

**LANNER ELECTRONICS INC.  
AND SUBSIDIARIES**

**Interim Consolidated Financial Statements**

**June 30, 2016 and 2015  
(With Independent Auditors' Review Report Thereon)**

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## Independent Auditors' Review Report

The Board of Directors  
LANNER ELECTRONICS INC.:

We have reviewed the accompanying consolidated balance sheets of LANNER ELECTRONICS INC. and subsidiaries (the Group) as of June 30, 2016 and 2015, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2016 and 2015, changes in equity and cash flows for the six months ended June 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our review. We did not review the financial statements of LANNER ELECTRONICS USA INC. with the total assets of \$483,352 thousand and \$432,513 thousand, constituting 10.70% and 11.15%, respectively, of the related consolidated total assets; and the income amounting to \$365,505 thousand, \$286,145 thousand, \$667,803 thousand and \$543,487 thousand, constituting 23.14%, 22.03%, 22.51% and 21.95%, respectively, of the related consolidated total comprehensive income for the three months and six months ended June 30, 2016 and 2015, respectively.

Except as described in the third paragraph, we conducted our review in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements". A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

We were unable to obtain the reviewed financial statements of certain subsidiaries of the Group in the first paragraphs, which represent the total assets amounting to \$230,949 thousand and \$120,331 thousand, constituting 5.11% and 3.10%, respectively, of the related consolidated total assets; the total liabilities amounting to \$18,766 thousand and \$6,190 thousand, constituting 0.84% and 0.35% of the related total liabilities as of June 30, 2016 and 2015, respectively; the total comprehensive income amounting to \$6,595 thousand, \$1,766 thousand, \$6,763 thousand, and \$1,680 thousand, constituting 9.49%, 6.50%, 5.08% and 2.09%, respectively, of the related consolidated total comprehensive income for the three months and six months ended June 30, 2016 and 2015, respectively.



Based on our review and the reports of the other auditors, except for those mentioned in the third paragraphs, if the financial statements of certain subsidiaries of the Group had been reviewed by an auditor, which may have resulted in adjustments to the financial statements, we are not aware of any material modification that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission.

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August 11, 2016

Note to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and consolidated cash flows in accordance with the Regulations Governing the Preparation of Financial Report by Securities Issuers and IAS 34 Interim Financial Reporting as endorsed by the Financial Supervisory Commission in the Republic of China and not those of any other jurisdictions. The standards, procedures, and practices to review such financial statements are those generally accepted and applied in the Republic of China.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2016, December 31 and June 30, 2015

(Expressed in thousands of New Taiwan dollars)

Assets	June 30, 2016		December 31, 2015		June 30, 2015		June 30, 2016		December 31, 2015		June 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Current assets:</b>												
Cash and cash equivalents (note 6(a))	\$ 626,210	14	412,427	10	523,311	14	\$ 56,373	1	42,604	1	50,090	1
Financial assets at fair value through profit or loss—current (note 6(b))	100,958	2	-	-	-	-	1,934	-	1,966	-	1,854	-
Notes receivable, net (note 6(c))	37,100	1	12,506	-	14,941	-	-	-	-	-	-	-
Accounts receivable, net (note 6(c))	950,860	21	1,061,641	25	857,936	22	23	-	-	-	97	-
Accounts receivable due from related parties, net (notes 6(c) and 7)	-	-	-	-	739	-	-	-	-	-	-	-
Other receivables (note 6(c))	14,151	-	646	-	4,026	-	-	-	-	-	1,726	-
Inventories (note 6(d))	1,415,652	31	1,415,992	33	1,157,430	30	891,596	19	829,130	19	670,215	17
Other financial assets—current (note 8)	2,377	-	37,139	1	37,100	1	-	-	6,480	-	382	-
Prepayments	108,326	3	68,155	2	53,191	1	195,010	4	-	-	136,218	4
Other current assets	40,944	1	39,699	1	34,807	1	38,219	1	51,221	1	30,851	1
<b>Total current assets</b>	<b>3,296,578</b>	<b>73</b>	<b>3,048,205</b>	<b>72</b>	<b>2,683,481</b>	<b>69</b>	<b>2,053,761</b>	<b>45</b>	<b>1,810,725</b>	<b>42</b>	<b>1,667,343</b>	<b>43</b>
<b>Non-current assets:</b>												
Financial assets carried at cost—non-current (note 6(e))	1,000	-	1,000	-	1,000	-	-	-	23	-	267	-
Property, plant and equipment (notes 6(g) and 8)	1,144,738	26	1,157,649	27	1,084,591	28	40,771	1	42,440	1	40,933	1
Prepayments for equipment	2,825	-	18,343	-	68,258	2	33,137	1	32,881	1	753	-
Intangible assets (note 6(h))	9,173	-	-	-	-	-	68,238	1	68,241	1	50,355	1
Deferred income tax assets	54,559	1	54,708	1	34,493	1	29,170	1	29,168	1	27,572	1
Other non-current assets (note 7)	8,202	-	7,674	-	7,707	-	523	-	552	-	667	-
<b>Total non-current assets</b>	<b>1,220,497</b>	<b>27</b>	<b>1,239,374</b>	<b>28</b>	<b>1,196,049</b>	<b>31</b>	<b>171,839</b>	<b>4</b>	<b>173,305</b>	<b>4</b>	<b>120,547</b>	<b>3</b>
							<b>2,225,600</b>	<b>49</b>	<b>1,984,080</b>	<b>46</b>	<b>1,787,890</b>	<b>46</b>
<b>Liabilities and Stockholders' Equity</b>												
<b>Current liabilities:</b>												
Short-term debts (notes 6(i) and 8)												
Long-term debts, current portion (notes 6(i) and 8)												
Financial liabilities at fair value through profit or loss—current (notes 6(i) and 6(j))												
Notes payable												
Accounts payable												
Accounts payable due to related parties (note 7)												
Dividend payable												
Current tax liabilities												
Other payables (notes 6(n) and 6(q))												
Provisions—current (notes 6(k) and 9)												
Bonds payable, current portion (note 6(i))												
Other current liabilities (note 6(q))												
<b>Total current liabilities</b>												
<b>Non-current liabilities:</b>												
Financial liabilities at fair value through profit or loss—non-current (notes 6(b) and 6(j))												
Long-term debts (notes 6(i) and 8)												
Long-term deferred revenue (note 6(q))												
Deferred income tax liabilities												
Accrued pension liabilities												
Other non-current liabilities												
<b>Total non-current liabilities</b>												
<b>Total liabilities</b>												
<b>Equity attributable to shareholders of the parent (notes 6(i), 6(m) and 6(n)):</b>												
Common stock	975,259	22	975,008	23								
Advance receipts for share capital	503	-	-	-								
Stock dividend to be distributed	-	-	-	-								
Capital surplus	975,762	22	975,008	23								
Retained earnings:	479,816	11	462,135	11								
Legal reserve	194,899	4	163,059	4								
Special reserve	-	-	2,225	-								
Unappropriated retained earnings	548,331	12	628,724	15								
Other equity:	745,455	16	794,008	19								
Financial statements translation differences for foreign operations	1,591	-	19,995	-								
<b>Total stockholders' equity</b>	<b>2,202,624</b>	<b>49</b>	<b>2,251,146</b>	<b>53</b>								
Non-controlling interests	88,851	2	52,353	1								
<b>Total equity</b>	<b>2,291,475</b>	<b>51</b>	<b>2,303,499</b>	<b>54</b>								
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,517,075</b>	<b>100</b>	<b>\$ 4,287,579</b>	<b>100</b>								

Reviewed only, not audited in accordance with generally accepted auditing standards

**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the three months and six months ended June 30, 2016 and 2015**

(Expressed in thousands of New Taiwan dollars)

