

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)

**LANNER ELECTRONICS INC.
AND ITS SUBSIDIARIES**

Consolidated Interim Financial Statements

March 31, 2017 and 2016

(With Independent Auditors' Review Report Thereon)

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

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Independent Auditors' Review Report

To the Board of Directors
LANNER ELECTRONICS INC.:

We have reviewed the accompanying consolidated balance sheets of LANNER ELECTRONICS INC. (the "Company") and its subsidiaries (the Group) as of March 31, 2017 and 2016, the related consolidated statements of comprehensive income for the three months ended March 31, 2017 and 2016, as well as the consolidated statements of changes in equity and consolidated statements of cash flows for the three months ended March 31, 2017 and 2016. These consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review. We did not review the financial statements of LANNER ELECTRONICS USA INC., with the total assets of \$542,418 thousand and \$495,896 thousand, constituting 12.36% and 11.61%, respectively, of the related consolidated total assets; and the net sales amounting to \$335,404 thousand and \$302,298 thousand, constituting 23.94% and 21.79%, respectively, of the related consolidated total comprehensive net sales for the three months ended March 31, 2017 and 2016, respectively. Those financial statements were reviewed by other auditors, whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

Except as described in the third paragraph, we conducted our review in accordance with Statement of Auditing Standards 36, "Engagements to Review Financial Statements". A review consists principally of inquiries of the Company's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Consolidated Interim 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 \$298,128 thousand and \$208,735 thousand, constituting 6.79% and 4.89%, respectively, of the related consolidated total assets; and the total liabilities amounting to \$100,165 thousand and \$70,462 thousand, constituting 6.20% and 3.79% of the related total liabilities as of March 31, 2017 and 2016, respectively; the total comprehensive income amounting to \$15,029 thousand, and \$168 thousand, constituting 73.56% and 0.26%, respectively, of the related consolidated total comprehensive income for the three months ended March 31, 2017 and 2016, 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 of the Republic of China.

KPMG

Taipei, Taiwan (Republic of China)

May 11, 2017

Notes to Readers

The accompanying consolidated interim financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated interim financial statements are those generally accepted and applied in the Republic of China.

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

Consolidated Balance Sheets

(Expressed in Thousands of New Taiwan Dollars)

See accompanying notes to consolidated interim financial statements.

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

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2017 and 2016

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

		For the three months ended March 31			
		2017		2016	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(p) and 7)	\$ 1,401,093	100	1,387,070	100
5000	Operating costs (notes 6(d), 6(k), 6(q) and 7)	<u>1,019,312</u>	<u>73</u>	<u>984,174</u>	<u>71</u>
	Gross profit, net	<u>381,781</u>	<u>27</u>	<u>402,896</u>	<u>29</u>
	Operating expenses (notes 6(c), 6(k), 6(q) and 7):				
6100	Selling expenses	112,767	8	124,379	9
6200	Administrative expenses	64,894	5	84,550	6
6300	Research and development expenses	<u>99,985</u>	<u>7</u>	<u>93,813</u>	<u>7</u>
	Total operating expenses	<u>277,646</u>	<u>20</u>	<u>302,742</u>	<u>22</u>
	Operating profit	<u>104,135</u>	<u>7</u>	<u>100,154</u>	<u>7</u>
	Non-operating income and expenses (notes 6(i) and 6(r)):				
7010	Other income	12,282	1	11,893	1
7020	Other gains and losses	(44,042)	(3)	(23,736)	(2)
7050	Financial costs	<u>(591)</u>	<u>-</u>	<u>(2,040)</u>	<u>-</u>
	Total non-operating income and expenses	<u>(32,351)</u>	<u>(2)</u>	<u>(13,883)</u>	<u>(1)</u>
	Net income before tax	71,784	5	86,271	6
7951	Less: income tax expense (note 6(l))	<u>11,260</u>	<u>1</u>	<u>19,139</u>	<u>1</u>
	Net income	<u>60,524</u>	<u>4</u>	<u>67,132</u>	<u>5</u>
8300	Other comprehensive loss:				
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(40,092)	(3)	(3,524)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total Items that may be reclassified subsequently to profit or loss	<u>(40,092)</u>	<u>(3)</u>	<u>(3,524)</u>	<u>-</u>
8300	Other comprehensive income, net	<u>(40,092)</u>	<u>(3)</u>	<u>(3,524)</u>	<u>-</u>
	Total comprehensive income	<u>\$ 20,432</u>	<u>1</u>	<u>63,608</u>	<u>5</u>
	Net income attributable to:				
8610	Shareholders of the parent company	\$ 52,154	3	63,088	5
8620	Non-controlling interests	<u>8,370</u>	<u>1</u>	<u>4,044</u>	<u>-</u>
		<u>\$ 60,524</u>	<u>4</u>	<u>67,132</u>	<u>5</u>
	Total comprehensive income attributable to:				
8710	Shareholders of the parent company	\$ 17,178	1	59,837	5
8720	Non-controlling interests	<u>3,254</u>	<u>-</u>	<u>3,771</u>	<u>-</u>
		<u>\$ 20,432</u>	<u>1</u>	<u>63,608</u>	<u>5</u>
9750	Basic earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ 0.50</u>		<u>0.65</u>	
9850	Diluted earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ 0.49</u>		<u>0.61</u>	

