

**LANNER ELECTRONICS INC.
AND SUBSIDIARIES**

Interim Consolidated Financial Statements

**September 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 September 30, 2016 and 2015, the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2016 and 2015, as well as the changes in equity and cash flows for the nine months ended September 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 \$460,591 thousand and \$517,984 thousand, constituting 10.77% and 12.66%, respectively, of the related consolidated total assets; and the income amounting to \$333,730 thousand, \$335,141 thousand, \$1,001,533 thousand and \$878,628 thousand, constituting 23.07%, 24.60%, 22.70% and 22.89%, respectively, of the related consolidated total comprehensive income for the three months and nine months ended September 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 \$296,978 thousand and \$122,983 thousand, constituting 6.95% and 3.01%, respectively, of the related consolidated total assets; and the total liabilities amounting to \$26,733 thousand and \$2,047 thousand, constituting 1.51% and 0.11% of the related total liabilities as of September 30, 2016 and 2015, respectively; the total comprehensive income amounting to \$19,061 thousand, \$6,182 thousand, \$25,824 thousand, and \$7,862 thousand, constituting 22.49%, 1.67%, 11.85% and 1.74%, respectively, of the related consolidated total comprehensive income for the three months and nine months ended September 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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November 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.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2016, December 31 and September 30, 2015

(Expressed in thousands of New Taiwan dollars)

Assets	September 30, 2016		December 31, 2015		September 30, 2015		Liabilities and Stockholders' Equity	September 30, 2016		December 31, 2015		September 30, 2015	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current assets:							Current liabilities:						
Cash and cash equivalents (note 6(a))	\$ 468,578	11	412,427	10	484,239	12	Short-term debts (notes 6(i) and 8)	\$ 54,719	1	42,604	1	53,157	1
Financial assets at fair value through profit or loss—current (note 6(b))	1,003	-	-	-	-	-	Long-term debts, current portion (notes 6(i) and 8)	1,878	-	1,966	-	1,976	-
Notes receivable, net (note 6(c))	17,072	-	12,506	-	28,744	1	Financial liabilities at fair value through profit or loss—current (notes 6(b) and 6(j))	-	-	-	-	863	-
Accounts receivable, net (note 6(c))	914,290	21	1,061,641	25	814,276	20	Notes payable	-	-	-	-	200	-
Other receivables (note 6(c))	28,180	1	646	-	6,417	-	Accounts payable	716,315	17	829,130	19	817,975	20
Current income tax assets	14,212	-	-	-	-	-	Accounts payable due to related parties (note 7)	-	-	6,480	-	398	-
Inventories (note 6(d))	1,370,857	32	1,415,992	33	1,387,738	34	Current tax liabilities	36,372	1	51,221	1	29,753	1
Other financial assets—current (note 8)	147,191	3	37,139	1	38,519	-	Other payables (notes 6(n) and 6(q))	517,932	12	496,313	12	422,787	10
Prepayments	66,944	3	68,155	2	62,135	2	Provisions—current (notes 6(k) and 9)	43,076	1	32,630	1	24,497	1
Other current assets	45,656	1	39,699	1	48,699	1	Bonds payable, current portion (note 6(j))	119,877	3	223,505	5	222,262	5
Total current assets	3,073,983	72	3,048,205	72	2,870,767	70	Other current liabilities (note 6(q))	114,267	3	126,926	3	147,096	4
Non-current assets:							Total current liabilities	1,604,436	38	1,810,775	42	1,720,964	42
Financial assets carried at cost—non-current (note 6(e))	500	-	1,000	-	1,000	-	Non-current liabilities:						
Property, plant and equipment (notes 6(g) and 8)	1,127,187	27	1,157,649	27	1,110,591	27	Financial liabilities at fair value through profit or loss—non-current (notes 6(b) and 6(j))	-	-	23	-	46	-
Prepayments for equipment	1,394	-	18,343	-	67,191	2	Long-term debts (notes 6(i) and 8)	39,135	1	42,440	1	43,140	1
Intangible assets (note 6(h))	8,494	-	-	-	-	-	Long-term deferred revenue (note 6(q))	34,332	1	32,881	1	26,993	1
Deferred income tax assets	54,307	1	54,708	1	34,742	1	Deferred income tax liabilities	68,231	1	68,241	1	50,377	1
Other non-current assets (note 7)	8,776	-	7,674	-	7,653	-	Accrued pension liabilities	29,169	1	29,168	1	27,569	1
Total non-current assets	1,200,658	28	1,239,374	28	1,221,177	30	Other non-current liabilities	510	-	552	-	631	-
							Total non-current liabilities	171,377	4	173,305	4	148,756	4
							Total liabilities	1,775,813	42	1,984,080	46	1,869,720	46
							Equity attributable to shareholders of the parent (notes 6(j), 6(m) and 6(n)):						
							stock:						
							Common stock	984,078	23	975,008	23	982,208	24
							Advance receipts for share capital	27,223	1	-	-	-	-
								1,011,301	24	975,008	23	982,208	24
							Capital surplus	566,894	13	462,135	11	462,609	11
							Retained earnings:						
							Legal reserve	194,899	4	163,059	4	163,059	4
							Special reserve	2,225	-	2,225	-	2,225	-
							Unappropriated retained earnings	650,176	15	628,724	15	539,272	13
								847,300	19	794,008	19	704,556	17
							Other equity:						
							Financial statements translation differences for foreign operations	(20,579)	-	19,995	-	41,838	1
							Treasury stock	-	-	-	-	(20,180)	-
							Total stockholders' equity	2,404,916	56	2,251,146	53	2,171,031	53
							Non-controlling interests	93,912	2	52,353	1	51,193	1
							Total equity	2,498,828	58	2,303,499	54	2,222,224	54
Total assets	\$ 4,274,641	100	4,287,579	100	4,091,944	100	Total liabilities and stockholders' equity	\$ 4,274,641	100	4,287,579	100	4,091,944	100