	For the three months ended June 30				For the six months ended June 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenue (notes 6(q) and 7)	\$ 1,579,286	100	1,298,787	100	2,966,356	100	2,475,607	100
Operating cost (notes 6(d), 6(l), 6(n), 6(r) and 7)	<u>1,165,343</u>	<u>74</u>	<u>971,662</u>	<u>75</u>	<u>2,149,517</u>	<u>72</u>	<u>1,794,022</u>	<u>72</u>
Gross profit, net	<u>413,943</u>	<u>26</u>	<u>327,125</u>	<u>25</u>	<u>816,839</u>	<u>28</u>	<u>681,585</u>	<u>28</u>
Operating expenses (notes 6(c), 6(l), 6(n), 6(r) and 7):								
Selling expenses	145,312	9	97,025	7	269,691	9	182,362	7
Administrative expenses	76,952	5	81,866	6	161,502	6	167,602	7
Research and development expenses	<u>116,797</u>	<u>7</u>	<u>99,027</u>	<u>8</u>	<u>210,610</u>	<u>7</u>	<u>195,094</u>	<u>8</u>
Total operating expenses	<u>339,061</u>	<u>21</u>	<u>277,918</u>	<u>21</u>	<u>641,803</u>	<u>22</u>	<u>545,058</u>	<u>22</u>
Operating profit	<u>74,882</u>	<u>5</u>	<u>49,207</u>	<u>4</u>	<u>175,036</u>	<u>6</u>	<u>136,527</u>	<u>6</u>
Non-operating income and expenses (notes 6(j), 6(s) and 7):								
Other income	30,783	2	14,250	1	42,676	1	30,034	1
Other gains and losses	9,255	-	(9,849)	(1)	(14,481)	-	(23,721)	(1)
Financial costs	<u>(1,924)</u>	<u>-</u>	<u>(1,810)</u>	<u>-</u>	<u>(3,964)</u>	<u>-</u>	<u>(3,879)</u>	<u>-</u>
Total non-operating income and expenses	<u>38,114</u>	<u>2</u>	<u>2,591</u>	<u>-</u>	<u>24,231</u>	<u>1</u>	<u>2,434</u>	<u>-</u>
Net income before tax	112,996	7	51,798	4	199,267	7	138,961	6
Less: income tax expenses (note 6(m))	<u>25,866</u>	<u>2</u>	<u>20,060</u>	<u>2</u>	<u>45,005</u>	<u>2</u>	<u>43,344</u>	<u>2</u>
Net income	<u>87,130</u>	<u>5</u>	<u>31,738</u>	<u>2</u>	<u>154,262</u>	<u>5</u>	<u>95,617</u>	<u>4</u>
Other comprehensive income (loss):								
Items that may be reclassified subsequently to profit or loss:								
Financial statements translation differences for foreign operations	(17,601)	(1)	(4,562)	-	(21,125)	(1)	(15,301)	(1)
Income tax expense relating to components of other comprehensive income (loss)	-	-	-	-	-	-	-	-
Total Items that may be reclassified subsequently to profit or loss	<u>(17,601)</u>	<u>(1)</u>	<u>(4,562)</u>	<u>-</u>	<u>(21,125)</u>	<u>(1)</u>	<u>(15,301)</u>	<u>(1)</u>
Other comprehensive loss, net of tax	<u>(17,601)</u>	<u>(1)</u>	<u>(4,562)</u>	<u>-</u>	<u>(21,125)</u>	<u>(1)</u>	<u>(15,301)</u>	<u>(1)</u>
Total comprehensive income	<u>\$ 69,529</u>	<u>4</u>	<u>27,176</u>	<u>2</u>	<u>133,137</u>	<u>4</u>	<u>80,316</u>	<u>3</u>
Net income attributable to:								
Shareholders of the parent	\$ 83,369	5	29,982	2	146,457	5	90,454	4
Non-controlling interests	<u>3,761</u>	<u>-</u>	<u>1,756</u>	<u>-</u>	<u>7,805</u>	<u>-</u>	<u>5,163</u>	<u>-</u>
	<u>\$ 87,130</u>	<u>5</u>	<u>31,738</u>	<u>2</u>	<u>154,262</u>	<u>5</u>	<u>95,617</u>	<u>4</u>
Total comprehensive income attributable to:								
Shareholders of the parent	\$ 68,216	4	26,036	2	128,053	4	76,202	3
Non-controlling interests	<u>1,313</u>	<u>-</u>	<u>1,140</u>	<u>-</u>	<u>5,084</u>	<u>-</u>	<u>4,114</u>	<u>-</u>
	<u>\$ 69,529</u>	<u>4</u>	<u>27,176</u>	<u>2</u>	<u>133,137</u>	<u>4</u>	<u>80,316</u>	<u>3</u>
Basic earnings per share (in New Taiwan dollars) (note 6(p))	<u>\$ 0.85</u>		<u>0.31</u>		<u>1.50</u>		<u>0.94</u>	
Diluted earnings per share (in New Taiwan dollars) (note 6(p))	<u>\$ 0.80</u>		<u>0.30</u>		<u>1.41</u>		<u>0.89</u>	

See accompanying notes to the consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2016 and 2015

(Expressed in thousands of New Taiwan dollars)

Equity attributable to shareholders of the parent															
Common stock				Retained earnings				Financial statements translation differences for foreign operations		Total equity attributable to shareholders of the parent		Non-controlling interests		Total Equity	
Common stock	Advance receipts for share capital	Stock dividends to be distributed	Total	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total							
\$	908,114	-	-	908,114	384,347	132,687	2,225	539,231	674,143	31,206	1,997,810	42,782	2,040,592		
Appropriations and distributions:															
Legal reserve	-	-	-	-	30,372	-	-	(30,372)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(136,218)	(136,218)	-	(136,218)	-	(136,218)	-	-
Stock dividends	-	45,406	45,406	-	-	-	-	(45,406)	(45,406)	-	-	-	-	-	-
Net income	-	-	-	-	-	-	-	90,454	90,454	-	90,454	5,163	95,617	-	-
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	(14,252)	(14,252)	(1,049)	(15,301)	-	-
Total comprehensive income (loss)	-	-	-	-	-	-	-	90,454	90,454	(14,252)	76,202	4,114	80,316	-	-
Conversion of convertible bonds	8,779	-	-	8,779	28,134	-	-	-	-	-	36,913	-	36,913	-	-
Remuneration cost of employee stock options	-	-	-	-	900	-	-	-	-	-	900	-	900	-	-
Stock options exercised by employees	-	7,687	-	7,687	8,148	-	-	-	-	-	15,835	-	15,835	-	-
Increase in capital from employee bonus	-	-	12,222	12,222	41,080	-	-	-	-	-	53,302	-	53,302	-	-
Balance on June 30, 2015	\$ 916,893	7,687	57,638	982,208	462,609	163,059	2,225	417,689	582,973	16,954	2,044,744	46,896	2,091,640	-	-
Balance on January 1, 2016	\$ 975,008	-	-	975,008	462,135	163,059	2,225	628,724	794,008	19,995	2,251,146	52,353	2,303,499	-	-
Appropriations and distributions:															
Legal reserve	-	-	-	-	31,840	-	-	(31,840)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(195,010)	(195,010)	-	(195,010)	-	(195,010)	-	-
Net income	-	-	-	-	-	-	-	146,457	146,457	-	146,457	7,805	154,262	-	-
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	(18,404)	(18,404)	(2,721)	(21,125)	-	-
Total comprehensive income (loss)	-	-	-	-	-	-	-	146,457	146,457	(18,404)	128,053	5,084	133,137	-	-
Conversion of convertible bonds	251	503	-	754	2,220	-	-	-	-	-	2,974	-	2,974	-	-
Remuneration cost of employee stock options	-	-	-	-	4,647	-	-	-	-	-	4,647	-	4,647	-	-
Changes in non-controlling interests from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	30,333	-
Due to donated assets received	-	-	-	-	10,814	-	-	-	-	-	10,814	-	10,814	11,895	-
Balance on June 30, 2016	\$ 975,259	503	-	975,762	479,816	194,899	2,225	548,331	745,455	1,591	2,202,624	88,851	2,291,475	-	-

See accompanying notes to the consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2016 and 2015

(Expressed in thousands of New Taiwan dollars)

