest income received	1,782	1,339
Interest paid	(2,910)	(9,260)
Income tax paid	<u>(66,208)</u>	<u>(86,766)</u>
Net cash provided by operating activities	<u>319,915</u>	<u>473,608</u>
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(116,976)	(73,095)
Proceeds from disposal of property, plant and equipment	2,533	1,283
Increase in other financial assets	(34,804)	-
Increase in other non-current assets	(2,240)	(89)
Increase in prepayments for equipment	<u>(18,343)</u>	<u>(13,378)</u>
Net cash used in investing activities	<u>(169,830)</u>	<u>(85,279)</u>
Cash flows from financing activities:		
Decrease in short-term borrowings	(50,000)	(147,501)
Repayment of long-term debts	(1,914)	(1,819)
Increase (decrease) in other non-current liabilities	(216)	619
Cash dividends paid	(136,218)	(121,750)
Exercise of employee share options	15,835	16,076
Purchase of treasury stock	<u>(25,678)</u>	<u>-</u>
Net cash used in financing activities	<u>(198,191)</u>	<u>(254,375)</u>
Effects of changes in exchange rates	<u>(21,187)</u>	<u>17,457</u>
Increase (decrease) in cash and cash equivalents	<u>(69,293)</u>	<u>151,411</u>
Cash and cash equivalents at beginning of period	<u>481,720</u>	<u>330,309</u>
Cash and cash equivalents at beginning of period	\$ <u>412,427</u>	\$ <u>481,720</u>

See accompanying notes to the consolidated financial statements.

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

(Expressed in thousands of New Taiwan dollars unless otherwise stated)

(1) Organization and Business Scope

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

(2) Financial Statements Authorization Date and Authorization Process

These consolidated financial statements were approved by the Board of Directors on March 23, 2016.

(3) New Standards and Interpretations Not Yet Adopted

- (a) The effect of the new announcements and revisions of the standards and interpretations endorsed by the Financial Supervisory Commission ("FSC")

The Group has adopted to prepare financial reports according to IFRSs 2013 endorsed by the FSC from 2015 onward (not including IFRS 9 *Financial Instruments*). A summary of the new announcements, revisions, and amendments of standards and interpretations which were announced by the International Accounting Standards Board ("IASB") is as follows:

New announcements/revisions/amendments of standards and interpretations	Effective date per IASB
Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	July 1, 2010
Amendment to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	July 1, 2011
Amendment to IFRS 1: Government Loans	January 1, 2013
Amendment to IFRS 7: Disclosures – Transfers of Financial Assets	July 1, 2011
Amendment to IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
IFRS 10 Consolidated Financial Statements	January 1, 2013 (subsidiaries effective on January 1, 2014)
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013
Amendment to IAS 1: Presentation of Items of Other Comprehensive Income	July 1, 2012
Amendment to IAS 12: Deferred Tax: Recovery of Underlying Assets	January 1, 2012
Revision to IAS 19 Employee Benefits	January 1, 2013
Revision to IAS 27 Separate Financial Statements	January 1, 2013
Amendment to IAS 32: Offsetting Financial Assets and Financial Liabilities	January 1, 2014
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Except for the following, the Group assessed that adopting IFRSs 2013 will not have significant impacts on the consolidated financial statements.

i) **Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income**

According to the amendments to IAS 1, items of other comprehensive income will be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis. The aforementioned allocation basis will not be strictly enforced prior to the adoption of the amendments. The Group has also revised the disclosure of other periods.

ii) **IFRS 13 – Fair Value Measurement**

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. According to the ruling, the Group has disclosed its relative fair value information (please refer to note 6(q)) and also complied with the ruling of the postponement. Therefore, the Group is not required to disclose any additional information in other periods. The extension of the adoption, however, will not have any significant impacts on the fair value measurement items of assets and liabilities.

(b) **New standards and interpretations not yet endorsed by the FSC**

The new standards and amendments issued by the IASB that may have an impact to the consolidated financial statements as of the reporting date but not yet endorsed by the FSC are summarized as follows:

New standards and amendments and interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amended 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
Amended IFRS 10, IFRS 12 and IAS 28 "Investment Entities-Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Acquisitions of an Interest in Joint Operation"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amended IAS 1 "Disclosure Initiative"	January 1, 2016
Amended to IAS 7 "Disclosure Initiative"	January 1, 2017
Amended to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

New standards and amendments and interpretations	Effective date per IASB
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendments to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle and to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group is currently evaluating the impact of the abovementioned standards and amendments on the Group's financial position and operating results. Any related impact will be disclosed when the evaluation is completed.

(4) Significant Accounting Policies

The 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 financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the financial statements are summarized as follows. Except for those described otherwise, the accounting policies have been applied consistently to all periods presented in these financial statements, and have been applied consistently to the balance sheet as of reporting date.

(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 (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 the following accounts:

- i. Available-for-sale financial instruments measured at fair market value.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ii. Pension liabilities (and assets) are measured at the fair value of the pension deducted by the present value of the defined benefit obligations and the effect of the maximum rate which is mentioned in note 4(i).

ii) Functional and presentation currency

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

(c) Basis of consolidation

i) Principles of preparation of consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

ii) List of subsidiaries included in the consolidated financial statements

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership		Note
			December 31, 2015	December 31, 2014	
The Company	LANNER ELECTRONICS USA, INC. (LANNER (USA))	Trading of computer peripheral products	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS (MAURITIUS) INC. (LANNER (MAURITIUS))	Investing	100.00 %	100.00 %	
The Company	LEI TECHNOLOGY CANADA INC. (LEI)	Trading of computer peripheral products	100.00 %	100.00 %	
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	
LANCOM	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral products	90.91 %	90.91 %	

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Company increased its capital by USD500 thousand (NTD15,020 thousand) in LEI in August 2014.

(d) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on translation are recognized in profit or loss, except for the available-for-sale financial assets which are recognized in other comprehensive income.

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

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

i) An entity shall classify an asset as current when:

- i. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- ii. It holds the asset primarily for the purpose of trading;
- iii. It expects to realize the asset within twelve months after the reporting period; or
- iv. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

ii) An entity shall classify a liability as current when:

- i. It expects to settle the liability in its normal operating cycle;
- ii. It holds the liability primarily for the purpose of trading;
- iii. The liability is due to be settled within twelve months after the reporting period even if refinancing or a revised repayment plan is arranged between the reporting date and the issuance date of the financial statements; or

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- iv. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

(f) Cash and cash equivalents

Cash and cash equivalents comprised cash, cash in banks and short term investments with high liquidity that are subject to an insignificant risk of changes in their fair value.

The time deposits with maturity of one year or less from the acquisition date are listed in cash and cash equivalents because they are held for the purpose of meeting short-term cash commitments instead of investment or other purposes. They are also readily convertible to fixed amount of cash, and are subject to an insignificant risk of changes in value.

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

i) Financial assets

The Group classifies financial assets as financial assets at fair value through profit or loss, available-for-sale financial assets, and loans to other parties and receivables.

i. Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expense. Based on previous experiences, the Group uses trade-date accounting upon acquiring or disposing financial assets.

ii. Available-for sale financial assets

Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expense.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****iii. Loans to other parties and receivables**

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise trade receivables, other receivables, and other financial assets-noncurrent. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables.

iv. Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

(Continued)

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

v. Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the group transfers substantially all the risks and rewards of ownership of the financial assets.

ii) Financial liabilities

i. Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Compound financial instruments issued by the Group comprise those that can be converted to 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.

Upon conversion, the financial liability shall be reclassified as equity, and no gain or loss will be recognized.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****ii. Financial liability at fair value through profit or loss**

Available-for-sale financial liabilities are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend expense, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive expense and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expense.

iii. Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income and expense.

iv. Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation expires or has been discharged or cancelled. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income and expense.

v. Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable rights to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities 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 cost of inventories includes an appropriate share of fixed production overhead based on normal capacity and allocated variable production overhead based on actual output. However, unallocated fixed production overhead arising from lower or idle capacity is recognized in cost of goods sold during the period. If actual capacity is higher than normal capacity, fixed production overhead should be allocated based on actual capacity. The method of valuing inventories is the weighted-average method.