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 Comprehensive Income

For the three months and nine months ended September 30, 2016 and 2015

(Expressed in thousands of New Taiwan dollars)

	For the three months ended September 30				For the nine months ended September 30			
	2016 Amount	%	2015 Amount	%	2016 Amount	%	2015 Amount	%
Operating revenue (notes 6(q) and 7)	\$ 1,446,510	100	1,362,087	100	4,412,866	100	3,837,694	100
Operating cost (notes 6(d), 6(l), 6(n), 6(r) and 7)	<u>1,021,096</u>	<u>71</u>	<u>941,531</u>	<u>69</u>	<u>3,170,613</u>	<u>72</u>	<u>2,735,553</u>	<u>71</u>
Gross profit, net	<u>425,414</u>	<u>29</u>	<u>420,556</u>	<u>31</u>	<u>1,242,253</u>	<u>28</u>	<u>1,102,141</u>	<u>29</u>
Operating expenses (notes 6(c), 6(l), 6(n), 6(r) and 7):								
Selling expenses	127,431	9	111,753	8	397,122	9	294,115	8
Administrative expenses	77,941	5	91,005	7	239,443	6	258,607	6
Research and development expenses	<u>114,236</u>	<u>8</u>	<u>104,541</u>	<u>8</u>	<u>324,846</u>	<u>7</u>	<u>299,635</u>	<u>8</u>
Total operating expenses	<u>319,608</u>	<u>22</u>	<u>307,299</u>	<u>23</u>	<u>961,411</u>	<u>22</u>	<u>852,357</u>	<u>22</u>
Operating profit	<u>105,806</u>	<u>7</u>	<u>113,257</u>	<u>8</u>	<u>280,842</u>	<u>6</u>	<u>249,784</u>	<u>7</u>
Non-operating income and expenses (notes 6(j), 6(s) and 7):								
Other income	17,964	1	6,581	1	60,640	1	36,615	1
Other gains and losses	(7,117)	-	30,547	2	(21,598)	-	6,826	-
Financial costs	<u>(1,953)</u>	<u>-</u>	<u>(2,131)</u>	<u>-</u>	<u>(5,917)</u>	<u>-</u>	<u>(6,010)</u>	<u>-</u>
Total non-operating income and expenses	<u>8,894</u>	<u>1</u>	<u>34,997</u>	<u>3</u>	<u>33,125</u>	<u>1</u>	<u>37,431</u>	<u>1</u>
Net income before tax	114,700	8	148,254	11	313,967	7	287,215	8
Less: income tax expenses (note 6(m))	<u>4,681</u>	<u>-</u>	<u>24,369</u>	<u>2</u>	<u>49,686</u>	<u>1</u>	<u>67,713</u>	<u>2</u>
Net income	<u>110,019</u>	<u>8</u>	<u>123,885</u>	<u>9</u>	<u>264,281</u>	<u>6</u>	<u>219,502</u>	<u>6</u>
Other comprehensive income (loss):								
Items that may be reclassified subsequently to profit or loss:								
Financial statements translation differences for foreign operations	(25,283)	(2)	26,879	2	(46,408)	(1)	11,578	-
Income tax expense relating to components of other comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Items that may be reclassified subsequently to profit or loss	<u>(25,283)</u>	<u>(2)</u>	<u>26,879</u>	<u>2</u>	<u>(46,408)</u>	<u>(1)</u>	<u>11,578</u>	<u>-</u>
Other comprehensive loss, net of tax	<u>(25,283)</u>	<u>(2)</u>	<u>26,879</u>	<u>2</u>	<u>(46,408)</u>	<u>(1)</u>	<u>11,578</u>	<u>-</u>
Total comprehensive income	<u>\$ 84,736</u>	<u>6</u>	<u>150,764</u>	<u>11</u>	<u>217,873</u>	<u>5</u>	<u>231,080</u>	<u>6</u>
Net income attributable to:								
Shareholders of the parent	\$ 101,845	7	121,583	9	248,302	6	212,037	6
Non-controlling interests	<u>8,174</u>	<u>1</u>	<u>2,302</u>	<u>-</u>	<u>15,979</u>	<u>-</u>	<u>7,465</u>	<u>-</u>
	<u>\$ 110,019</u>	<u>8</u>	<u>123,885</u>	<u>9</u>	<u>264,281</u>	<u>6</u>	<u>219,502</u>	<u>6</u>
Total comprehensive income attributable to:								
Shareholders of the parent	\$ 79,675	6	146,467	11	207,728	5	222,669	6
Non-controlling interests	<u>5,061</u>	<u>-</u>	<u>4,297</u>	<u>-</u>	<u>10,145</u>	<u>-</u>	<u>8,411</u>	<u>-</u>
	<u>\$ 84,736</u>	<u>6</u>	<u>150,764</u>	<u>11</u>	<u>217,873</u>	<u>5</u>	<u>231,080</u>	<u>6</u>
Basic earnings per share (in New Taiwan dollars) (note 6(p))	<u>\$ 1.02</u>		<u>1.24</u>		<u>2.53</u>		<u>2.19</u>	
Diluted earnings per share (in New Taiwan dollars) (note 6(p))	<u>\$ 0.98</u>		<u>1.17</u>		<u>2.42</u>		<u>2.04</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 nine months ended September 30, 2016 and 2015
(Expressed in thousands of New Taiwan dollars)