	Six months ended June 30	
	2016	2015
<b>Cash flows from operating activities:</b>		
Consolidated net income before tax	\$ 199,267	138,961
Adjustments:		
Adjustments to reconcile profit and loss		
Depreciation	47,723	35,560
Amortization	560	-
Bad debt provision	5,038	839
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	(11)	247
Interest expenses	3,964	3,879
Interest income	(2,543)	(939)
Remuneration cost of employee stock options	-	900
Loss on disposal of property, plant and equipment, net	181	16
Total adjustments to reconcile profit and loss	54,912	40,502
Changes in assets / liabilities relating to operating activities:		
Net changes in operating assets:		
Financial assets at fair value through profit or loss	(100,947)	-
Notes receivable	(24,594)	4,099
Accounts receivable (including related parties)	213,942	92,002
Other receivables	(12,226)	(1,581)
Inventories	271,966	(128,692)
Prepayments	(29,241)	19,105
Other current assets	(1,245)	(4,238)
Other financial assets	1,005	(28)
Total changes in operating assets, net	318,660	(19,333)
Net changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	-	97
Notes payable	-	1,726
Accounts payable (including related parties)	(307,331)	46,802
Other payables	(25,309)	(17,951)
Provisions	12,540	1,671
Other current liabilities	(1,676)	35,917
Accrued pension liabilities	2	1
deferred revenue	881	3,559
Total changes in operating liabilities, net	(320,893)	71,822
Total changes in operating assets / liabilities, net	(2,233)	52,489
Total adjustments	52,679	92,991
Cash provided by operating activities	251,946	231,952
Interest income received	2,528	924
Interest paid	(1,455)	(1,172)
Income taxes paid	(58,007)	(28,796)
Net cash provided by operating activities	195,012	202,908
<b>Cash flows from investing activities:</b>		
Acquisition of subsidiaries (after deduction of cash obtained)	8,780	-
Acquisition of property, plant and equipment	(36,846)	(21,306)
Proceeds from disposal of property, plant and equipment	143	2,190
Increase in refundable deposits	(528)	(2,273)
Decrease (increase) in other financial assets	33,772	(34,751)
Decrease (increase) in prepayments for equipment	15,351	(54,818)
Net cash provided by (used in) investing activities	20,672	(110,958)
<b>Cash flows from financing activities:</b>		
Increase in short-term debts	105,118	-
Decrease in short-term debts	(90,000)	(51,162)
Repayment of long-term debts	(987)	(939)
Decrease in other non-current liabilities	(29)	(101)
Exercise of employee share options	4,647	15,835
Net cash provided by (used in) financing activities	18,749	(36,367)
Effects of changes in exchange rates	(20,650)	(13,992)
Increase in cash and cash equivalents	213,783	41,591
Cash and cash equivalents at beginning of period	412,427	481,720
Cash and cash equivalents at end of period	\$ 626,210	523,311

See accompanying notes to the consolidated financial statements.



Reviewed only as of June 30, 2016 and 2015, not audited in accordance with generally accepted auditing standards

# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(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 reported to the Board of Directors and issued on August 11, 2016.

### **(3) New Standards and Interpretations Not Yet Adopted**

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 (excluding IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers", and others which have yet to be approved by the FSC in order for them to take effect) in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
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 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment 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 cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

(Continued)



# LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC as of the end of reporting date is as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017

The Group is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations.  Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.

(Continued)

# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	<p>The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows:</p> <ul style="list-style-type: none"> <li>• Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income.</li> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul>
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>

(Continued)

# LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
June 20, 2016	Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	<p>The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for:</p> <ul style="list-style-type: none"> <li>• the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;</li> <li>• share-based payment transactions with a net settlement feature for withholding tax obligations; and</li> <li>• a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.</li> </ul>

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

### (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.

Except for the following, the significant accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2015. For related information, please referred to note 4 of the consolidated financial statement for the year ended December 31, 2015.

#### (a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" ("Regulations") and IAS 34 Interim Financial Reporting endorsed by the FSC, but do not present all the disclosures required for a complete set of annual consolidated financial statements prepared in accordance with the International Financial Reporting Standards, International Accounting Statements, IFRIC Interpretations, or SIC Interpretations endorsed by the FSC.

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# LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (b) Basis of consolidation

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership			Note
			June 30, 2016	December 31, 2015	June 30, 2015	
The Company	LANNER ELECTRONICS USA, INC. (LANNER (USA))	Trading of computer peripheral products	100.00 %	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS (MAURITIUS) INC. (LANNER (MAURITIUS))	Investing	100.00 %	100.00 %	100.00 %	
The Company	LEI TECHNOLOGY CANADA INC. (LEI)	Trading of computer peripheral products	100.00 %	100.00 %	100.00 %	
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	100.00 %	
LANCOM	Beijing L&S Lancom Platform Technology Co., Ltd. (L&S)	Trading of computer peripheral products	90.91 %	90.91 %	90.91 %	
L&S	Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	100.00 %	- %	- %	Note 1
Beijing LSZC Investment Co., Ltd.	Dongguan Lihua Haiwell Tech. Co., Ltd. (Haiwell)	Manufacture and sale of PC equipment	100.00 %	- %	- %	Note 2
Beijing LSZC Investment Co., Ltd.	Beijing HDZX Technology Co., Ltd. (HDZX)	Manufacture of PC equipment	42.99 %	- %	- %	Note 3 and 4

Note 1: In January 2016, the Board of Directors decided to establish Beijing LSZC Investment Co., Ltd.; and the registration process had already been completed. The amount of investment was CNY10,000 thousand (TWD49,566 thousand).

Note 2: In February 2016, the Board of Directors passed a resolution to acquire 100% ownership of Dongguan Lihua Haiwell Tech. Co., Ltd. The process was completed in March 2016 with the acquisition price of CNY3,700 thousand (TWD18,339 thousand). In addition, the Group increased its investment of CNY3,080 thousand (TWD15,266 thousand) in March 2016.

Note 3: In February 2016, the Board of Directors passed a resolution to acquire 42.99% ownership of Beijing HDZX Technology Co., Ltd. The process had been completed in March 2016, with the acquisition price of CNY3,137 thousand (TWD15,550 thousand).

Note 4: Lanner holds less than 50% of the ownership of Beijing LSZC Investment Co., Ltd. However, considering the proportion of the remaining shares held by the management of the Group, the Group still holds control over Beijing LSZC Investment Co., Ltd. and its operation. As such, Beijing HDZX Technology Co., Ltd. is considered to be a subsidiary of the Group.

(Continued)

**LANNER ELECTRONICS INC. AND SUBSIDIARIES****Notes to the Consolidated Financial Statements****(c) Business combination**

The Group uses the acquisition method for its business combination. Goodwill is measured as an aggregation of the consideration transferred (which generally is measured at fair value at the acquisition date) and the amount of any non-controlling interest in the acquiree, including non-controlling interests that belong to the acquiree, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

All the transaction costs incurred for the business combination are recognized immediately as the Group's expenses when incurred, except for the issuance of debt or equity instruments.

If the initial accounting for a business combination is incomplete by the end of the reporting period (referred to as reporting date) in which the combination occurs, the Group shall report in its financial statements the provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall retrospectively adjust the provisional amounts recognized at the acquisition date, or recognize the additional assets or liabilities to reflect the new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

Non-controlling interests that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured by the Group using either the fair value on acquisition date or the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is based on every transaction. Other types of non-controlling interests are measured (1) at fair value on the acquisition date or (2) by using other basis in accordance with the IFRSs endorsed by FSC.

**(d) Intangible assets****i) Goodwill**

Goodwill arises from business combinations in which the acquisition method is adopted, and is recorded at cost, less, accumulated impairment losses.

**ii) Customer relations**

The customer relations due from acquisition is assessed to amortize using a direct method of 3-year basis. The face value of the customer relations is measured by deducting the accumulated amortization or impairment from the cost.

**(e) Employee benefits**

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year plus any adjustments for significant post-market fluctuations, curtailments, settlements, or other one-time events.