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.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) Property, plant and equipment

i) Recognition and measurement

Property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, and any borrowing cost that is eligible for capitalization.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

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:

Buildings	20~50 years
Machinery equipment	3~9 years
Other equipment	2.5~24 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(j) Impairment—non-financial assets

With regard to non-financial assets (other than inventories and deferred tax assets), the Group assesses at the end of each reporting period whether there is any indication that an impairment loss has occurred, and estimates the recoverable amount for assets with an indication of impairment. If it is not possible to determine the recoverable amount for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

(Continued)

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

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell or its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. Impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount, increasing the individual asset's or cash-generating unit's carrying amount to its estimated recoverable amount. The reversal of an impairment loss of an individual asset or cash-generating unit cannot exceed the carrying amount of the individual asset or cash-generating unit, less any depreciation or amortization, had it not recognized an impairment loss.

(k) Provisions

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

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

(l) Treasury stock

Under the cost method, the treasury stock account is debited for the cost of the Group's shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus—treasury stock; otherwise, the excess of the cost over the price is debited to capital surplus generated from similar treasury stock transactions. If the capital surplus—treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average cost and is calculated by each group according to the reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus generated from similar treasury stock transactions. If the capital surplus—treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus generated from similar treasury stock transactions.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****(m) Revenue**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is deferred and realized at execution if it can be distinguished by after-sale services; relative cost is recognized at execution as well.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For export transactions, transfer occurs upon loading the goods onto the relevant carrier at the port; however, for sales in the domestic market, transfer usually occurs when the product is received at the customer's warehouse.

(n) 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) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

(Continued)

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

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings.

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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.

(o) Share-based payment

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

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

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

(p) Income tax

Income tax expenses include both current taxes and deferred income taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred income taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred income taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred income taxes shall not be recognized for the below exceptions:

- i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii) Initial recognition of goodwill.

Deferred income tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities may be offset against each other if the following criteria are met:

- i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- ii) The taxing of deferred income tax assets and liabilities fulfill one of the below scenarios:
 - i. levied by the same taxing authority; or
 - ii. levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred income tax asset should be 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 profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

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

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

(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 assess its performance. Each operating segment consists of standalone financial information.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Significant Accounting Judgments and Sources of Estimation and Uncertainty

The preparation of the consolidated financial statements in conformity with 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.

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

For information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements, please refer to the following notes:

- (a) Note 6(c)—Inventory
- (b) Note 6(h)—Provision
- (c) Note 6(i)—Employee benefits

(6) Description of Significant Accounts

- (a) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash	\$ 1,780	973
Working capital	80	80
Cash in banks	141,828	244,939
Checking deposits	2,192	3,141
Time deposits	8,193	7,905
Foreign currency deposits	258,354	224,682
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 412,427</u>	<u>481,720</u>

Please refer to note 6(q) for the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

- (b) Notes and accounts receivable and other receivables

	December 31, 2015	December 31, 2014
Notes receivable	\$ 12,506	19,040
Accounts receivable	1,067,195	956,470
Other receivables	646	2,445
Less: allowance for impairment	5,554	4,998
	<u>\$ 1,074,793</u>	<u>972,957</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Group has not provided the notes and accounts receivable and other receivables as collateral or factored them for cash.

The aging analyses that were past due but not impaired were as follows:

	December 31, 2015	December 31, 2014
Past due 1~30 days	\$ 75,355	84,727
Past due 31~90 days	38,288	79,571
Past due over 90 days	<u>13,353</u>	<u>526</u>
	<u><u>\$ 126,996</u></u>	<u><u>164,824</u></u>

The movement in the allowance for impairment with respect to notes and accounts receivable and other receivables were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2015	\$ 4,998	-	4,998
Impairment loss recognized	572	-	572
Effect of changes in exchange rates	<u>(16)</u>	<u>-</u>	<u>(16)</u>
Balance at December 31, 2014	<u><u>\$ 5,554</u></u>	<u><u>-</u></u>	<u><u>5,554</u></u>
	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2014	\$ 5,158	-	5,158
Impairment loss recognized	325	-	325
Written-off in current period	<u>(557)</u>	<u>-</u>	<u>(557)</u>
Effect of changes in exchange rates	<u>72</u>	<u>-</u>	<u>72</u>
Balance at December 31, 2015	<u><u>\$ 4,998</u></u>	<u><u>-</u></u>	<u><u>4,998</u></u>

(c) Inventories

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

	December 31, 2015	December 31, 2014
Merchandise	\$ 3,139	3,763
Finished goods	695,068	458,660
Work in process	270,031	195,445
Raw material	<u>447,754</u>	<u>370,870</u>
Total	<u><u>\$ 1,415,992</u></u>	<u><u>1,028,738</u></u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Inventories are measured at the lower of cost and net realizable value. Hence, the Group makes judgment and estimates which shortens the life cycles of electronic products, the net realizable value of inventory for financial statement. Due to the rapid technology change, which shortens the life cycles of electronic products, the Group assessed the financial statement decrease to net realizable value of inventory at cost which is caused by normal wear and tear, obsolescence or no market value of the amount and cost of inventory write-downs to net realizable value. Valuation of the inventory is based according to the estimated future demand for its products. Hence, there is a possibility for the valuation to have a significant fluctuation.

As of December 31, 2015 and 2014, the Group's inventories are not pledged as collateral.

Aside from charging operating costs through the ordinary sale of inventories, other gains and losses directly recorded under operating costs in the years 2015 and 2014 are as follows:

	2015	2014
Loss on market value of inventory	\$ 28,612	12,532
Loss from scrapped inventory	12,617	4,212
Loss on physical count	<u>1,888</u>	<u>-</u>
Total	<u><u>\$ 43,117</u></u>	<u><u>16,744</u></u>

(d) Financial assets carried at cost—noncurrent

	Stockholding rate %	Investment cost	Amount
December 31, 2015			
Alliance III venture Capital Corp.	1.00	\$ <u>1,000</u>	<u>1,000</u>
	Stockholding rate %	Investment cost	Amount
December 31, 2014			
Alliance III venture Capital Corp	1.00	\$ 1,000	1,000
Hua Pian Xhong Xin (Beijing) Technology Ltd	19.84	<u>12,148</u>	<u>-</u>
Total		<u><u>\$ 13,148</u></u>	<u><u>1,000</u></u>

The Group has assessed the recoverable amount of the investment on Hua Dian (Beijing) Technology Ltd. is less than the book value. Therefore, the Group has recognized the entire investment as impairment loss. Further, the Group disposed the entire investment in August 2015.

(Continued)

LANNER ELECTRONICS INC. 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:

	Land	Buildings	Machinery	Other equipment	Construction in progress	Total
Cost or deemed cost:						
Balance at January 1, 2015	\$ 500,420	458,089	127,689	257,935	2,199	1,346,332
Additions	-	2,353	5,253	109,370	-	116,976
Disposals	-	-	(113)	(12,716)	-	(12,829)
Reclassification	-	231	-	13,440	(231)	13,440
Effect of changes in exchange rates	1,070	1,704	85	(1,584)	73	1,348
Balance at December 31, 2015	<u>\$ 501,490</u>	<u>462,377</u>	<u>132,914</u>	<u>366,445</u>	<u>2,041</u>	<u>1,465,267</u>
Balance at January 1, 2014	\$ 498,742	450,483	123,486	199,919	923	1,273,553
Additions	-	-	8,337	63,588	1,170	73,095
Disposals	-	-	(4,858)	(9,133)	-	(13,991)
Reclassification	-	5,131	244	1,887	-	7,262
Effect of changes in exchange rates	1,678	2,475	480	1,674	106	6,413
Balance at December 31, 2014	<u>\$ 500,420</u>	<u>458,089</u>	<u>127,689</u>	<u>257,935</u>	<u>2,199</u>	<u>1,346,332</u>
Depreciation and impairment loss:						
Balance at January 1, 2015	\$ -	53,676	70,090	119,181	-	242,947
Depreciation	-	12,348	18,617	44,029	-	74,994
Disposal	-	-	(13)	(9,908)	-	(9,921)
Effect of changes in exchange rates	-	163	60	(625)	-	(402)
Balance at December 31, 2015	<u>\$ -</u>	<u>66,187</u>	<u>88,754</u>	<u>152,677</u>	<u>-</u>	<u>307,618</u>
Balance at January 1, 2014	\$ -	41,468	55,778	89,069	-	186,315
Depreciation	-	12,089	18,964	34,663	-	65,716
Disposal	-	-	(4,858)	(5,766)	-	(10,624)
Effect of changes in exchange rates	-	119	206	1,215	-	1,540
Balance at December 31, 2014	<u>\$ -</u>	<u>53,676</u>	<u>70,090</u>	<u>119,181</u>	<u>-</u>	<u>242,947</u>
Carrying value:						
December 31, 2015	<u>\$ 501,490</u>	<u>396,190</u>	<u>44,160</u>	<u>213,768</u>	<u>2,041</u>	<u>1,157,649</u>
December 31, 2014	<u>\$ 500,420</u>	<u>404,413</u>	<u>57,599</u>	<u>138,754</u>	<u>2,199</u>	<u>1,103,385</u>

Please refer to note 8 for the information of the pledged property, plant and equipment, as of December 31, 2015 and 2014.