Equity attributable to shareholders of the parent

	Common stock	Common stock Advance receipts for share capital	Total	Capital surplus	Legal reserve	Retained earnings Special reserve	Unappropri- ated earnings	Total	Financial statements translation differences for foreign operations	Treasury stock	Total equity attributable to shareholders of the parent	Non- controlling interests	Total Equity
Balance on January 1, 2015	\$ 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	-	-	-	-	-	-	212,037	212,037	-	-	212,037	7,465	219,502
Other comprehensive income	-	-	-	-	-	-	-	-	10,632	-	10,632	946	11,578
Total comprehensive income	-	-	-	-	-	-	212,037	212,037	10,632	-	222,669	8,411	231,080
Conversion of convertible bonds	8,779	-	8,779	28,134	-	-	-	-	-	-	36,913	-	36,913
Retirement of treasury share	-	-	-	-	-	-	-	-	-	(20,180)	(20,180)	-	(20,180)
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 September 30, 2015	\$ 982,208	-	982,208	462,609	163,059	2,225	539,272	704,556	41,838	(20,180)	2,171,031	51,193	2,222,224
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)	-	-	-	-	-	-
Stock dividends	-	-	-	-	-	-	(195,010)	(195,010)	-	-	(195,010)	-	(195,010)
Net income	-	-	-	-	-	-	248,302	248,302	-	-	248,302	15,979	264,281
Other comprehensive loss	-	-	-	-	-	-	-	-	(40,574)	-	(40,574)	(5,834)	(46,408)
Total comprehensive income (loss)	-	-	-	-	-	-	248,302	248,302	(40,574)	-	207,728	10,145	217,873
Conversion of convertible bonds	754	27,223	27,977	79,322	-	-	-	-	-	-	107,299	-	107,299
Remuneration cost of employee stock options	-	-	-	6,972	-	-	-	-	-	-	6,972	-	6,972
Stock options exercised by employees	8,316	-	8,316	7,651	-	-	-	-	-	-	15,967	-	15,967
Changes in non-controlling interests from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	30,333	30,333
Due to donated assets received	-	-	-	10,814	-	-	-	-	-	-	10,814	1,081	11,895
Balance on September 30, 2016	\$ 984,078	27,223	1,011,301	566,894	194,899	2,225	650,176	847,300	(20,579)	-	2,404,916	93,912	2,498,828

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 nine months ended September 30, 2016 and 2015

(Expressed in thousands of New Taiwan dollars)