(Continued)

# LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (f) Income tax

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

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

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

The preparation of the interim consolidated financial statements is in conformity with IAS 34 "Interim financial reporting" endorsed by FSC. The standard requires management to make judgments, estimations 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.

During the preparation of the interim consolidated financial statements, except for additional information, the management adopts similar method used in accounting policy judgements and assumptions which are in conformity with note 5 of the consolidated financial statement for the year ended December 31, 2015.

### (6) Description of Significant Accounts

Except as explained in the following paragraphs, there are no significant differences in description of significant accounts from financial statements as of December 31, 2015. For the related information, please refer to note 6 of the consolidated financial statements for the year ended December 31, 2015.

#### (a) Cash and cash equivalents

	June 30, 2016	December 31, 2015	June 30, 2015
Cash	\$ 1,190	1,780	1,135
Working capital	80	80	80
Demand deposits	393,288	141,828	264,535
Checking deposits	1,434	2,192	1,857
Time deposits	8,058	8,193	7,723
Foreign currency deposits	<u>222,160</u>	<u>258,354</u>	<u>247,981</u>
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 626,210</u>	<u>412,427</u>	<u>523,311</u>

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

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

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

	June 30, 2016	December 31, 2015	June 30, 2015
Financial assets held for trading:			
Non-derivative financial assets	\$ 100,011	-	-
Derivative instruments not used for hedging	947	-	-
Total	<u>\$ 100,958</u>	<u>-</u>	<u>-</u>
	June 30, 2016	December 31, 2015	June 30, 2015
Financial liabilities at fair value through profit or loss:			
Convertible bonds	\$ 23	23	267
Financial liabilities held for trading:			
Derivative instruments not used for hedging	-	-	97
Total	<u>\$ 23</u>	<u>23</u>	<u>364</u>

Please refer to note 6(s) for net gains or losses on disposal of financial assets and liabilities remeasured at fair value through profit or loss.

The Group uses derivative financial instruments to manage exposures due to fluctuations of foreign exchange risk derived from its operating activities. As of June 30, 2016 and 2015, the Group reported the following derivative financial instruments as available-for-sale financial assets and liabilities without the application of hedge accounting:

	Fair value	Currency	Contract amount
<b>June 30, 2016</b>			
Forward Contracts	\$ 947	USD/TWD	3,990
<b>June 30, 2015</b>			
Forward Contracts	\$ (97)	USD/TWD	650

As of June 30, 2016 and 2015, the maturity dates of the derivative financial liabilities were between August 15 and October 11, 2016, and between August 3 and September 2, 2015, respectively.

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**LANNER ELECTRONICS INC. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(c) Notes and accounts receivable (including related parties) and other receivables

	<b>June 30, 2016</b>	<b>December 31, 2015</b>	<b>June 30, 2015</b>
Notes receivable	\$ 37,100	12,506	14,941
Accounts receivable, net	961,412	1,067,195	863,729
Accounts receivable—related parties	-	-	739
Other receivables	14,151	646	4,026
Less: allowance for impairment	<u>10,552</u>	<u>5,554</u>	<u>5,793</u>
	<u><b>\$ 1,002,111</b></u>	<u><b>1,074,793</b></u>	<u><b>877,642</b></u>

The Group has not provided any notes receivable, accounts receivable (including related parties) or other receivables as collateral or factoring for cash.

The aging of the Group's past due but not impaired receivable were as follows:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>	<b>June 30, 2015</b>
Past due 1~30 days	\$ 30,481	75,355	93,736
Past due 31~90 days	7,000	38,288	64,765
Past more than 91 days	<u>27,460</u>	<u>13,353</u>	<u>2,998</u>
	<u><b>\$ 64,941</b></u>	<u><b>126,996</b></u>	<u><b>161,499</b></u>

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

	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance on January 1, 2016	\$ 5,554	-	5,554
Impairment loss recognized	5,038	-	5,038
Effect of changes in exchange rates	<u>(40)</u>	<u>-</u>	<u>(40)</u>
Balance on June 30, 2016	<u><b>\$ 10,552</b></u>	<u><b>-</b></u>	<u><b>10,552</b></u>
	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance on January 1, 2015	\$ 4,998	-	4,998
Impairment loss recognized	839	-	839
Effect of changes in exchange rates	<u>(44)</u>	<u>-</u>	<u>(44)</u>
Balance on June 30, 2015	<u><b>\$ 5,793</b></u>	<u><b>-</b></u>	<u><b>5,793</b></u>

(Continued)

# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(d) Inventories

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

	June 30, 2016	December 31, 2015	June 30, 2015
Merchandise	\$ 1,473	3,139	2,886
Finished goods	651,742	695,068	468,756
Work in process	324,015	270,031	251,272
Raw material	438,422	447,754	434,516
Total	<u>\$ 1,415,652</u>	<u>1,415,992</u>	<u>1,157,430</u>

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 June 30, 2016, December 31 and June 30, 2015, 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 were as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Loss on market value of inventory	<u>\$ 14,007</u>	<u>10,581</u>	<u>19,493</u>	<u>15,746</u>

(e) Financial assets carried at cost — noncurrent

	Ownership %	Investment cost	Amount
<b>June 30, 2016</b>			
Alliance III venture Capital Corp.	1.00	<u>\$ 1,000</u>	<u>1,000</u>
	Ownership %	Investment cost	Amount
<b>December 31, 2015</b>			
Alliance III venture Capital Corp.	1.00	<u>\$ 1,000</u>	<u>1,000</u>

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

	Ownership %	Investment cost	Amount
<b>June 30, 2015</b>			
Alliance III venture Capital Corp	1.00	\$ 1,000	1,000
Beijing HDZX Technology Co., Ltd.	19.84	<u>12,148</u>	<u>-</u>
Total		<u>\$ 13,148</u>	<u>1,000</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.

## (f) Business combination

In February 2016, the Board of Directors has decided to obtained 100% shares of Dongguan Lihua Haiwell Technology Co., Ltd. and 42.99% shares of Beijing HDZX Technology Co., Ltd. for \$18,339 thousand (CNY3,700 thousand) and \$15,550 thousand (CNY3,137 thousand), respectively.

## i) Dongguan Lihua Haiwell Technology Co., Ltd.

The Group has obtained control over Dongguan Lihua Haiwell Technology Co., Ltd. on March 1, 2016 (acquisition date) and the payment for the acquisition has been made.

The acquisition of Dongguan Lihua Haiwell Technology Co., Ltd. allows the Group to expand its product capacity in China to meet future demands.

For the period from the acquisition date to June 30, 2016, the net income after tax attributed to the Group amounted to \$(8,446) thousand. If the acquisition occurred on January 1, 2016, the management estimates that the net income after tax for the period from January 1, 2016 to June 30, 2016 will increase to \$152,787 thousand. The aforementioned amounts were based on the management's assumptions that the acquisition took place on January 1, 2016 and that the adjustments of the temporarily determined fair value on the acquisition date remain unchanged.

The major categories and fair values of acquired assets and liabilities are as follows:

i. The transfer consideration of \$18,339 thousand was paid in cash.

ii. Identifiable assets and liabilities obtained

The fair values of identifiable assets acquired and liabilities assumed on the date of acquisition are as follows:

Property, plant and equipment	\$ 135
Inventories	232,108
Accounts receivable	54,582
Cash and cash equivalent	10,538
Other current and non-current assets	11,028
Accounts payable	(287,932)
Other current liabilities	<u>(2,120)</u>
	<u>\$ 18,339</u>

(Continued)

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

The gross contractual amounts of accounts receivable totaled \$54,582 thousand. The amount is expected to be collectible on the acquisition date.

If there is any information indicating that facts and circumstances exist on the acquisition date which leads to an adjustment to the above provisional amounts, or any additional provisions as of the acquisition date, within one year from the acquisition date, then the acquisition accounting will be revised.

ii) Beijing HDZX Technology Co., Ltd.

The Group has obtained the control over HDZX on March 1, 2016 (acquisition date) and the payment for the acquisition had already been made.

The acquisition of HDZX allows the Group to increase its product types, which is mainly power-saving products.