(f) Short-term and long-term borrowings

The details, terms and clauses of the Group's short-term and long-term borrowings were as follows:

i) Short-term borrowings

	December 31, 2015			
	Currency	Interest rate	Maturity year	Amount
Unsecured loans	USD	2.5762	2016	<u>\$ 42,604</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

			December 31, 2014	
	Currency	Interest rate	Maturity year	Amount
Secured loans	TWD	1.1	2015	\$ 50,000
Unsecured loans	USD	2.5328	2015	41,105
Unsecured loans	RMB	5.56	2015	10,147
Total				<u>\$ 101,252</u>

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

As of December 31, 2015, and 2014, the unused credit facilities of the Group's short-term borrowings amounted to \$870,000 and \$820,000 thousand, respectively.

ii) Long-term borrowings

			December 31, 2015	
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	2.4490	2020	\$ <u>44,406</u>
Current				\$ 1,966
Non-current				42,440
Total				<u>\$ 44,406</u>

			December 31, 2014	
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	2.3576	2020	\$ <u>44,741</u>
Current				\$ 1,897
Non-current				42,844
Total				<u>\$ 44,741</u>

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

iii) Collateral of loans

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

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(g) Bonds payable

The Company issued unsecured convertible bonds as follows:

	December 31, 2015	December 31, 2014
Total amount of convertible Bonds	\$ 400,000	400,000
Discount on bonds payable unamortized balance	(4,195)	(10,657)
Accumulated converted balance	<u>(172,300)</u>	<u>(134,100)</u>
Bonds payable of ending balance	<u>\$ 223,505</u>	<u>255,243</u>
Embedded Derivatives—put option and call option (financial liability at fair value through profit or loss—non-current)	<u>\$ (23)</u>	<u>-</u>
Equity component—conversion options (Capital surpluses—Share options)	<u>\$ 11,483</u>	<u>13,409</u>
	2015	2014
Embedded Derivatives—put option and call option measured at fair value through profit or loss (reported in other gains and losses)	<u>\$ (42)</u>	<u>142</u>
Interest expenses (financial costs)	<u>\$ 5,196</u>	<u>6,159</u>

i) Denomination and coupon rate

On October 21, 2013, the Company issued 4,000 shares of unsecured convertible bonds with 0% coupon rate and three years maturity amounted to \$400,000 thousand.

ii) Conversion provision

- i. Bondholders are eligible to exercise the conversion right between one month after the bond issuance and ten days before the expiration date.
- ii. Conversion price: The conversion price at the issuance date was NTD\$48 per share. If there is any increase in the Company's common stock (such as cash injection, capital increase from related earnings or capital surplus, issuance of new shares for consolidation purposes or as the consideration payable by the Company for its acquisition of another company's shares, stock split or cash injection by participating in the issuance of overseas depository receipts, etc), the Company shall calculate and adjust the conversion price based on the formula stated in the second conversion arrangement before publishing an announcement through GTSM. The Company set August 16, 2014, August 19, 2015 and September 3, 2015 as the date of ex-dividend and ex-right. The conversion price amounted to \$43.51, \$39.81 and \$39.80 per share after the dividends and rights distribution have been adjusted.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii) Redemption method

The Company's call option (right of redemption):

- i. If, between one month after the bond issuance and forty days before the expiration date, the closing price of the stocks is higher than 1.3 times the conversion price for 30 consecutive working days, the Company is entitled to send a "bond redemption notification" to the bondholders and post an announcement to notify GTSM that the Company is to repurchase all bonds at their face value by cash within 5 workings days after the benchmark date of bond redemption. The benchmark date of the bond redemption is the 30 days after the notification has been sent.
- ii. If, between one month after bond issuance and forty days before the expiration date, the outstanding balance of the bonds is lower than 10% of the total issued amount, the Company is entitled to, with notification in advance, repurchase all outstanding bonds at their face value.

iv) Bondholders' put option

Bondholders are entitled to exercise the put option beginning from the put day, which is two or three years after the issue date. The Company should send "bond put table notification" to bondholders and publish an announcement through GTSM, and bondholders then can exercise their put option by written notice to the Company to redeem the bonds at face value within 30 days.

- v) Since the bondholders are entitled to request the Company to redeem the bonds at the agreed price two years after the bond issuance, the Company, based on the principle of conservatism, booked \$255,243 of convertible bonds as current liability. However, this action does not imply that such current liability shall be fully redeemed within a year.

(h) Provisions

	Warranty provision	Legal matter	Total
Balance at January 1, 2015	\$ 11,470	6,370	17,840
Provisions made during the year	45,091	-	45,091
Provisions used during the year	(30,174)	-	(30,174)
Effect of changes in exchange rates	(127)	-	(127)
Balance at December 31, 2015	<u>\$ 26,260</u>	<u>6,370</u>	<u>32,630</u>
Balance at January 1, 2014	\$ 10,044	6,370	16,414
Provisions made during the year	36,616	-	36,616
Provisions used during the year	(35,438)	-	(35,438)
Effect of changes in exchange rates	248	-	248
Balance at December 31, 2014	<u>\$ 11,470</u>	<u>6,370</u>	<u>17,840</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i) Warranties

In 2015 and 2014, provisions are estimated based on the historical data of trading of interment communications equipment, which are mainly associated with the Company's business products. The Group anticipates the warranties to occur in the following year of the sales.

ii) Legal

The Group assumed a contingent liability in respect of a legal claim brought against the Group by a former employee. The plaintiff made claims in the amount of \$10,963 thousand. The Group also assumed other contingent liability of \$5,290 as the result determined by Taiwan High Court. Interest is calculated using the 5% per annum rate from October 14, 2007 until the repayment date. The Group and another accused both appealed to the Supreme Court concerning the aforementioned matter. The Supreme Court handed the case back over to the High Court for re-assessment. The High Court then overruled the lawsuit against the plaintiff in November 2014. However, since the plaintiffs disagreed with the verdict, they filed another appeal to the Supreme Court, and the case is still in progress. As of December 31, 2015 and 2014, the Group estimated the debt provision to be \$6,370 thousand due to the aforementioned lawsuit.