See accompanying notes to consolidated interim financial statements.

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

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent						Financial statements translation differences for foreign operations	Total equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total				
Balance at January 1, 2016	\$ 975,008	462,135	163,059	2,225	628,724	794,008	19,995	2,251,146	52,353	2,303,499
Net income	-	-	-	-	63,088	63,088	-	63,088	4,044	67,132
Other comprehensive income (loss)	-	-	-	-	-	-	(3,251)	(3,251)	(273)	(3,524)
Total comprehensive income (loss)	-	-	-	-	63,088	63,088	(3,251)	59,837	3,771	63,608
Remuneration cost of employee stock options	-	2,323	-	-	-	-	-	2,323	-	2,323
Changes in non-controlling interests from acquisition of subsidiaries	-	-	-	-	-	-	-	-	30,333	30,333
Due to donated assets received	-	10,815	-	-	-	-	-	10,815	1,081	11,896
Balance at March 31, 2016	\$ 975,008	475,273	163,059	2,225	691,812	857,096	16,744	2,324,121	87,538	2,411,659
Balance at January 1, 2017	\$ 1,036,446	639,874	194,899	2,225	778,494	975,618	(27,483)	2,624,455	105,123	2,729,578
Net income	-	-	-	-	52,154	52,154	-	52,154	8,370	60,524
Other comprehensive income (loss)	-	-	-	-	-	-	(34,976)	(34,976)	(5,116)	(40,092)
Total comprehensive income (loss)	-	-	-	-	52,154	52,154	(34,976)	17,178	3,254	20,432
Remuneration cost of employee stock options	-	2,323	-	-	-	-	-	2,323	-	2,323
Stock options exercised by employees	10,048	8,441	-	-	-	-	-	18,489	-	18,489
Balance at March 31, 2017	\$ 1,046,494	650,638	194,899	2,225	830,648	1,027,772	(62,459)	2,662,445	108,377	2,770,822