For the period from the acquisition date to June 30, 2016, the operating revenue and net income after tax attributed to the Group amounted to \$75,251 thousand and \$1,495 thousand, respectively. If the acquisition occurred on January 1, 2016, the management estimates that the operating revenue and net income after tax for the period from January 1, 2016 to June 30, 2016 will increase to \$2,976,597 thousand and \$153,107 thousand, respectively. The aforementioned amounts were based on the management's assumptions that the acquisition took place on January 1, 2016 and that the adjustments of the temporarily determined fair value on the acquisition date remain unchanged.

The major categories and fair values of acquired assets and liabilities are as follows:

- i. The transfer consideration of \$15,550 thousand transferred was paid in cash.
- ii. Identifiable assets and liabilities obtained

The fair values of identifiable assets acquired and liabilities assumed on the date of acquisition are as follows:

Property, plant and equipment	\$ 180
Identifiable intangible assets—customer relations	5,017
Inventories	39,518
Accounts receivable	53,577
Cash and cash equivalent	32,129
Other current and non-current assets	1,183
Accounts payable	(75,385)
Other current liabilities	(3,397)
	<u>\$ 52,822</u>

(Continued)

# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

The following fair values of the assets and liabilities have been determined on a temporary basis:

The fair value of the identifiable intangible asset acquired was temporarily determined to be \$5,017 thousand. The valuation of the said intangible asset has not yet been completed. Customer relations were mainly from HDZX's market share. Synergy is expected to arise from the business combination of the Company and the Group.

The gross contractual amounts of accounts receivable totaled \$53,577 thousand. The amount is expected to be collectible on the acquisition date.

If there is any information indicating facts and circumstances exist on the acquisition date which leads to an adjustment to the above provisional amounts, or any additional provisions as of the acquisition date, within one year from the acquisition date, then the acquisition accounting will be revised.

### iii. Goodwill

Goodwill arising from the acquisition is as follows:

Consideration transfer	\$	15,550
Plus: Fair value of acquiree's original interests		11,896
Plus: Non-controlling interests		30,333
Less: Fair value of identifiable net assets acquired		<u>52,822</u>
Goodwill arising on acquisition	\$	<u><u>4,957</u></u>

The recognition of goodwill do not expect to have any impact on tax.

### iv. Non-controlling interest

Fair value of the non-controlling interest of HDZX amounted to \$30,333 thousand. The fair value is determined based on a market approach and an income approach. The measurement of fair value was estimated using unobservable parameters, indicating that the measurement belongs to the third hierarchy of the fair value. The key model inputs used for determining the fair value are as follows:

- 1) An assumed discount rate of 21% to 25%;
- 2) Final values are based on 2.5% to 4% long-term growth rate;
- 3) Assumed that financial multiplier of a company is similar to that of Beijing HDZX Technology Co., Ltd.; and
- 4) Market participants take into consideration the controlling power and liquidity of HDZX when measuring the fair value of its non-controlling interest.

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (g) Property, plant and equipment

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

	Land	Buildings	Machinery	Other equipment	Construction in progress	Total
Carrying value:						
January 1, 2016	\$ 501,490	396,190	44,160	213,768	2,041	1,157,649
June 30, 2016	\$ 500,987	390,326	40,551	212,874	-	1,144,738
June 30, 2015	\$ 499,747	399,825	50,657	133,602	760	1,084,591

For the six months ended June 30, 2016 and 2015, the Group did not have any significant purchase, disposal, impairment or reversal on fixed assets. For depreciation expense of the current period, please refers to note 12(a). For other relative information, please refers to note 6(e) of the annual consolidated financial statements.

Please refer to note 8 for the information of the pledged property, plant and equipment, as of June 30, 2016, December 31 and June 30, 2015.

## (h) Intangible assets

	Goodwill	Customer relation	Total
Carrying value:			
June 30, 2016	\$ 4,884	4,289	9,173

Goodwill and customer relations were obtained by acquiring subsidiaries in March 2015. For amortization expense, please refer to note 12(a).

## (i) 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

	June 30, 2016			
	Currency	Interest rate	Maturity year	Amount
Unsecured loans	RMB	5.22	2017	\$ 14,474
Unsecured loans	USD	2.8124	2016	41,899
Total				\$ 56,373

(Continued)

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

	<b>December 31, 2015</b>			
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Unsecured loans	USD	2.5762	2016	<u>\$ 42,604</u>
	<b>June 30, 2015</b>			
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Unsecured loans	RMB	5.56	2015	\$ 9,929
Unsecured loans	USD	2.5580	2015	<u>40,161</u>
Total				<u>\$ 50,090</u>

As of June 30, 2016, December 31 and June 30, 2015, the unused credit facilities of the Group's short-term borrowings amounted to \$879,649, \$870,000 and \$870,000 thousand respectively.

## ii) Long-term borrowings

	<b>June 30, 2016</b>			
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	2.7541	2020	<u>\$ 42,705</u>
Current				<u>\$ 1,934</u>
Non-current				<u>40,771</u>
Total				<u>\$ 42,705</u>
	<b>December 31, 2015</b>			
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	2.4490	2020	<u>\$ 44,406</u>
Current				<u>\$ 1,966</u>
Non-current				<u>42,440</u>
Total				<u>\$ 44,406</u>
	<b>June 30, 2015</b>			
	<b>Currency</b>	<b>Interest rate</b>	<b>Maturity year</b>	<b>Amount</b>
Secured loans	USD	2.3958	2020	<u>\$ 42,787</u>
Current				<u>\$ 1,854</u>
Non-current				<u>40,933</u>
Total				<u>\$ 42,787</u>

(Continued)



## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## iii) Collateral of loans

The Group has applied for mortgage loan by providing its assets as collateral. For relative information, please refer to note 8.

## (j) Bonds payable

The Company issued unsecured convertible bonds as follows:

	June 30, 2016	December 31, 2015	June 30, 2015
Total amount of convertible Bonds	\$ 400,000	400,000	400,000
Discount on bonds payable unamortized balance	(1,665)	(4,195)	(6,674)
Accumulated converted balance	(175,300)	(172,300)	(172,300)
Bonds payable of ending balance	<u>\$ 223,035</u>	<u>223,505</u>	<u>221,026</u>
Embedded Derivatives—put option and call option (financial liability at fair value through profit or loss—non-current)	<u>\$ (23)</u>	<u>(23)</u>	<u>(267)</u>
Equity component—conversion options (Capital surpluses—Share options)	<u>\$ 11,331</u>	<u>11,483</u>	<u>11,483</u>
	Three months ended June 30	Six months ended June 30	
	2016	2015	2016 2015
Embedded Derivatives—put option and call option measured at fair value through profit or loss (reported in other gains and losses)	<u>\$ -</u>	<u>91</u>	<u>-</u> <u>(247)</u>
Interest expenses (financial costs)	<u>\$ 1,254</u>	<u>1,288</u>	<u>2,504</u> <u>2,716</u>

The Group did not have any significant change on the information and regulation of the convertible bonds. For relative information, please refers to note 6(g) of year-ended 2015 of the consolidated financial statements for further information.

## (k) Provisions

	June 30, 2016	December 31, 2015	June 30, 2015
Warranty	\$ 38,800	26,260	13,141
Legal	6,370	6,370	6,370
Total	<u>\$ 45,170</u>	<u>32,630</u>	<u>19,511</u>

(Continued)

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

For the six months ended June 30, 2016 and 2015, the Group did not have any significant change on the provisions. Please refer to note 6(h) of the year-ended 2015 of the consolidated financial statements for relative information.

**(I) Employee benefits****i) Defined benefit plans**

In the prior fiscal year, there was no material volatility of the market, material reimbursement and settlement or other material one-time events. As a result, pension cost in the condensed consolidated interim financial statements was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate as of December 31, 2015 and 2014.