	Nine months ended September 30	
	2016	2015
Cash flows from operating activities:		
Consolidated net income before tax	\$ 313,967	287,215
Adjustments:		
Adjustments to reconcile profit and loss		
Depreciation	73,306	54,411
Amortization	962	-
Bad debt (reversed) provision	4,847	(292)
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	(1,133)	26
Interest expenses	5,917	6,010
Interest income	(3,135)	(1,203)
Remuneration cost of employee stock options	6,972	900
Loss on disposal of property, plant and equipment, net	911	18
Total adjustments to reconcile profit and loss	<u>88,647</u>	<u>59,870</u>
Changes in assets / liabilities relating to operating activities:		
Net changes in operating assets:		
Financial assets at fair value through profit or loss	107	-
Notes receivable	(4,566)	(9,704)
Accounts receivable (including related parties)	250,752	137,452
Other receivables	(26,255)	(3,972)
Inventories	316,761	(359,000)
Prepayments	12,141	10,161
Other current assets	(20,169)	(18,130)
Other financial assets	<u>30,104</u>	<u>(3)</u>
Total changes in operating assets, net	<u>558,875</u>	<u>(243,196)</u>
Net changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	-	863
Notes payable	-	200
Accounts payable (including related parties)	(482,612)	194,578
Other payables	16,099	39,211
Provisions	10,446	6,657
Other current liabilities	(13,284)	36,286
Accrued pension liabilities	1	(2)
deferred revenue	<u>2,076</u>	<u>5,883</u>
Total changes in operating liabilities, net	<u>(467,274)</u>	<u>283,676</u>
Total changes in operating assets / liabilities, net	<u>91,601</u>	<u>40,480</u>
Total adjustments	<u>180,248</u>	<u>100,350</u>
Cash provided by operating activities	494,215	387,565
Interest income received	3,160	1,201
Interest paid	(2,243)	(1,172)
Income taxes paid	<u>(64,535)</u>	<u>(54,263)</u>
Net cash provided by operating activities	<u>430,597</u>	<u>333,331</u>
Cash flows from investing activities:		
Proceeds from capital reduction of financial assets at cost	500	-
Acquisition of subsidiaries (after deduction of cash obtained)	8,780	-
Acquisition of property, plant and equipment	(39,621)	(60,177)
Proceeds from disposal of property, plant and equipment	4,931	2,200
Increase in refundable deposits	(1,102)	(2,219)
Increase in other financial assets	(140,181)	(36,208)
Decrease (increase) in prepayments for equipment	<u>2,366</u>	<u>(53,751)</u>
Net cash used in investing activities	<u>(164,327)</u>	<u>(150,155)</u>
Cash flows from financing activities:		
Increase in short-term debts	104,838	-
Decrease in short-term debts	(90,000)	(50,000)
Repayment of long-term debts	(1,463)	(1,422)
Decrease in other non-current liabilities	(42)	(137)
Cash dividends paid	(195,010)	(136,218)
Exercise of employee share options	15,967	15,835
Purchase of treasury stock	-	(20,180)
Net cash used in financing activities	<u>(165,710)</u>	<u>(192,122)</u>
Effects of changes in exchange rates	<u>(44,409)</u>	<u>11,465</u>
Increase in cash and cash equivalents	56,151	2,519
Cash and cash equivalents at beginning of period	<u>412,427</u>	<u>481,720</u>
Cash and cash equivalents at end of period	<u>\$ 468,578</u>	<u>484,239</u>

See accompanying notes to the consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 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 November 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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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"> • 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. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.
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"> • 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. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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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"> • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; • share-based payment transactions with a net settlement feature for withholding tax obligations; and • 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.

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
			September 30, 2016	December 31, 2015	September 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.

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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

	September 30, 2016	December 31, 2015	September 30, 2015
Cash	\$ 1,256	1,780	1,127
Working capital	80	80	80
Demand deposits	254,942	141,828	259,602
Checking deposits	7,047	2,192	1,726
Time deposits	7,827	8,193	8,233
Foreign currency deposits	<u>197,426</u>	<u>258,354</u>	<u>213,471</u>
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 468,578</u>	<u>412,427</u>	<u>484,239</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

	September 30, 2016	December 31, 2015	September 30, 2015
Financial assets held for trading:			
Derivative instruments not used for hedging	\$ <u>1,003</u>	<u>-</u>	<u>-</u>
	September 30, 2016	December 31, 2015	September 30, 2015
Financial liabilities at fair value through profit or loss:			
Convertible bonds	\$ -	23	46
Financial liabilities held for trading:			
Derivative instruments not used for hedging	<u>-</u>	<u>-</u>	<u>863</u>
Total	\$ <u>-</u>	<u>23</u>	<u>909</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 September 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
September 30, 2016			
Forward Contracts	\$ 1,003	USD/TWD	3,400
September 30, 2015			
Forward Contracts	\$ (863)	USD/TWD	450

As of September 30, 2016 and 2015, the maturity dates of the derivative financial liabilities were between November 2, 2016 and January 25, 2017, and November 3, 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

	September 30, 2016	December 31, 2015	September 30, 2015
Notes receivable	\$ 17,072	12,506	28,744
Accounts receivable, net	924,602	1,067,195	819,018
Other receivables	28,180	646	6,417
Less: allowance for impairment	<u>10,312</u>	<u>5,554</u>	<u>4,742</u>
	<u><u>\$ 959,542</u></u>	<u><u>1,074,793</u></u>	<u><u>849,437</u></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:

	September 30, 2016	December 31, 2015	September 30, 2015
Past due 1~30 days	\$ 47,085	75,355	100,881
Past due 31~90 days	24,967	38,288	25,492
Past more than 91 days	<u>10,646</u>	<u>13,353</u>	<u>835</u>
	<u><u>\$ 82,698</u></u>	<u><u>126,996</u></u>	<u><u>127,208</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 on January 1, 2016	\$ 5,554	-	5,554
Impairment loss recognized	4,847	-	4,847
Effect of changes in exchange rates	<u>(89)</u>	<u>-</u>	<u>(89)</u>
Balance on September 30, 2016	<u><u>\$ 10,312</u></u>	<u><u>-</u></u>	<u><u>10,312</u></u>
	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2015	\$ 4,998	-	4,998
Impairment loss reversed	(292)	-	(292)
Effect of changes in exchange rates	<u>36</u>	<u>-</u>	<u>36</u>
Balance on September 30, 2015	<u><u>\$ 4,742</u></u>	<u><u>-</u></u>	<u><u>4,742</u></u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) Inventories

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

	September 30, 2016	December 31, 2015	September 30, 2015
Merchandise	\$ 1,157	3,139	5,613
Finished goods	687,515	695,068	667,113
Work in process	251,705	270,031	268,647
Raw material	<u>430,480</u>	<u>447,754</u>	<u>446,365</u>
Total	<u>\$ 1,370,857</u>	<u>1,415,992</u>	<u>1,387,738</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 September 30, 2016, December 31 and September 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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Loss on market value of inventory	\$ <u>(4,463)</u>	<u>10,693</u>	<u>15,030</u>	<u>26,439</u>

For the three months ended September 30, 2016, the Group revised the allowance for loss on inventory when it was sold or used, for which the allowance had been previously provided.