(i) Employee benefits

i) Defined benefit plans

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

	December 31, 2015	December 31, 2014
The present value of the defined benefit obligations	\$ 52,659	49,291
Fair value of plan assets	<u>(23,491)</u>	<u>(21,720)</u>
The net defined benefit liability	<u>\$ 29,168</u>	<u>27,571</u>

The Group makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

i. Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$23,491 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(Continued)

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

ii. Movements in present value of the defined benefit obligations

The movements in present value of the Group's defined benefit plan obligation for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Defined benefit obligation at 1 January	\$ 49,291	49,449
Current service costs and interest	1,536	1,737
Remeasurements of the net defined benefit liability (asset)		
— Return on plan assets (excluding amounts included in net interest expense)	1,089	(1,895)
— Due to changes in financial assumption of actuarial (losses) gains	743	-
Defined benefit obligation at 31 December	<u>\$ 52,659</u>	<u>49,291</u>

iii. Movement of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Fair value of plan assets, January 1	\$ 21,720	20,032
Remeasurements of the net defined benefit liability (asset)		
— Return on plan assets (excluding amounts included in net interest expense)	577	476
Contributions made	<u>1,194</u>	<u>1,212</u>
Fair value of plan assets, December 31	<u>\$ 23,491</u>	<u>21,720</u>

iv. Expenses recognized in profit or loss

The expenses recognized on profit or loss for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Current service cost	\$ 589	786
Net interest on the defined benefit liability (asset)	<u>540</u>	<u>577</u>
	<u>\$ 1,129</u>	<u>1,363</u>

(Continued)

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

	2015	2014
Operating costs	\$ 478	617
Selling expenses	140	120
Administration expenses	259	353
Research and development expenses	<u>252</u>	<u>273</u>
	<u><u>\$ 1,129</u></u>	<u><u>1,363</u></u>

- v. Remeasurement in the net defined benefit liability (asset) recognized in other comprehensive income

The Group's Remeasurement in the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Cumulative amount, January 1	\$ 8,019	10,016
Recognized during the period	<u>1,662</u>	<u>(1,997)</u>
Cumulative amount, December 31	<u><u>\$ 9,681</u></u>	<u><u>8,019</u></u>

- vi. Actuarial assumptions

The principal actuarial assumption used to determine the present value of the defined benefit obligation on December 31, 2015 and 2014 is as follows:

	2015.12.31	2014.12.31
Discount rate	1.875 %	2.000 %
Future salary increases rate	3.300 %	3.300 %

The Group expects to make contributions of \$1,194 thousand to the defined benefit plans in the next year starting from the reporting date of 2015.

The weighted average duration of the defined benefit obligation is 15.35 years.

- vii. Sensitivity analysis

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

(Continued)

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

As of December 31, 2015 and 2014, the present value of defined benefit obligation impact was as follow:

	The impact of defined benefit obligation	
	Increase 0.25%	Decrease 0.25%
December 31, 2015		
Discount rate (0.25%)	\$ (1,475)	1,529
Future salary increase rate (0.25%)	1,482	(1,427)
December 31, 2014		
Discount rate (0.25%)	(1,476)	1,519
Future salary increase rate (0.25%)	1,478	(1,437)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2015 and 2014.

ii) Defined contribution plans

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

The Group's pension costs under the defined contribution method were \$29,768 thousand and \$23,435 thousand for 2015 and 2014, respectively. Payment was made to the Bureau of the Labor Insurance and the local authorities of the consolidated overseas subsidiaries.

iii) Short-term employee benefit

	December 31, 2015	December 31, 2014
Annual leave benefit	\$ <u>17,656</u>	<u>13,455</u>

(Continued)

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

(j) Income tax

i) Income tax expenses

The amount of income tax for 2015 and 2014 were as follows:

	2015	2014
Current tax expense		
Current period	\$ 99,780	54,537
Adjustment for prior periods	<u>1,042</u>	<u>(9,738)</u>
	<u>100,822</u>	<u>44,799</u>
Deferred income tax expense		
Origination and reversal of temporary differences	<u>(1,991)</u>	<u>19,218</u>
Income tax expense from continuing operations	<u>\$ 98,831</u>	<u>64,017</u>

Reconciliation of income tax and profit before tax for 2015 and 2014 were as follows:

	2015	2014
Net income before tax	<u>\$ 427,947</u>	<u>376,051</u>
Income tax using the Company's domestic tax rate	\$ 72,751	63,929
Effect of tax rates in foreign jurisdiction	32,775	11,212
Previously underestimate (overestimate) income tax	1,042	(9,738)
Non-deductible expenses	3,230	762
Tax-free revenue	(5,246)	(3,232)
Unrecognized tax loss of deferred tax assets	165	(1,487)
Unrecognized changes in temporary differences	(2,000)	-
10% surtax on unappropriated earnings	9,372	8,471
Others	<u>(13,258)</u>	<u>(5,900)</u>
Total	<u>\$ 98,831</u>	<u>64,017</u>

(Continued)

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

ii) Deferred income tax assets and liabilities

i. Unrecognized deferred income tax assets

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

	December 31, 2015	December 31, 2014
Deductible temporary differences	\$ 7,000	9,000
Tax losses	<u>10,039</u>	<u>9,883</u>
	<u><u>\$ 17,039</u></u>	<u><u>18,883</u></u>

Tax losses are applied to Income Tax Act in Canada that can be carried forward for twenty years, after assessed by tax authority, to offset taxable income before apply to tax rate. Deferred income tax assets have not been recognized in respect of these items because it is not probable that the future taxable profit will be available, against which, the Group can utilize the benefits there from.

As of December 31, 2015, the deferred income tax assets of Tax losses which have not been recognized were as follows:

1) Canada — federal

Year	Amount	Year of expiration
2010	\$ 2,746	2030
2011	8,157	2031
2012	8,464	2032
2013	11,676	2033
2014	7,451	2034
2015	<u>624</u>	2035
	<u><u>\$ 39,118</u></u>	

2) Canada — state

Year	Amount	Year of expiration
2010	\$ 2,746	2030
2011	8,157	2031
2012	8,464	2032
2013	11,676	2033
2014	7,451	2034
2015	<u>624</u>	2035
	<u><u>\$ 39,118</u></u>	

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2015 and 2014 were as follows:

Deferred income tax assets:

	Unrealized profit from sales	Tax differences from sales	Others	Total
Balance at January 1, 2015	\$ 11,652	8,985	13,945	34,582
Recognized in profit or loss	5,677	2,878	11,571	20,126
Balance at December 31, 2015	<u>\$ 17,329</u>	<u>11,863</u>	<u>25,516</u>	<u>54,708</u>
Balance at January 1, 2014	\$ 15,910	10,795	13,802	40,507
Recognized in profit or loss	(4,258)	(1,810)	143	(5,925)
Balance at December 31, 2014	<u>\$ 11,652</u>	<u>8,985</u>	<u>13,945</u>	<u>34,582</u>

Deferred income tax liabilities:

	Foreign investment income accounted for using equity method	Bonds value though profit or loss	Others	Total
Balance at January 1, 2015	\$ (49,452)	-	(958)	(50,410)
Recognized in profit or loss	(18,556)	-	725	(17,831)
Balance at December 31, 2015	<u>\$ (68,008)</u>	<u>-</u>	<u>(233)</u>	<u>(68,241)</u>
Balance at January 1, 2014	\$ (36,566)	(55)	(715)	(37,336)
Recognized in profit or loss	(12,886)	55	(243)	(13,074)
Balance at December 31, 2014	<u>\$ (49,452)</u>	<u>-</u>	<u>(958)</u>	<u>(50,410)</u>

iii) Examination and Approval

The tax authorities have assessed the Company's income tax return for 2013. However, as the tax authorities ruled that extra taxes of \$14,747 thousand be paid, the company is intended to appeal to the court for re-assessment.

iv) Integrated income tax information

Information related to the unappropriated earnings and tax deduction ratio is summarized as below:

	December 31, 2015	December 31, 2014
Unappropriated earnings of 1997 and before	\$ -	-
Unappropriated earnings of 1998 and after	628,724	539,231
	<u>\$ 628,724</u>	<u>539,231</u>

(Continued)

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

	December 31, 2015	December 31, 2014
Balance of imputation credit account	\$ <u>64,802</u>	<u>68,982</u>

After the Group's income tax returns were examined and assessed by the tax authorities, the imputation tax credit ratio of earnings to be distributed in 2016 and 2015 is estimated at 15.83%. The actual imputation tax credit ratio of earnings distributed in 2015 and 2014 was 14.26%.

From January 1, 2015, as the resident of the Republic of China received the distributions of dividends or earnings, the imputation tax credit is revised to 50% of the original tax credit. The shareholder received the net distribution of dividends or earnings and the imputation tax credit which was levied 10% surplus tax that the 50% of the surplus tax can be used to deduct the withholding tax.