The Group's expenses recognized in profit or loss were as follows:

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Operating costs	\$ 121	127	243	229
Selling expenses	43	38	85	68
Administrative expenses	78	83	154	149
Research and development expenses	<u>69</u>	<u>69</u>	<u>135</u>	<u>123</u>
Total	<u>\$ 311</u>	<u>317</u>	<u>617</u>	<u>569</u>

**ii) Defined contribution plans**

The Group's expenses (under pension plan cost) to the Bureau of Labour Insurance and the local government were as follows:

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Operating costs	\$ 1,783	1,929	3,649	3,848
Selling expenses	1,368	1,134	2,548	2,237
Administrative expenses	3,234	1,049	4,409	2,099
Research and development expenses	<u>2,727</u>	<u>2,452</u>	<u>5,407</u>	<u>4,862</u>
Total	<u>\$ 9,112</u>	<u>6,564</u>	<u>16,013</u>	<u>13,046</u>

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (m) Income tax

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

The Group's income tax expense are as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Current tax expenses				
Current period	\$ 26,943	19,260	46,022	42,544
Adjustment for prior period	(1,077)	800	(1,017)	800
Income tax on continuing operations	<u>\$ 25,866</u>	<u>20,060</u>	<u>45,005</u>	<u>43,344</u>

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.

As of June 30, 2016, the Group does not have significant changes on the amount of loss carry-forward and expiration dates on its subsidiary. Please refer to note 6(j) of year-ended 2015 consolidated financial statements for further information.

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

	June 30, 2016	December 31, 2015	June 30, 2015
Unappropriated earnings of 1997 and before	\$ -	-	-
Unappropriated earnings of 1998 and after	548,331	628,724	417,689
	<u>\$ 548,331</u>	<u>628,724</u>	<u>417,689</u>
	June 30, 2016	December 31, 2015	June 30, 2015
Balance of imputation credit account	<u>\$ 99,809</u>	<u>66,067</u>	<u>76,906</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 was estimated at 15.87%. The actual imputation tax credit ratio of earnings distributed in 2015 was 14.26%.

## (n) 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 June 30, 2016, December 31 and June 30, 2015. 97,526 thousand, 97,501 thousand and 91,689 thousand shares of common stocks were issued, respectively. All issued shares were paid up upon issuance.

(Continued)

# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

A reconciliation of the Company's outstanding shares of three-month periods in 2016 and 2015 is as follows:

	Unit: thousands shares	
	<b>Six months ended June 30</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	97,501	90,811
Capitalization of employee bonus	<u>25</u>	<u>878</u>
Balance at June 30	<u><b>97,526</b></u>	<u><b>91,689</b></u>

i) Issuance of common stock

For the six-month period ended June 30, 2016, \$3,000 thousand of the puttable convertible bonds issued by the Company were converted to 75 thousand shares at \$39.80 per share. As of June 30, 2016, the Company issued 50 thousand shares of common stocks, as puttable convertible bonds. However, since the registration process has not yet been completed, the amount of money obtained through the issuance of stocks is recorded under Advance receipts for share capital.

The Company's issuance of common stocks in 2015 was due to the capitalization of employee and stockholder bonus, conversion on puttable convertible bonds, and exercise of employee stock options. For details, please refer to note 6(k) to the consolidated financial statement for the year ended December 31, 2015.

ii) Capital surplus

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>	<b>June 30, 2015</b>
Share premium from issuance	\$ 433,283	430,911	434,096
Changes in equity of associates and joint ventures accounted for using equity method	16,693	5,879	5,879
Employee share options	11,306	6,659	3,948
Share options	11,331	11,483	11,483
Employee share options expired	<u>7,203</u>	<u>7,203</u>	<u>7,203</u>
	<u><b>\$ 479,816</b></u>	<u><b>462,135</b></u>	<u><b>462,609</b></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

The Company's articles of incorporation require that after-tax earnings from the current year shall first be used to offset any prior year's deficit and pay income tax; and 10% of the remaining balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Special reserve may be appropriated for operations or to meet regulations. After the distribution of dividends, the remaining earnings, if any, may be appropriated according to the proposal presented in the annual stockholders' meetings by the board of directors.

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

In accordance with the revised ROC Company Act, the supervisor's emoluments and employee bonuses are not appropriated from distributable earnings. The Company will revise the Company's articles of incorporation before the official due date. Please refer to note 6(r).

The appropriations of 2015 and 2014 earnings as dividends to stockholders that were the board of directors on June 16, 2016, and is subject to the Company's shareholders approval on June 18, 2015. The relevant dividend distributions to shareholders were as follows:

	2015		2014	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 2.00	195,010	1.4700	136,218
Stock	-	-	0.4910	45,406
Total		<u>\$ 195,010</u>		<u>181,624</u>

### iv) Treasury stock

There was no purchasing of treasury stock between January 1 and June 30, 2016. Please refer to note 6(k) of the consolidated financial statement for the year ended December 31, 2015 for the purchasing and retiring of treasury stock in 2015.

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## v) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2016	\$ 19,995	5,031	25,026
Foreign exchange differences arising from net assets of foreign operation	(18,404)	(2,721)	(21,125)
Balance at June 30, 2016	<u>\$ 1,591</u>	<u>2,310</u>	<u>3,901</u>
Balance at January 1, 2015	\$ 31,206	6,172	37,378
Foreign exchange differences arising from net assets of foreign operation	(14,252)	(1,049)	(15,301)
Balance at June 30, 2015	<u>\$ 16,954</u>	<u>5,123</u>	<u>22,077</u>

## (o) Share-based payment

There were no significant changes in the share-based payment from January 1 to June 30, 2016. Among all the stock options the Group provided to its employees on June 7, 2012, 589 units were exercised during for the six months ended June 30, 2016; please refer to note 6(l) of the consolidated financial statement for the year ended 2015 for details.

## (p) Earnings per share

The calculations of the Group's basic earnings per share and diluted earnings per share are as follows:

## i) Basic earnings per share

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net income attributable to ordinary shareholders of the Company	<u>\$ 83,369</u>	<u>29,982</u>	<u>146,457</u>	<u>90,454</u>
Weighted-average number of ordinary shares	<u>97,522</u>	<u>96,389</u>	<u>97,522</u>	<u>95,933</u>
Basic earnings per share (in NT dollars)	<u>\$ 0.85</u>	<u>0.31</u>	<u>1.50</u>	<u>0.94</u>

(Continued)

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

ii) Diluted earnings per share

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net income of the company	\$ 83,369	29,982	146,457	90,454
Effect of after tax interest expense of conversion bonds	1,041	1,069	2,078	2,254
Net income attributable to ordinary shareholders of the Company	<u>\$ 84,410</u>	<u>31,051</u>	<u>148,535</u>	<u>92,708</u>
Weighted-average number of ordinary shares (basic)	97,522	96,389	97,522	95,933
Impact of potential common shares				
Effect of employee stock bonus	355	1,172	1,211	1,475
Effect of employee stock option	1,400	992	1,333	1,002
Effect of conversion bonds	<u>5,646</u>	<u>5,233</u>	<u>5,646</u>	<u>5,233</u>
Weighted-average number of ordinary shares (diluted)	<u>104,923</u>	<u>103,786</u>	<u>105,712</u>	<u>103,643</u>
Diluted earnings per share (in NT dollars)	<u>\$ 0.80</u>	<u>0.30</u>	<u>1.41</u>	<u>0.89</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.

(q) Revenue

The details of the Group's revenue for the three months and six months ended June 30, 2016 and 2015 were as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Sale of goods	<u>\$ 1,579,286</u>	<u>1,298,787</u>	<u>2,966,356</u>	<u>2,475,607</u>

The net unearned revenue (reversal) for the consolidated company amounted to \$(110) thousand, \$2,186 thousand, \$881 thousand and \$3,559 thousand, for the three months and six months ended June 30, 2016 and 2015, respectively. As of June 30, 2016, December 31 and June 30, 2015, the accumulated unearned revenue amounted to \$54,391 thousand, \$54,138 thousand and \$48,352 thousand, respectively, which were booked due to identifiable services to be rendered.

(Continued)



# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

(r) Remuneration to employees, directors and supervisors

In accordance with the Company's article, the Company should contribute 10% to 20% of its profit as employee remuneration, 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 first be used to offset the deficit. The amounts of remuneration to each director and supervisor, as well as the remuneration to employees, are subject for approval during the board of directors' meeting.