(e) Financial assets carried at cost—noncurrent

	Ownership %	Investment cost	Amount
September 30, 2016			
Alliance III venture Capital Corp.	1.00	\$ <u>500</u>	<u>500</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Ownership %	Investment cost	Amount
September 30, 2015			
Alliance III venture Capital Corp	1.00	\$ <u>1,000</u>	<u>1,000</u>

In August 2016, Alliance III venture Capital Corp, one of the Group investments carried at cost, executed a capital reduction by cancelling 5,000 thousand of its shares amounting to \$50,000 thousand, which had already been distributed to its shareholders. Therefore, the Group had received \$500 thousand, which resulted in a reduction of 50 thousand shares from Alliance III venture Capital Corp.

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 September 30, 2016, the net income after tax attributed to the Group amounted to \$(6,985) 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 September 30, 2016 will increase to \$262,833 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.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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		(2,120)
	\$	<u>18,339</u>

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 September 30, 2016, the operating revenue and net income after tax attributed to the Group amounted to \$160,549 thousand and \$5,667 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 September 30, 2016 will increase to \$4,428,248 thousand and \$263,838 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.

(Continued)

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

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>

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	52,822
Goodwill arising on acquisition	<u>\$ 4,957</u>

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

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

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.

(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
September 30, 2016	\$ 500,132	386,002	37,077	203,976	-	1,127,187
September 30, 2015	\$ 501,638	399,517	50,299	157,831	1,306	1,110,591

For the nine months ended September 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 September 30, 2016, December 31 and September 30, 2015.

(h) Intangible assets

	Goodwill	Customer relation	Total
Carrying value:			
September 30, 2016	\$ 4,730	3,764	8,494

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

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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

September 30, 2016				
	Currency	Interest rate	Maturity year	Amount
Unsecured loans	RMB	5.22	2017	\$ 14,018
Unsecured loans	USD	2.9033	2017	<u>40,701</u>
Total				<u>\$ 54,719</u>

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

September 30, 2015				
	Currency	Interest rate	Maturity year	Amount
Unsecured loans	RMB	6.72	2015	\$ 10,345
Unsecured loans	USD	2.5762	2016	<u>42,812</u>
Total				<u>\$ 53,157</u>

As of September 30, 2016, December 31 and September 30, 2015, the unused credit facilities of the Group's short-term borrowings amounted to \$877,345, \$870,000 and \$870,000 thousand respectively.

ii) Long-term borrowings

September 30, 2016				
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	2.9889	2020	<u>\$ 41,013</u>
Current				\$ 1,878
Non-current				<u>39,135</u>
Total				<u>\$ 41,013</u>

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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>

September 30, 2015				
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	2.4086	2020	\$ <u>45,116</u>
Current				\$ 1,976
Non-current				43,140
Total				\$ <u>45,116</u>

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:

	September 30, 2016	December 31, 2015	September 30, 2015
Total amount of convertible Bonds	\$ 400,000	400,000	400,000
Discount on bonds payable unamortized balance	(223)	(4,195)	(5,438)
Accumulated converted balance	(279,900)	(172,300)	(172,300)
Bonds payable of ending balance	\$ <u>119,877</u>	<u>223,505</u>	<u>222,262</u>
Embedded Derivatives—put option and call option (financial liability at fair value through profit or loss—non-current)	\$ <u>-</u>	<u>(23)</u>	<u>(46)</u>
Equity component—conversion options (Capital surpluses— Share options)	\$ <u>6,057</u>	<u>11,483</u>	<u>11,483</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Three months ended September 30		Nine months ended September 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>221</u>	<u>-</u>	<u>(26)</u>
Interest expenses (financial costs)	\$ <u>1,167</u>	<u>1,236</u>	<u>3,671</u>	<u>3,952</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

	September 30, 2016	December 31, 2015	September 30, 2015
Warranty	\$ 36,706	26,260	18,127
Legal	<u>6,370</u>	<u>6,370</u>	<u>6,370</u>
Total	\$ <u>43,076</u>	<u>32,630</u>	<u>24,497</u>

For the nine months ended September 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.

(l) 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:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Operating costs	\$ 115	127	358	356
Selling expenses	39	35	124	103
Administrative expenses	78	87	232	236
Research and development expenses	<u>73</u>	<u>67</u>	<u>208</u>	<u>190</u>
Total	\$ <u>305</u>	<u>316</u>	<u>922</u>	<u>885</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Operating costs	\$ 1,742	2,018	5,391	5,866
Selling expenses	1,999	1,135	4,547	3,372
Administrative expenses	1,361	1,124	5,770	3,223
Research and development expenses	3,794	2,625	9,201	7,487
Total	<u>\$ 8,896</u>	<u>6,902</u>	<u>24,909</u>	<u>19,948</u>

(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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Current tax expenses				
Current period	\$ 20,632	24,369	66,654	66,913
Adjustment for prior period	(15,951)	-	(16,968)	800
Income tax on continuing operations	<u>\$ 4,681</u>	<u>24,369</u>	<u>49,686</u>	<u>67,713</u>

The tax authorities have assessed the Company's income tax return for 2014. However, as the tax authorities ruled that extra taxes of \$36,896 thousand be paid for 2014 and 2013, the company is intended to appeal to the court for re-assessment.