(k) Capital and other equity

With 100,000 thousand shares and each share amounting to \$10, the total value of the nominal ordinary shares both amounted to \$1,000,000 as of December 31, 2015 and 2014. 97,501 and 90,811 thousand shares of common stocks were issued as of December 31, 2015 and 2014, respectively. All issued shares were paid up upon issuance.

A reconciliation of the Company's outstanding shares the years 2015 and 2014 is as follows:

	Unit: thousands shares 2015	2014
Balance at January 1	90,811	82,832
Exercise of employee share options	769	780
Capitalization of retained earnings	4,541	5,682
Capitalization of employee bonus	1,222	1,194
Conversion of convertible bonds	878	2,141
Cancellation of Treasury Stock	<u>(720)</u>	<u>(1,818)</u>
Balance at December 31	<u>97,501</u>	<u>90,811</u>

i) Issue of common stock

On June 18, 2015, the stockholders approved a resolution to transfer the stockholders' bonus of \$45,406 thousand and the employee bonus of \$53,302 thousand for the issuance of 5,763 thousand shares of common stocks, with a face value of 10 dollars per share. The Company has received the approval from the Financial Supervisory Commission for this capital increase on July 7, 2015, with August 19, 2015 recognized as the date of capital increase. The Company has registered the change with the relevant authorities. Among the total bonus transferred, the employee bonus of \$53,302 was transferred for the issuance of 1,222 thousand shares of common stocks. The Employee bonus was calculated based on the closing price one day prior to the stockholders' resolution and the impacts from ex-right and ex-dividend. The face value will be recognized as "share capital" on the date of issuance, and the remaining amount that exceeds the face value will be recognized as "additional paid-in capital".

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On June 19, 2014, the stockholders approved a resolution to transfer the stockholders' bonus of \$56,820 thousand and the employee bonus of \$51,540 thousand for the issuance of 6,876 thousand shares of common stocks, with a face value of 10 dollars per share. The Company has received the approval from the Financial Supervisory Commission for this capital increase on July 8, 2014, with August 16, 2014 recognized as the date of capital increase. The Company has registered the change with the relevant authorities. Among the total bonus transferred, the employee bonus of \$51,540 was transferred for the issuance of 1,194 thousand shares of common stocks. The Employee bonus was calculated based on the closing price one day prior to the stockholders' resolution and the impacts from ex-right and ex-dividend. The face value will be recognized as "share capital" on the date of issuance, and the remaining amount that exceeds the face value will be recognized as "additional paid-in capital".

Due to the exercise of the employee stock options in 2015 and 2014, the Company issued 769 and 780 thousand shares of stocks, respectively. Exercise prices were \$19.2 and \$20.6 per share in 2015 and 2014, respectively.

In 2015 and 2014, the Company issued puttable convertible bonds of \$38,200 thousand and \$102,800 thousand, which were converted to 878 thousand and 2,142 thousand shares of common stocks in 2015 and 2014, respectively, at \$43.51 and \$48 per share.

ii) Capital surplus

The composition of the Company's capital surplus as of December 31, 2015 and 2014, are as follows:

	December 31, 2015	December 31, 2014
Share premium from issuance	\$ 430,911	353,158
Changes in equity of associates and joint ventures accounted for using equity method	5,879	5,277
Employee share options	6,659	5,300
Share options	11,483	13,409
Employee share options expired	7,203	7,203
	<u>\$ 462,135</u>	<u>384,347</u>

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

(Continued)

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

iii) Retained earnings

i. Legal reserve

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

ii. Special earnings reserve

By choosing to apply exemptions granted under IFRS 1 First-time Adoption of International Financial Reporting Standards during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments (gains) recognized under shareholders' equity were reclassified to retained earnings at the adoption date. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, an increase in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special earnings reserve during earnings distribution. However, when adjusted retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC are insufficient for the appropriation of a special earnings reserve at the transition date, the Company may appropriate a special earnings reserve up to the amount of increase in retained earnings. Upon the use, disposal, or reclassification of related assets, the Company may reverse the special earnings reserve proportionately. As a result of elections made according to IFRS 1, the Company has reclassified \$(13,624) thousand to retained earnings and is not required to appropriate a special earnings reserve.

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

iii. Earnings distribution

According to the revision of the Company's bylaw on June 15, 2011, the Company's net earnings from the current year shall be used to offset prior years' deficits, pay income tax, provide 10% as legal reserve, provide or reverse a special reserve in accordance with Section 41 of the Securities and Exchange Act, pay 10% to 20% as employee bonuses and compensate 2% as directors' and supervisors' remuneration. After the abovementioned appropriations, the distribution of the remaining earnings, if any, should be proposed by the board of directors and is subject to the stockholders' approval.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Company's industry is currently in a growth phase. Hence, there are plans for the Company to expand the existing production line over the next few years. Since capital is required for the Company to embark on such plans, a residual dividend policy is adopted. This ensures that retained earnings are distributed as cash dividends only after satisfying such capital requirements. However, the cash dividend distribution should not be lower than 30 percent of the total dividend distribution of each year

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The Board of Directors proposed the amendments on December 23, 2015, which will be approved at the 2016 annual shareholders' meeting. Please refer to employee benefits expense in Note 6(o).

For the years 2014, the estimated amounts of employees' bonuses were \$53,302 thousand, and the estimated amounts of directors' and supervisors' emoluments were \$5,467 thousand. Such amounts were estimated by multiplying after-tax income by the percentage of distribution of employees' bonuses and directors' and supervisors' emoluments, and recorded as cost of sales or operating expenses in the period. The actual amount of employee bonus and remuneration to the board of directors and supervisors distributed for the year 2014 is identical to that estimated in the financial report ended 2014, and related information can be accessed through the Market Observation Post System.

Earnings distribution for 2014 and 2015 was decided via the general meeting of shareholders held on June 18, 2015 and June 19, 2014, respectively. The relevant dividend distributions to shareholders were as follows:

	2014		2013	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 1.4732	136,218	1.4600	121,750
Stock	0.4910	45,406	0.6800	56,820
Total		<u>\$ 181,624</u>		<u>178,570</u>

iv) Treasury stock

According to Securities and Exchange Act regulations, the number of shares of treasury stock is not allowed to exceed 10% of the number of shares issued. Moreover, the total value of treasury stock is not allowed to exceed the sum of retained earnings, paid-in capital in excess of par value, and realized capital surplus. During the years ended December 31, 2015 and 2014, the number of shares have been recovered by the Company were 720 thousand shares and 1,818 thousand shares, with a total value of \$25,678 thousand and \$31,954 thousand, were in compliance with the Securities and Exchange Act.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In 2015, in order to retain the Company's credits and shareholder's rights and benefits, the Company has purchased 720 thousand shares of treasury stock in compliance with the Securities and Exchange Act regulations. On November 10, 2015, the Board has declared a write-off, and therefore, debited the capital surplus and the unappropriated retained earnings by 3,225 thousand and 15,253 thousand, respectively. The Board has announced the write-off date as November 10, 2015, and the registration was filed and completed on November 20, 2015.

On December 24, 2013, the board of directors of the Company approved the resolution to cancel 1,818 thousand shares of treasury stocks, thereby recognizing 3,699 thousand of Capital Surplus—issuance premium and 10,075 thousand of undistributed earnings. On January 14, 2014, the Board of Directors set the resolution date as the benchmark date of the capital reduction, and completed the registration of the cancellation on February 12, 2014.

According to Securities and Exchange Act regulations, treasury stock cannot be pledged. Until the treasury stock is transferred, it does not carry any shareholder rights.

v) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2015	\$ 31,206	6,172	37,378
Foreign exchange differences arising from net assets of foreign operation	(11,211)	(1,141)	(12,352)
Balance at December 31, 2015	<u>\$ 19,995</u>	<u>5,031</u>	<u>25,026</u>
Balance at January 1, 2014	\$ 12,835	4,732	17,567
Foreign exchange differences arising from net assets of foreign operation	18,371	1,440	19,811
Balance at January 1, 2014	<u>\$ 31,206</u>	<u>6,172</u>	<u>37,378</u>

(l) Share-based payment

On January 9, 2008, the Securities and Futures Bureau approved the Company's issuance of 2,000 units of Employee Stock option; with each unit representing 1,000 shares of common stock, wherein a total of 2,000 thousand shares may be subscribed. The option holder is eligible, two years after issuance until the sixth year of issuance, to convert a certain percentage of options to common stocks at the price designated on the issuance date. Under such circumstances as changes in equity or distribution of cash dividends, the exercise price per share and the number of subscription per option are to be adjusted using a specific formula. However, the adjusted exercise price should not be lower than the par value. All options were granted on January 4, 2008 and their fair value on the grant date was priced using the Black Scholes option pricing model. The weighted-average data of each assumption were as follows:

Dividend rate	0.71 %
Expected volatility	8.26 %
Risk-free interest rate	2.635 %
Expected life	6 years

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Company estimates the compensation to be \$3,690 thousand based on the above assumptions. The compensation will be amortized over four years.