For the three months and six months ended June 30, 2016, the estimated amounts of employee remuneration were \$15,527 thousand and \$26,338 thousand, respectively, and the estimated amounts of directors' remuneration were \$1,593 thousand and \$2,701 thousand, respectively. The estimated amounts mentioned above were according to the Company's articles of incorporation, and were recorded as operating cost or operating expenses in the respective periods. The differences between the estimated amounts and those recognized in the financial statements approved by the Board of Directors and announced to the public, if any, shall be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

For the three months and six months ended June 30, 2015, the Company accrued the estimated employee remuneration of \$6,043 thousand and \$16,261 thousand, respectively, and directors' remuneration of \$539 thousand and \$1,628 thousand, respectively. Such amounts were estimated by the previous articles of the Company, and recorded as cost of sales or operating expenses. The above information can be accessed in note 6(o) of the consolidated financial statements for the year ended December 31, 2015.

The Company estimated its employee compensation and directors' remuneration amounting to \$54,193 thousand and \$5,558 thousand, respectively, for the year 2015, which was identical to the actual distribution. The information mentioned above can be accessed on Market Observation Post System website.

(s) Non-operating income and expenses

i) Other income

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Rent income	\$ 195	165	401	419
Interest income	681	495	2,543	939
Others	<u>29,907</u>	<u>13,590</u>	<u>39,732</u>	<u>28,676</u>
	<u>\$ 30,783</u>	<u>14,250</u>	<u>42,676</u>	<u>30,034</u>

(Continued)

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

## ii) Other gains and losses

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

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Gain (loss) on foreign exchange	\$ 4,608	(10,030)	(14,439)	(21,435)
Valuation loss on financial assets	958	(188)	958	(344)
Loss on disposal of property, plant and equipment	(60)	(85)	(181)	(16)
Others (losses) gains	<u>3,749</u>	<u>454</u>	<u>(819)</u>	<u>(1,926)</u>
	<u><u>\$ 9,255</u></u>	<u><u>(9,849)</u></u>	<u><u>(14,481)</u></u>	<u><u>(23,721)</u></u>

## iii) Finance costs

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

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Interest expenses — convertible bonds	\$ 1,254	1,288	2,504	2,716
Interest expenses — short-term loans	<u>670</u>	<u>522</u>	<u>1,460</u>	<u>1,163</u>
	<u><u>\$ 1,924</u></u>	<u><u>1,810</u></u>	<u><u>3,964</u></u>	<u><u>3,879</u></u>

## (t) Financial instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and in the degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(q) of the consolidated financial statements for the year ended December 31, 2015.

## i) Credit risk

As of June 30, 2016, December 31 and June 30, 2015, the major client contributed approximately 32%, 30% and 34% of total receivables, respectively. The other four clients contributed no more than 22%, 22% and 19% of total receivables, respectively.

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## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	3-5 years	Over 5 years
<b>June 30, 2016</b>						
<b>Non-derivative financial liabilities</b>						
Financial liabilities at fair value through profit or loss — current	\$ 23	23	23	-	-	-
Short-term debts	56,373	57,171	57,171	-	-	-
Bonds payable	223,035	223,035	223,035	-	-	-
Accounts payable (including related parties)	891,596	891,596	891,596	-	-	-
Other payables	476,526	476,526	476,526	-	-	-
Long-term debts (including current portion)	42,705	47,416	2,144	2,144	6,432	36,696
	<u>\$ 1,690,258</u>	<u>1,695,767</u>	<u>1,650,495</u>	<u>2,144</u>	<u>6,432</u>	<u>36,696</u>
<b>December 31, 2015</b>						
<b>Non-derivative financial liabilities</b>						
Financial liabilities at fair value through profit or loss — non-current	\$ 23	23	23	-	-	-
Short-term debts	42,604	43,154	43,154	-	-	-
Bonds payable	223,505	223,505	223,505	-	-	-
Accounts payable	835,610	835,610	835,610	-	-	-
Other payables	220,382	220,382	220,382	-	-	-
Long-term debts (including current portion)	44,406	49,304	2,183	2,183	6,549	38,389
	<u>\$ 1,366,530</u>	<u>1,371,978</u>	<u>1,324,857</u>	<u>2,183</u>	<u>6,549</u>	<u>38,389</u>
<b>June 30, 2015</b>						
<b>Non-derivative financial liabilities</b>						
Short-term debts	\$ 50,090	50,443	50,443	-	-	-
Bonds payable	221,026	221,026	221,026	-	-	-
Notes payable	1,726	1,726	1,726	-	-	-
Accounts payable (including related parties)	670,597	670,597	670,597	-	-	-
Other payables	364,730	364,730	364,730	-	-	-
Long-term debts (including current portion)	42,787	47,921	2,076	2,076	6,288	37,541
	<u>\$ 1,350,956</u>	<u>1,356,443</u>	<u>1,310,598</u>	<u>2,076</u>	<u>6,288</u>	<u>37,541</u>

The Group does not expect the payment matured in advance significantly or differ from original value.

(Continued)

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

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
<b>June 30, 2016</b>			
Financial assets:			
Monetary items:			
USD (note)	\$	38,857	32.2300
			1,252,353
Financial liabilities:			
Monetary items:			
USD (note)	\$	27,943	32.2300
			848,940
<b>December 31, 2015</b>			
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
<b>June 30, 2015</b>			
Financial assets:			
Monetary items:			
USD (note)	\$	38,473	30.8930
			1,188,550
Financial liabilities:			
Monetary items:			
USD (note)	\$	18,954	30.8930
			585,549

Note: Amounts are designated before consolidation.

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 TWD against the USD as of June 30, 2016 and 2015 would have increased or decreased the net profit by \$9,059 and \$16,201 thousand, respectively. The analysis is performed on the same basis for both periods. Since the Group has a variety of functional currencies, gain or loss due from foreign currency exchanges is presented in aggregation.

For the six months ended June 30, 2016 and 2015, gain resulted from foreign currency exchange (including realized and unrealized) amounted to \$14,439 and \$21,435 thousand, respectively.

(Continued)

# **LANNER ELECTRONICS INC. AND SUBSIDIARIES**

## **Notes to the Consolidated Financial Statements**

### ii. Interest rate analysis

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

If the interest rate increases or decreases by 1% and all other variables remain constant, the Group's net incomes for the six months ended June 30, 2016 and 2015 will decrease or increase by \$822 and \$771 thousand, respectively. This resulted mainly from the Group's borrowings in floating interest rates.

### iv) 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 with the Regulations.

		June 30, 2016			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 947	-	947	-	947
Non-Derivative financial assets held for hedging	100,011	100,011	-	-	100,011
Total	<u>\$ 100,958</u>	<u>100,011</u>	<u>947</u>	<u>-</u>	<u>100,958</u>
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>
		December 31, 2015			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
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>

(Continued)

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

	Carrying amount	June 30, 2015 Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ <u>364</u>	<u>-</u>	<u>364</u>	<u>-</u>	<u>364</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.

(u) Financial risk management

The objective and policies of the consolidated company are identical to those disclosed in note 6(r) of the consolidated financial statement for the year ended 2015.

(v) Capital management

The disclosure of objectives, policies and procedures of the Group's capital management are the same as those specified in the consolidated financial statements for the year ended December 31, 2015; and there were no significant changes in the Group's collective quantitative information from those disclosed in the consolidated financial statements for the year ended December 31, 2015. For related information, please refer to note(s) of the consolidated financial statements for the year ended December 31, 2015.

**(7) Related-party Transactions**

(a) Significant related party transactions

i) Operating revenue

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Other related parties	\$ <u>-</u>	<u>506</u>	<u>17,694</u>	<u>698</u>

There are no significant differences between the selling prices and the collection terms with the other related parties and those with general clients. No collaterals were pledged for the receivables from related parties, and no bad debt expenses should be booked after assessment.