As of September 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:

	September 30, 2016	December 31, 2015	September 30, 2015
Unappropriated earnings of 1997 and before	\$ -	-	-
Unappropriated earnings of 1998 and after	650,176	628,724	539,272
	<u>\$ 650,176</u>	<u>628,724</u>	<u>539,272</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 30, 2016	December 31, 2015	September 30, 2015
Balance of imputation credit account	\$ <u>92,240</u>	<u>66,067</u>	<u>64,692</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 September 30, 2016, December 31 and September 30, 2015. 98,408 thousand, 97,501 thousand and 98,221 thousand shares of common stocks were issued, respectively. All issued shares were paid up upon issuance.

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

	Unit: thousands shares	
	Nine months ended 2016	September 30 2015
Balance at January 1	97,501	90,811
Stock dividends	-	4,541
Stock options exercised by employees	832	769
Conversion of convertible bonds	75	878
Capitalization of employee bonus	-	1,222
Balance at September 30	<u>98,408</u>	<u>98,221</u>

i) Issuance of common stock

For the nine-month period ended September 30, 2016, the Company issued 832 thousand shares of common stocks, as its employees exercised their stock options at \$18.4 per share. The registration process has been completed, and the amount of money obtained through the issuance of stocks is recorded under common stock.

For the nine-month period ended September 30, 2016, \$107,600 thousand of the puttable convertible bonds issued by the Company were converted to 2,798 thousand shares at \$39.80 and \$38.10 per share. As of September 30, 2016, the Company issued 2,722 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 if 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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii) Capital surplus

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

	September 30, 2016	December 31, 2015	September 30, 2015
Share premium from issuance	\$ 524,996	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	11,945	6,659	3,948
Share options	6,057	11,483	11,483
Employee share options expired	<u>7,203</u>	<u>7,203</u>	<u>7,203</u>
	<u><u>\$ 566,894</u></u>	<u><u>462,135</u></u>	<u><u>462,609</u></u>

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

iii) Retained earnings

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).

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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	\$ 1.9713	195,010	1.4732	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 September 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.

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	(40,574)	(5,834)	(46,408)
Balance at September 30, 2016	<u>\$ (20,579)</u>	<u>(803)</u>	<u>(21,382)</u>
Balance at January 1, 2015	\$ 31,206	6,172	37,378
Foreign exchange differences arising from net assets of foreign operation	10,632	946	11,578
Balance at September 30, 2015	<u>\$ 41,838</u>	<u>7,118</u>	<u>48,956</u>

(o) Share-based payment

Among all the stock options the Group provided to its employees on June 7, 2012, 600 and 589 units were exercised during for the nine months ended September 30, 2016 and 2015, respectively; please refer to note 6(l) of the consolidated financial statement for the year ended 2015 for details.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Net income attributable to ordinary shareholders of the Company	\$ <u>101,845</u>	<u>121,583</u>	<u>248,302</u>	<u>212,037</u>
Weighted-average number of ordinary shares	<u>99,623</u>	<u>98,054</u>	<u>98,224</u>	<u>96,646</u>
Basic earnings per share (in NT dollars)	\$ <u>1.02</u>	<u>1.24</u>	<u>2.53</u>	<u>2.19</u>

ii) Diluted earnings per share

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Net income of the company	\$ 101,845	121,583	248,302	212,037
Effect of after tax interest expense of conversion bonds	969	1,069	3,047	3,281
Net income attributable to ordinary shareholders of the Company	\$ <u>102,814</u>	<u>122,652</u>	<u>251,349</u>	<u>215,318</u>
Weighted-average number of ordinary shares (basic)	99,623	98,054	98,224	96,646
Impact of potential common shares				
Effect of employee stock bonus	396	493	1,403	1,660
Effect of employee stock option	1,297	788	1,117	1,407
Effect of conversion bonds	<u>3,152</u>	<u>5,721</u>	<u>3,152</u>	<u>5,721</u>
Weighted-average number of ordinary shares (diluted)	<u>104,468</u>	<u>105,056</u>	<u>103,896</u>	<u>105,434</u>
Diluted earnings per share (in NT dollars)	\$ <u>0.98</u>	<u>1.17</u>	<u>2.42</u>	<u>2.04</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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(q) Revenue

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Sale of goods	\$ <u>1,446,510</u>	<u>1,362,087</u>	<u>4,412,866</u>	<u>3,837,694</u>

The net unearned revenue for the consolidated company amounted to \$1,784 thousand, \$2,324 thousand, \$2,665 thousand and \$5,883 thousand, for the three months and nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, December 31 and September 30, 2015, the accumulated unearned revenue amounted to \$55,983 thousand, \$54,138 thousand and \$50,677 thousand, respectively, which were booked due to identifiable services to be rendered.