The quantity and weighted-average exercise prices of the employee stock option are as follows:

Employee stock options in 2008	Units	2014	
		Exercise price (dollars)	
Outstanding balance as of January 1	135	\$	22.2
Options granted	-	-	
Options exercised	-	-	
Options cancelled	-	-	
Options expired	<u>135</u>		22.2
Outstanding balance as of December 31	<u>-</u>	-	
Exercisable as of December 31	<u>-</u>	-	
Exercisable shares per unit as of December 31 — adjusted	<u>-</u>		
Fair market value	<u>\$ 3.4</u>		

The options the Company provided to its employees on January 4, 2008 had already expired on January 4, 2014. The Company has reclassified \$199 thousand of "additional paid-in capital — employee options" as "additional paid-in capital — expired employee options".

On January 6, 2012, the Securities and Futures Bureau approved the Company's issuance of 3,000 units of Employee's Stock option; with each unit representing 1,000 shares of common stock, wherein a total of 3,000 thousand shares may be subscribed. The option holder is eligible, two years after issuance until the sixth year of issuance, to convert a certain percentage of options to common stocks at the price designated on the issuance date. Under such circumstances as changes in equity or distribution of cash dividends, the exercise price per share and the number of subscription per option are to be adjusted using a specific formula. However, the adjusted exercise price should not be lower than the par value. All options were granted on June 7, 2012 and their fair value on the grant date was priced using the Black Scholes option pricing model. The weighted-average data of each assumption were as follows:

Dividend rate	-	%
Expected volatility	13.41	%
Risk-free interest rate	0.93	%
Expected life	5	years

The Company estimates the compensation to be \$6,936 thousand based on the above assumptions. The compensation will be amortized over three years. Under the fair value method, the compensation of the option were estimated to be \$299 thousand and \$1,738 thousand in 2015 and 2014, respectively. The additional paid-in capital also increased due to the stock option plan.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The outstanding stock option rights as follows:

Employee stock options in 2012	2015	
	Units	Exercise price (dollars)
Outstanding balance as of January 1	2,042	\$ 20.6
Options granted	-	-
Options exercised	589	20.6
Options cancelled	48	20.6
Options expired	-	-
Outstanding balance as of December 31	<u>1,405</u>	19.2
Exercisable as of December 31	<u>1,405</u>	19.2
Exercisable shares per unit as of December 31 — adjusted	<u>1,386</u>	
Fair market value	<u>\$ 3.7</u>	

Employee stock options in 2012	2014	
	Units	Exercise price (dollars)
Outstanding balance as of January 1	2,840	\$ 22.4
Options granted	-	-
Options exercised	598	20.6
Options cancelled	200	20.6/22.4
Options expired	-	-
Outstanding balance as of December 31	<u>2,042</u>	20.6
Exercisable as of December 31	<u>2,042</u>	20.6
Exercisable shares per unit as of December 31 — adjusted	<u>1,305</u>	
Fair market value	<u>\$ 3.7</u>	

As of December 31, 2015, the expected duration of the employee stock option issued in 2012 was 1.44 years.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

On August 25, 2015, the Securities and Futures Bureau approved the Company's issuance of 3,000 units of Employee's Stock option; with each unit representing 1,000 shares of common stock, wherein a total of 3,000 thousand shares may be subscribed. The option holder is eligible, two years after issuance until the sixth year of issuance, to convert a certain percentage of options to common stocks at the price designated on the issuance date. Under such circumstances as changes in equity or distribution of cash dividends, the exercise price per share and the number of subscription per option are to be adjusted using a specific formula. However, the adjusted exercise price should not be lower than the par value. All options were granted on September 17, 2015 and their fair value on the grant date was priced using the Black Scholes option pricing model. The weighted-average data of each assumption were as follows:

Dividend rate	-	%
Expected volatility	34.99	%
Risk-free interest rate	0.8779	%
Expected life	5	years

The Company estimates the compensation to be \$20,657 thousand based on the above assumptions. The compensation will be amortized over three years. Under the fair value method, the compensation of the option were estimated to be \$2,711 thousand in 2015. The additional paid-in capital also increased due to the stock option plan.

The outstanding stock option rights as follows:

Employee stock options in 2012	2015	
	Units	Exercise price (dollars)
Outstanding balance as of January 1	-	\$ -
Options granted	3,000	35.6
Options exercised	-	-
Options cancelled	30	35.6
Options expired	-	-
Outstanding balance as of December 31	<u>2,970</u>	35.6
Exercisable as of December 31	<u>-</u>	35.6
Exercisable shares per unit as of December 31 --- adjusted	<u>1,000</u>	
Fair market value	<u>\$ 11.3</u>	

As of December 31, 2015, the expected duration of the employee stock option issued in 2012 was 4.71 years.

Due to employees' subscription on the group's issuance of stock for cash, compensation cost was recognized and is to be amortized over five years. The compensation costs for 2015 and 2014 both amounted to \$602 and \$1,170 thousand, respectively.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) Earnings per share

The calculation of the Group's basic earnings per share and diluted earnings per share for years ended December 31, 2015 and 2014 were as follows:

i) Basic earnings per share

	2015	2014
Net income attributable to ordinary shareholders of the Company	\$ <u>318,404</u>	<u>303,717</u>
Weighted-average number of ordinary shares	<u>96,867</u>	<u>93,963</u>
Basic earnings per share (in NT dollars)	\$ <u>3.29</u>	<u>3.23</u>

ii) Diluted earnings per share

	2015	2014
Net income of the company	\$ 318,404	303,717
Effect of after tax interest expense of conversion bonds	<u>4,313</u>	<u>5,112</u>
Net income attributable to ordinary shareholders of the Company	\$ <u>322,717</u>	<u>308,829</u>
Weighted-average number of ordinary shares (basic)	96,867	93,963
Impact of potential common shares		
Effect of employee stock bonus	1,938	1,768
Effect of employee stock option	1,511	1,465
Effect of conversion bonds	<u>5,721</u>	<u>6,111</u>
Weighted-average number of ordinary shares (diluted)	<u>106,037</u>	<u>103,307</u>
Diluted earnings per share (in NT dollars)	\$ <u>3.04</u>	<u>2.99</u>

For calculation of the dilutive effect of the stock option, the average market value is assessed based on the quoted market price where the Company's option is outstanding.

(n) Revenue

The details of the Group's revenue for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Sale of goods	\$ <u>5,439,499</u>	<u>4,535,864</u>

Unearned revenue for consolidated company amounted to \$7,528 thousand and \$14,086 thousand in 2015 and 2014, respectively. As of December 31, 2015 and 2014, accumulated unearned revenue amounted to \$54,138 thousand and \$44,793 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(o) Employees' and compensation directors' and supervisors' remuneration

In accordance with the Company's article, which is not yet approved from the shareholder's meeting, the Company should contribute 10% to 20% of its profit as employee compensation, and no greater 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 amounts of remuneration to each director and supervisor, as well as the bonuses to employees, are subject for approval during the board of directors' meeting.

The employee bonuses, and directors' and supervisors' remuneration were recognized as cost of sales or operating expenses on a specific percentage of the net income. These amounts are calculated by using the Company's profit before tax (without the employee bonuses, and directors' and supervisors' remuneration), multiplied by the percentage specified in the Company's article for each period. The Company recognized its employee bonuses of \$54,193, and directors' and supervisors' remuneration of \$5,558 in 2015. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the following year.