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## ii) Receivables from related parties

The receivables due from related parties were as follows:

Accounts	Type of related parties	June 30, 2016	December 31, 2015	June 30, 2015
Accounts receivable	Other related parties	\$ <u>-</u>	<u>-</u>	<u>739</u>

## iii) Purchases

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Other related parties	\$ <u>-</u>	<u>-</u>	<u>498</u>	<u>179</u>

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

## iv) Payables to related parties

The payables due to related parties were as follows:

Accounts	Type of related parties	June 30, 2016	December 31, 2015	June 30, 2015
Accounts payable	Other related parties	\$ <u>-</u>	<u>6,480</u>	<u>382</u>

## v) Purchase of other assets

In March 2015, the Group paid \$18,339 thousand (CNY3,700 thousand) to acquire 100% shares of Dongguan Lihua Haiwell Technology Co., Ltd. from the key management.

## vi) 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 as deposit and booked the same amount under non-current asset. Rent for the three months and six months ended June 30, 2016 and 2015 amounted to \$330 thousand, \$300 thousand, \$660 thousand and \$600 thousand, respectively. There were no outstanding balance as of June 30, 2016, December 31 and June 30, 2015.

(Continued)



## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (b) Key management personnel compensations

Key management personnel compensation comprised:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Short-term employee benefits	\$ 26,292	10,832	44,551	24,786
Post-employment benefits	292	184	477	353
	<u>\$ 26,584</u>	<u>11,016</u>	<u>45,028</u>	<u>25,139</u>

## (8) Pledged Assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	June 30, 2016	December 31, 2015	June 30, 2015
Certificate of deposits (recorded under other financial assets—current)	Guarantee for customs	\$ 2,302	2,275	2,247
Land	Guarantee for long and short-term debts	415,896	416,399	414,656
Building and structures	Guarantee for long and short-term debts	272,677	277,615	279,832
		<u>\$ 690,875</u>	<u>696,289</u>	<u>696,735</u>

## (9) Significant Commitments and Contingencies

The Group's former employee has sued the Group for joint and several liabilities of \$10,963. In April 2012, Taiwan Supreme Court has ruled that the Company should pay the compensation of \$5,290 plus, a 5% annual interest rate starting from October 14, 2007. 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 June 30, 2016, December 31 and June 30, 2015, the Group estimated the debt provision to be \$6,370 due to the aforementioned lawsuit.

## (10) Losses due to major disasters: None.

## (11) Subsequent events: None.

(Continued)

## LANNER ELECTRONICS INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (12) Others

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

By function	Three months ended June 30, 2016			Three months ended June 30, 2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
<b>By nature</b>						
Employee benefits						
Salary	46,183	178,344	224,527	48,515	151,715	200,230
Labor and health insurance	3,629	10,027	13,656	3,860	8,248	12,108
Pension	1,904	7,519	9,423	2,056	4,825	6,881
Others	2,691	5,435	8,126	3,142	5,208	8,350
Depreciation	11,142	13,525	24,667	8,419	9,290	17,709
Amortization	-	560	560	-	-	-

By function	Six months ended June 30, 2016			Six months ended June 30, 2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
<b>By item</b>						
Employee benefits						
Salary	91,993	337,927	429,920	93,345	299,580	392,925
Labor and health insurance	7,658	21,130	28,788	7,868	18,669	26,537
Pension	3,892	12,738	16,630	4,077	9,538	13,615
Others	5,390	11,874	17,264	5,545	10,768	16,313
Depreciation	21,403	26,320	47,723	16,799	18,761	35,560
Amortization	-	560	560	-	-	-

- (b) Operating and seasonality

The Group's operations were not affected by seasonal and cyclical factors.

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## 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 for the six months ended June 30, 2016:

- i) Loans extended to other parties: None.
- ii) Guarantees and endorsements for other parties: None.
- iii) Information regarding securities held on 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	June 30, 2016				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	-
The Company	Fund: Capital Money Market Fund	—	Financial assets at fair value through profit or loss — current	3,133	50,006	- %	50,006	
The Company	Fuh Hwa Money Market Fund	—	Financial assets at fair value through profit or loss — current	3,496	50,005	- %	50,005	

Note: Completely booked as impairment loss.

- 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	(507,300)	(22)	%90 days	-	-	317,088	49 %	(Note 1)
The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	Subsidiary	Sales	(208,524)	(9)	%60 days	-		57,246	6 %	(Note 1)
The Company	LEI Technology Canada Ltd.	Subsidiary	Sales	(136,656)	(6)	%120 days	-		103,558	11 %	(Note 1)
Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	Subsidiary	Sales	(402,225)	-	%30 days	-		-	- %	(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	317,088 (Note)	2.96	-		150,404 (Until August 11, 2016)	-
The Company	LEI Technology Canada Ltd.	Subsidiary	103,558 (Note)	1.64	-		39,337 (Until August 11, 2016)	-

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

- ix) Financial derivative instruments transactions: Please refer to note 6(b).

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## 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	507,300	No significant differences	17.10%
0	The Company	Beijing L & S Lancom Platform of Technology CO., Ltd.	1	Sales	51,795	No significant differences	1.75 %
0	The Company	LEI Technology Canada Ltd.	1	Sales	136,656	120 days	4.61 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	208,524	No significant differences	7.03 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	317,088	No significant differences	7.02 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	103,558	120 days	2.29 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	57,246	No significant differences	1.27 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	402,225	No significant differences	13.56%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	49,537	No significant differences	1.10 %
2	Beijing L & S Lancom Platform of Technology CO., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Sales	71,530	No significant differences	2.41 %
2	Beijing L & S Lancom Platform of Technology CO., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Accounts receivable	33,528	No significant differences	0.74 %

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 six months ended June 30, 2016:

Name of investor	Investor investee	Address	Scope of business	Original cost		Ending balance			Net income of investee	Investment income (losses)	Remarks
				June 30, 2016	December 31, 2015	Shares	Ratio of shares	Book value			
The Company	LANNER (USA)	USA	Trading of computer peripheral equipment	80,633	80,633	2,350	100 %	49,083	2,082	2,082	(Note 1)
The Company	LANNER (MAURITIUS)	Mauritius	Investing	84,990	84,990	2,633	100 %	526,902	51,007	51,007	(Note 1)
The Company	LEI	Canada	Trading of computer peripheral equipment	56,936	56,936	2,000	100 %	11,589	1,636	1,636	(Note 1)
LANNER (MAURITIUS)	LANCOM	Samoa	Investing	78,251	78,251	2,623	100 %	574,611	48,855	48,855	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation.

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

(c) Information on investment in Mainland China:

i) Information on investment in Mainland China:

Unit: thousand dollars

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2016	Investment flow during current period		Cumulative investment (amount) from Taiwan as of June 30, 2016	Net income on investee	Direct / indirect investment holding percentage	Investment income (loss) (Note 2)	Book value (Note 2)	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount						
Beijing L & S Lancom Platform of Technology CO., Ltd.	Trading of computer peripheral equipment	105,283	(3)	75,982	-	-	75,982	53,703	90.91 %	48,821 (2)	565,345	-
Beijing LSZC Investment Co., Ltd.	Investing	49,566	(4)a.	-	-	-	-	(7,661)	90.91 %	(6,965) (2)	52,491	-
Dongguan Libus Halwell Technology Co., Ltd.	Trading of computer peripheral equipment	33,606	(4)b.	-	-	-	-	(9,291)	90.91 %	(8,446) (2)	23,816	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	63,841	(4)b.	-	-	-	-	4,567	39.08 %	1,495 (1)	28,290	-

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.
  - a. Investing in Mainland China through Beijing L & S Lancom Platform of Technology CO., Ltd.
  - b. Investing in Mainland China through Beijing LSZC Investment Co., Ltd.

Note 2: Amounts of investment income (loss) was recognized base on:

- (1) The gain (loss) of the investee were not reviewed and were recognized as investment income (loss) under the equity method.
- (2) The financial statements of the investee are reviewed by the auditors of the parent company.

Note 3: Aforementioned amounts have been eliminated upon consolidation.

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)x) for details.

(14) Segment 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.