(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 nine months ended September 30, 2016, the estimated amounts of employee remuneration were \$17,351 thousand and \$43,689 thousand, respectively, and the estimated amounts of directors' remuneration were \$1,780 thousand and \$4,481 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 nine months ended September 30, 2015, the Company accrued the estimated employee remuneration of \$19,019 thousand and \$35,280 thousand, respectively, and directors' remuneration of \$2,189 thousand and \$3,817 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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(s) Non-operating income and expenses

i) Other income

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Rent income	\$ 201	201	602	620
Interest income	592	264	3,135	1,203
Others	<u>17,171</u>	<u>6,116</u>	<u>56,903</u>	<u>34,792</u>
	<u>\$ 17,964</u>	<u>6,581</u>	<u>60,640</u>	<u>36,615</u>

ii) Other gains and losses

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Gain (loss) on foreign exchange	\$ (6,564)	30,970	(21,003)	9,535
Valuation gain (loss) on financial assets	175	(545)	1,133	(889)
Loss on disposal of property, plant and equipment	(730)	(2)	(911)	(18)
Others (losses) gains	<u>2</u>	<u>124</u>	<u>(817)</u>	<u>(1,802)</u>
	<u>\$ (7,117)</u>	<u>30,547</u>	<u>(21,598)</u>	<u>6,826</u>

iii) Finance costs

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Interest expenses—convertible bonds	\$ 1,167	1,236	3,671	3,952
Interest expenses—short-term loans	<u>786</u>	<u>895</u>	<u>2,246</u>	<u>2,058</u>
	<u>\$ 1,953</u>	<u>2,131</u>	<u>5,917</u>	<u>6,010</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 September 30, 2016, December 31 and September 30, 2015, the major client contributed approximately 30%, 30% and 34% of total receivables, respectively. The other four clients contributed no more than 20%, 22% and 19% of total receivables, 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
September 30, 2016						
Non-derivative financial liabilities						
Short-term debts	\$ 54,719	56,293	56,293	-	-	-
Bonds payable	119,877	119,877	119,877	-	-	-
Accounts payable (including related parties)	716,315	716,315	716,315	-	-	-
Other payables	241,263	241,263	241,263	-	-	-
Long-term debts (including current portion)	41,013	45,615	2,089	2,089	4,178	39,348
	<u>\$ 1,173,187</u>	<u>1,179,363</u>	<u>1,135,837</u>	<u>2,089</u>	<u>4,178</u>	<u>39,348</u>
December 31, 2015						
Non-derivative financial liabilities						
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>
September 30, 2015						
Non-derivative financial liabilities						
Financial liabilities at fair value through profit or loss — current	\$ 863	863	863	-	-	-
Financial liabilities at fair value through profit or loss — non-current	46	46	46	-	-	-
Short-term debts	53,157	54,230	54,230	-	-	-
Bonds payable	222,262	222,262	222,262	-	-	-
Notes payable	200	200	200	-	-	-
Accounts payable (including related parties)	818,373	818,373	818,373	-	-	-
Other payables	191,754	191,754	191,754	-	-	-
Long-term debts (including current portion)	45,116	50,285	2,202	2,202	6,606	39,275
	<u>\$ 1,331,771</u>	<u>1,338,013</u>	<u>1,289,930</u>	<u>2,202</u>	<u>6,606</u>	<u>39,275</u>

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

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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
September 30, 2016			
Financial assets:			
Monetary items:			
USD (note)	\$ 37,980	31.3080	1,189,077
Financial liabilities:			
Monetary items:			
USD (note)	\$ 24,463	31.3080	765,877
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
September 30, 2015			
Financial assets:			
Monetary items:			
USD (note)	\$ 36,724	32.9320	1,209,401
Financial liabilities:			
Monetary items:			
USD (note)	\$ 22,629	32.9320	745,202

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 September 30, 2016 and 2015 would have increased or decreased the net profit by \$11,219 and \$11,699 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 nine months ended September 30, 2016 and 2015, gain (loss) resulted from foreign currency exchange (including realized and unrealized) amounted to \$(21,003) and \$9,535 thousand, respectively.

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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 nine months ended September 30, 2016 and 2015 will decrease or increase by \$795 and \$816 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.

		September 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	\$ <u>1,003</u>	<u>-</u>	<u>1,003</u>	<u>-</u>	<u>1,003</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>

		September 30, 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>909</u>	<u>-</u>	<u>909</u>	<u>-</u>	<u>909</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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		Nine months ended	
	September 30		September 30	
	2016	2015	2016	2015
Other related parties	\$ <u>-</u>	<u>97</u>	<u>17,694</u>	<u>795</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.

ii) Purchases

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2016	2015	2016	2015
Other related parties	\$ <u>-</u>	<u>333</u>	<u>498</u>	<u>512</u>

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

(Continued)

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

iii) Payables to related parties

The payables due to related parties were as follows:

Accounts	Type of related parties	September 30, 2016	December 31, 2015	September 30, 2015
Accounts payable	Other related parties	\$ <u>-</u>	<u>6,480</u>	<u>398</u>

iv) 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.