(p) Non-operating income and expenses

i) Other income

The details of the Group's other income for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Rent income	\$ 818	1,054
Interest income	1,783	1,340
Other	97,878	69,887
	<u>\$ 100,479</u>	<u>72,281</u>

ii) Other gains and losses

	2015	2014
Gain (loss) on foreign exchange	\$ (3,757)	38,353
Loss on disposal of property, plant and equipment	(375)	(2,084)
Valuation gain (loss) on financial assets	(42)	384
Other	(1,660)	(201)
	<u>\$ (5,834)</u>	<u>36,452</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii) Finance costs

The details of the Group's finance costs for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Interest expenses — convertible bonds	\$ 5,196	6,159
Interest expenses — short-term loans	<u>2,920</u>	<u>3,028</u>
	<u><u>\$ 8,116</u></u>	<u><u>9,187</u></u>

(q) Financial instruments

i) Credit risk

i. Exposure to credit risk

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

ii. Concentration of credit risk

Approximately, 23% and 24% of the Group's total sales were derived from a single client in 2015 and 2014, respectively. Region wise, approximately 93% and 92% of the sales were significantly concentrated in Asia and America in 2015 and 2014, respectively.

ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	3-5 years	Over 5 years
December 31, 2015						
Non-derivative financial liabilities						
Long-term debts (including due within a year)	\$ 44,406	49,304	2,183	2,183	6,549	38,389
Bonds payable	223,505	223,505	223,505	-	-	-
Non-current financial liabilities at fair value through profit or loss	23	23	23	-	-	-
Short-term debts	42,604	43,154	43,154	-	-	-
Accounts payable	835,610	835,610	835,610	-	-	-
Other payable	<u>220,382</u>	<u>220,382</u>	<u>220,382</u>	-	-	-
	<u><u>\$ 1,366,530</u></u>	<u><u>1,371,978</u></u>	<u><u>1,324,857</u></u>	<u><u>2,183</u></u>	<u><u>6,549</u></u>	<u><u>38,389</u></u>
December 31, 2014						
Non-derivative financial liabilities						
Long-term debts (including due within a year)	\$ 44,741	50,546	2,143	2,143	6,429	39,831
Bonds payable	255,243	255,243	255,243	-	-	-
Short-term debts	101,252	101,252	101,252	-	-	-
Accounts payable	623,795	623,795	623,795	-	-	-
Other payable	<u>144,504</u>	<u>144,504</u>	<u>144,504</u>	-	-	-
	<u><u>\$ 1,169,535</u></u>	<u><u>1,175,340</u></u>	<u><u>1,126,937</u></u>	<u><u>2,143</u></u>	<u><u>6,429</u></u>	<u><u>39,831</u></u>

As the Group issued the convertible bonds with put provision, the earliest date on which the bonds can be resold should reflect in the financial statement.

(Continued)

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

The group expects neither a much earlier occurrence of the cash flow analyzed on the maturity date nor a significant change in the amount.

iii) Currency risk

i. Exposure to foreign currency risk

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

	Foreign currency	Exchange rate	NTD
December 31, 2015			
Financial assets:			
Monetary items:			
USD (note)	\$ 40,113	32.7720	1,314,589
Financial liabilities:			
Monetary items:			
USD (note)	\$ 20,539	32.7720	673,109
December 31, 2014			
Financial assets:			
Monetary items:			
USD (note)	\$ 37,056	31.6190	1,181,301
Financial liabilities:			
Monetary items:			
USD (note)	\$ 18,832	31.6190	595,462

Note: Amounts are designated before consolidation.

ii. Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables and trade payables that are denominated in foreign currency. A weakening (strengthening) 1% of appreciation (depreciation) of the NTD against the USD as of December 31, 2015 and 2014 would have increased or decreased the net profit by \$16,246 and \$15,126 thousand, respectively. The analysis is performed on the same basis for both periods.

iii. Foreign exchange gain and loss on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on Monetary items is disclosed by total amount. For the year 2015 and 2014, foreign exchange gain (loss) (including realized and unrealized abortions) amounted to \$(3,757) thousand and \$38,353 thousand.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv) Interest rate analysis

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

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

If the interest rate increases or decreases by 1%, the Group's net income will increase /decrease by \$722 and \$1,212 thousand, respectively, for the years ended December 31, 2015, and 2014, with all other variable factors remain constant. This is mainly due to the Group's borrowing in variable rates and investment in variable rate bills.

v) Information of fair value

i. Categories and fair value of financial instruments

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

	December 31, 2015				Total
	Carrying amount	Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ <u>23</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>23</u>

ii. Valuation techniques and assumptions used in fair value determination

The financial instruments of the Group are evaluated by using the publicly-adopted valuation models. Forward contracts are referred to the evaluation outcomes from financial institutions. Convertible bonds are measured by using the binary tree valuation model with consideration of the parameters of stock shares fluctuations and risk-free interests.

(r) Financial risk management

i) Overview

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

- i. Credit risk
- ii. Liquidity risk
- iii. Market risk

(Continued)

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

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

ii) Risk management framework

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

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

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

iii) Credit risk

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

i. Trade and other receivables

The Group's exposure to credit risk is influenced mainly by each customer's condition. However, management also considers the demographics of the customers, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly during deteriorating economic circumstances. The Group's Accounts Receivable and Notes Receivable are mainly due from customers in Asia and America, accounting 93% and 96% of the total amount of the receivables as of December 31, 2015, and 2014, respectively.

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

(Continued)

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

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

ii. Investments

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

iii. Guarantees

The consolidated company policy provides endorsements and assurances to be offered only to companies who it has business relationship with, as well as to those companies who hold more than 50% of the voting rights of the consolidated company, either directly or indirectly. As of December 31, 2015 and 2014, the Group did not provide any endorsement and guarantees.

iv) Liquidity risk

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

v) Market Risk

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

In order to manage market risk, the Group conducts derivative transactions and incurs financial liabilities. All such transactions are within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

i. Currency risk

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

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

ii. Interest rate risk

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

(s) Capital management

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

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

	December 31, 2015	December 31, 2014
Total liabilities	\$ 1,984,080	1,705,835
Less: cash and cash equivalents	<u>412,427</u>	<u>481,720</u>
Net debt	\$ <u>1,571,653</u>	<u>1,224,115</u>
Total equity	\$ <u>2,303,499</u>	<u>2,040,592</u>
Debt-to-adjusted-capital ratio	<u>68 %</u>	<u>60 %</u>

The reduction of the debt to capital equity ratio as of December 31, 2015 was due to the increase in equity from additional profits and additional paid in capital.

With the approval from the Board of Directors, treasury stock repurchase can be applied to the respective authorities. Treasury stock repurchase is determined by the board of directors based on the specific transaction and shares distribution procedure. The Group does not foresee any shares buy-back plans in the near future. As of December 31, 2015, no changes have been made on the capital management.

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

From January 1 to December 31, 2015 and 2014, the Group has investment and financing activities of non-cash transactions as of following:

- i) Earnings convert to capital increase, refer to note 6(k).
- ii) Employee convert to capital increase, refer to note 6(k).
- iii) Conversion of convertible bonds to ordinary share, refer to note 6(k).

(Continued)

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

(7) Related-party Transactions

(a) Parent Company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Significant related party transactions

i) Operating revenue

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

	2015	2014
Other related parties	\$ <u>795</u>	<u>576</u>

There were no significant differences between the pricing of sale transactions and receipts condition with related parties and that with other customers. Receivable between related parties have not receive collateral, and no need to provision for bad debt expense after evaluation.

ii) Purchases

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

	2015	2014
Other related parties	\$ <u>512</u>	<u>1,953</u>

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

iii) Payables to related parties

The payables due to related parties were as follows:

Accounts	Type of related parties	December 31, 2015	December 31, 2014
Accounts payable	Other related parties	\$ <u>6,480</u>	<u>210</u>

iv) Loan to related parties

The Group provided other related parties with short term loans limited to \$12,286 thousand (CNY2,500 thousand) in 2014. The maximum balances of loans that the Group provided to its other related parties amounted to \$4,920 thousand (CNY1,000 thousand) in 2014, bringing in interest revenue amounting to \$212 thousand (CNY43 thousand) in 2014. As of December 31, 2015 and 2014, all loans have been redeemed.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v) Leases

A lease contract with the period from June 2015 to May 2020 was signed with other related party on April 25, 2015. In accordance with the contract, the group provided \$175 thousand as deposit and booked the same amount under non-current asset. Rent for 2015 and 2014 amounted to \$1,272 thousand and \$1,200 thousand, respectively. There were no outstanding balance as of December 31, 2015 and 2014.

vi) Processing Fees

In 2015, the consolidated entity entered into an agreement with its related parties for the additional processing of the products and paid a fee amounting to 5,692 thousand. The associated accounts payable were recognized in Accounts Payable—Related Parties. There were no such transactions in 2014.