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 as deposit and booked the same amount under non-current asset. Rent for the three months and nine months ended September 30, 2016 and 2015 amounted to \$330 thousand, \$344 thousand, \$990 thousand and \$944 thousand, respectively. There were no outstanding balance as of September 30, 2016, December 31 and September 30, 2015.

(b) Key management personnel compensations

Key management personnel compensation comprised:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Short-term employee benefits	\$ 25,584	49,269	70,135	74,096
Post-employment benefits	<u>234</u>	<u>141</u>	<u>711</u>	<u>494</u>
	<u>\$ 25,818</u>	<u>49,410</u>	<u>70,846</u>	<u>74,590</u>

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(8) Pledged Assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	September 30, 2016	December 31, 2015	September 30, 2015
Certificate of deposits (recorded under other financial assets – current)	Guarantee for customs	\$ 2,302	2,275	2,274
Land	Guarantee for long and short-term debts	415,041	416,399	416,548
Building and structures	Guarantee for long and short-term debts	269,531	277,615	279,972
		<u>\$ 686,874</u>	<u>696,289</u>	<u>698,794</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 September 30, 2016, December 31 and September 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.

(12) Others

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

By function By nature	Three months ended September 30, 2016			Three months ended September 30, 2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	40,478	182,310	222,788	47,887	163,125	211,012
Labor and health insurance	3,540	10,390	13,930	3,137	9,168	12,305
Pension	1,857	7,344	9,201	2,145	5,073	7,218
Others	2,680	6,082	8,762	2,604	5,496	8,100
Depreciation	11,582	14,001	25,583	8,789	10,062	18,851
Amortization	-	402	402	-	-	-

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By function By item	Nine months ended September 30, 2016			Nine months ended September 30, 2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	132,471	520,237	652,708	141,232	462,705	603,937
Labor and health insurance	11,198	31,520	42,718	11,005	27,837	38,842
Pension	5,749	20,082	25,831	6,222	14,611	20,833
Others	8,070	17,956	26,026	8,149	16,264	24,413
Depreciation	32,985	40,321	73,306	25,588	28,823	54,411
Amortization	-	962	962	-	-	-

(b) Operating and seasonality

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

(Continued)

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(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 nine months ended September 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):

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	September 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	50	500	1.00 %	500	-

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:

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	(789,252)	(23)	%90 days	-	-	283,975	31 %	(Note 1)
The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	Subsidiary	Sales	(293,768)	(9)	%60 days	-	-	58,362	6 %	(Note 1)
The Company	LEI Technology Canada Ltd.	Subsidiary	Sales	(232,412)	(7)	%120 days	-	-	123,726	14 %	(Note 1)
Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	Subsidiary	Sales	(543,545)	(97)	%60 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:

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	283,975 (Note)	3.22	-	-	110,676 (Until November 11, 2016)	-
The Company	LEI Technology Canada Ltd.	Subsidiary	123,726 (Note)	2.89	-	-	68,548 (Until November 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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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	789,252	No significant differences	17.89%
0	The Company	Beijing L & S Lancom Platform of Technology CO., Ltd.	1	Sales	51,741	No significant differences	1.18 %
0	The Company	LEI Technology Canada Ltd.	1	Sales	232,412	120 days	5.27 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	293,768	No significant differences	6.66 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	283,975	No significant differences	6.64 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	123,726	120 days	2.89 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	58,362	No significant differences	1.37 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	543,545	No significant differences	12.32%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	62,324	No significant differences	1.46 %
2	Beijing L & S Lancom Platform of Technology CO., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Sales	83,258	No significant differences	1.89 %
2	Beijing L & S Lancom Platform of Technology CO., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Accounts receivable	27,493	No significant differences	0.64 %

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 nine months ended September 30, 2016:

Name of investor	investor investee	Address	Scope of business	Unit: thousand dollars/thousand shares							
				Original cost		Ending balance			Net income of investee	Investment income (losses)	Remarks
				September 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 %	53,455	5,517	5,517	(Note 1)
The Company	LANNER (MAURITIUS)	Mauritius	Investing	84,990	84,990	2,653	100 %	535,485	74,853	74,853	(Note 1)
The Company	LEI	Canada	Trading of computer peripheral equipment	56,936	56,936	2,000	100 %	15,295	11,324	11,324	(Note 1)
LANNER (MAURITIUS)	LANCOM	Samoa	Investing	78,251	78,251	2,623	100 %	578,982	71,701	71,701	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation.

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(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, 2016	Investment flow during current period		Cumulative investment (amount) from Taiwan as of September 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	78,815	90.91 %	71,650 (2)	569,963	-
Beijing LSZC Investment Co., Ltd.	Investing	49,566	(4)a.	-	-	-	-	(2,041)	90.91 %	(1,855) (2)	56,013	-
Dongguan Lihua Haiwell Technology Co., Ltd.	Trading of computer peripheral equipment	33,606	(4)b.	-	-	-	-	(7,683)	90.91 %	(6,985) (2)	24,422	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	63,841	(4)b.	-	-	-	-	14,499	39.08 %	5,667 (1)	28,405	-

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.