(c) Key management personnel compensations

Key management personnel compensation comprised:

	2015	2014
Short-term employee benefits	\$ 93,823	101,903
Post-employment benefits	<u>667</u>	<u>873</u>
	<u>\$ 94,490</u>	<u>102,776</u>

(8) Pledged Assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2015	December 31, 2014
Certificate of deposits (recorded under other financial assets—current)	Guarantee for customs	\$ 2,275	2,247
Land	Guarantee for long and short-term debts	416,399	415,330
Building and structures	Guarantee for long and short-term debts	277,615	284,977
		<u>\$ 696,289</u>	<u>702,554</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Significant Commitments and Contingencies

The Group assumed a contingent liability of \$10,963 thousand due to the compensation claim from its former employee. The high court ruled the amount of \$5,290 thousand paid by the Group plus an excluding 5% of annual interests counting back from October 14, 2007 to the date of discharged. The Group and the defendant have appealed to the Supreme Court and the Supreme Court then ruled the lawsuit back to the high court for reassessment in November 2015. The plaintiff appealed to the Supreme Court again but turn to the high court, the lawsuit is still pending on the high court. As of December 31, 2015 and 2014, the Group has estimated the cost of the lawsuit amounting to \$6,370 thousand, including the compensation and legal expenses, which is recognized as provision.

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

(12) Others

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

By item	2015			2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	185,775	636,118	821,893	165,011	560,934	725,945
Labor and health insurance	15,177	41,510	56,687	13,689	31,266	44,955
Pension	8,703	22,194	30,897	7,849	16,949	24,798
Others	11,291	21,807	33,098	5,294	15,694	20,988
Depreciation	34,970	40,024	74,994	32,437	33,279	65,716
Amortization	-	-	-	-	-	-

(Continued)

LANNER ELECTRONICS INC. 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:

- i) Loans extended to other parties: None.
- ii) Guarantees and endorsements for other parties: None.
- iii) Information regarding securities held at balance sheet date (Investment in subsidiaries, associates and joint ventures were excluded):

Unit: thousand dollars/thousand shares

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	December 31, 2015				Maximum investment in 2013	Remarks
				Number of shares	Book value	Holding percentage	Market value		
The Company	Stock: Alliance III Venture Capital Corp.	—	Financial assets carried at cost—non current	100	1,000	1.00 %	1,000	1,000	-

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

Unit: thousand dollars

Name of Company	Counter-party	Relationship	Transaction details				The status and reason for deviation from arm's-length transaction		Account / note receivable (payable)		Remarks
			Purchase / Sale	Amount	Percentage of total purchases / sales	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	Sales	(1,137,123)	(27)	%90 days	-	-	368,687	36 %	(Note 1)
The Company	L & S Lancom Platform of Technology CO., Ltd	Subsidiary	Sales	(473,268)	(11)	%60 days	-	-	109,218	11 %	(Note 1)
The Company	LEI Technology Canada Ltd.	Subsidiary	Sales	(229,654)	(5)	%180 days	-	-	91,062	9 %	(Note 1)

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

- viii) Receivables from related parties in excess of \$100 million or 20% of the paid-in capital:

Unit: thousand dollars

Name of related party	Counter-party	Relationship	Balance of receivables from related party	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	368,687 (Note)	3.87 %	-	-	276,373 (Until March 23, 2016)	-
The Company	L & S Lancom Platform of Technology CO., Ltd	Subsidiary	109,218 (Note)	4.97 %	-	-	109,038 (Until March 23, 2016)	-

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

- ix) Financial derivative instruments transactions:

In 2015, the consolidated entity recognized its net realized losses amounting to 2,258 thousand through the use of forward foreign exchange contracts.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

x) Business relationships and significant intercompany transactions:

Unit: thousand dollars

No.	Name of company	Name of counter-party	Existing relationship with the counter-party	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	LANNER ELECTRONICS USA, INC.	1	Sales	1,137,123	No significant differences	20.90%
0	The Company	L & S Lancom Platform of Technology CO., Ltd.	1	Sales	473,268	No significant differences	8.70 %
0	The Company	LEI Technology Canada Ltd.	1	Sales	229,654	180 days	4.22 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	368,687	No significant differences	8.60 %
0	The Company	L & S Lancom Platform of Technology CO., Ltd.	1	Accounts receivable	109,218	No significant differences	2.55 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	91,062	180 days	2.12 %

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.

(b) Information on investees:

The following is the information on investees for the years period ended December 31, 2015:

Name of investor	Investor investee	Address	Scope of business	Original cost		Ending balance			Maximum investment in 2015	Net income of investee	Investment income (losses)	Remarks
				December 31, 2015	December 31, 2014	Shares	Ratio of shares	Book value				
The Company	LANNER ELECTRONICS USA, INC. CO., LTD.	USA	Trading of computer peripheral equipment	80,633	80,633	2,350	100 %	38,588	80,633	8,178	8,178	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	496,836	84,990	106,494	106,494	(Note 1)
The Company	LEI Technology Canada Ltd.	Canada	Trading of computer peripheral equipment	56,936	56,936	2,000	100 %	10,101	56,936	(654)	(654)	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	78,251	78,251	2,623	100 %	532,978	78,251	106,551	106,551	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation.

(c) Information on investment in Mainland China:

i) Information on investment in Mainland China:

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, 2015	Investment flow during current period		Cumulative investment (amount) from Taiwan as of December 31, 2015	Net income on investee	Direct / Indirect investment holding percentage	Maximum investment in 2015	Investment income (loss) (Note 2)	Book value (Note 2)	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount							
L & S Lancom Platform of Technology CO., Ltd.	Trading of computer peripheral equipment	105,283	(1)	75,982	-	-	75,982	117,846	90.91 %	75,982	107,134	532,978	-

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

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

Note 2: The financial statements of the investee are audited by the auditors of the parent company. Investment gains (losses) are accounted for by the equity method.

Note 3: Aforementioned amounts have been eliminated upon consolidation.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount remitted from Taiwan to Mainland China at the end of the period	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	75,982	161,928	- (Note 1)

Note 1: The Company was certified as an operations center by the Industrial Development Bureau, Ministry of Economic Affairs, in approval letter No. 10420418550, and the certification is valid from 2015 to 2018. The Company has no limitation on investment in Mainland China during the abovementioned period.

iii) Significant transactions with investees in Mainland China:

Please refer to note 13(a) for the indirect and direct business transactions in China. All transactions were eliminated upon consolidation.

(14) Segment information

(a) General information

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

(b) Geographic information

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

Geographic information	2015	2014
Revenue from external customers:		
United States	\$ 1,872,362	1,672,977
China	1,465,639	1,208,480
Israel	839,380	785,424
Canada	345,821	213,884
Korea	258,494	128,784
Australia	125,834	198,564
Other countries	531,969	327,751
Total	<u>\$ 5,439,499</u>	<u>4,535,864</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Geographical information	December 31, 2015	December 31, 2014
Non-current assets:		
Taiwan	\$ 1,040,878	1,025,168
United States	81,814	81,632
China	50,074	9,081
Canada	<u>3,358</u>	<u>1,098</u>
Total	\$ <u><u>1,176,124</u></u>	<u><u>1,116,979</u></u>

Non-current assets include property, plant and equipment, intangible assets, and other assets. They do not include financial instruments and deferred income tax assets.

(c) Information about major customers

	2015	2014
Customer A	\$ <u><u>1,268,615</u></u>	<u><u>1,109,380</u></u>