See accompanying notes to consolidated interim financial statements.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2017	2016
Cash flows from operating activities:		
Consolidated net income before tax	\$ 71,784	86,271
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	26,264	23,056
Amortization expense	365	-
Provision (reversal of provision) for bad debt	(512)	3,111
Interest expense	591	2,040
Interest income	(1,174)	(1,862)
Remuneration cost of employee stock options	2,323	2,323
Loss on disposal of property, plant and equipment, net	10	121
Total adjustments to reconcile profit and loss	27,867	28,789
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss	(239)	-
Notes receivable	5,812	1,878
Accounts receivable (including related parties)	228,564	272,436
Other receivable	12,665	269
Inventories	(25,870)	254,023
Prepayments	(11,739)	(1,974)
Other current assets	10,444	11,347
Other financial assets	7,772	69,473
Total changes in operating assets, net	227,409	607,452
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	(1,009)	-
Notes payable	(5,208)	2,094
Accounts payable (including related parties)	(275,628)	(539,504)
Other payables	(200,187)	(62,255)
Provisions	2,397	6,267
Other current liabilities	6,254	7,859
Deferred credits	(760)	(991)
Total changes in operating liabilities, net	(474,141)	(586,530)
Total changes in operating assets and liabilities, net	(246,732)	20,922
Total adjustments	(218,865)	49,711
Cash provided by (used in) operating activities	(147,081)	135,982
Interest income received	983	1,869
Interest paid	(716)	(777)
Income taxes paid	(4,478)	(16,864)
Net cash provided by (used in) operating activities	(151,292)	120,210
Cash flows from investing activities:		
Net cash flow from acquisition of subsidiaries	-	8,780
Acquisition of property, plant and equipment	(13,447)	(12,113)
Proceeds from disposal of property, plant and equipment	-	145
Increase in refundable deposits	(2,618)	9
Increase in other financial assets	(30,692)	(34,696)
Increase in prepayments for equipment	5,655	1,687
Net cash used in investing activities	(41,102)	(36,188)
Cash flows from financing activities:		
Increase in short-term loans	-	90,000
Repayments of long-term debt	(1,940)	(500)
Decrease in other non-current liabilities	(2)	(29)
Exercise of employee share options	18,489	-
Net cash provided by financing activities	16,547	89,471
Effects of changes in exchange rates	(39,839)	(3,513)
Net increase (decrease) in cash and cash equivalents	(215,686)	169,980
Cash and cash equivalents at beginning of period	761,323	412,427
Cash and cash equivalents at end of period	\$ 545,637	582,407

See accompanying notes to consolidated interim financial statements.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of March 31, 2017 and 2016

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

March 31, 2017 and 2016

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

(1) Company history

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) Approval date and procedures of the consolidated financial statements

The consolidated interim financial statements were reported to the Board of Directors on May 11, 2017.

(3) New standards, amendments and interpretations adopted

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already taken 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— 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 "Presentation of Financial Statements-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 "Impairment of Non-Financial assets-Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. 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 "Revenue from Contracts with Customers- Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts"("Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 40 Investment Property	January 1, 2018

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.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <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.

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

Issuance / Release	Dates	Standards or Interpretations	Content of amendment
	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.

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

(4) Summary of significant accounting policies

Except for the following, the significant accounting policies applied in these consolidated interim financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2016. For related information, please referred to note 4 of the consolidated financial statement for the year ended December 31, 2016.

(a) Statement of compliance

These consolidated interim 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, and 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 (hereinafter referred to IFRS endorsed by the FSC) for full annual consolidated financial statements.

(b) Basis of consolidation

The basis for consolidation applied in these consolidated interim financial statements is consistent with that applied in the consolidated financial statements for the year ended December 31, 2016. For the related information, please refer to note 4(c) to the consolidated financial statements for the year ended December 31, 2016.

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

(c) 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.

(d) 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 assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated interim 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 consolidated interim 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 statements for the year ended December 31, 2016.

(6) Explanation 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, 2016. For the related information, please refer to note 6 of the consolidated financial statements for the year ended December 31, 2016.

(a) Cash and cash equivalents

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Cash	\$ 1,186	1,275	1,186
Working capital	80	80	80
Cash in banks	276,696	419,498	266,810
Checking deposits	10,538	16,053	1,383
Time deposits	7,569	8,051	8,044
Foreign currency deposits	<u>249,568</u>	<u>316,366</u>	<u>304,904</u>
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 545,637</u>	<u>761,323</u>	<u>582,407</u>

(Continued)

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

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

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Financial assets held for trading:			
Non-derivative financial assets	\$ 50,000	50,009	-
Derivative instruments not used for hedging	248	-	-
Total	<u>\$ 50,248</u>	<u>50,009</u>	<u>-</u>
	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Financial liabilities at fair value through profit or loss:			
Convertible bonds	\$ -	-	23
Financial liabilities held for trading:			
Derivative instruments not used for hedging	-	1,009	-
Total	<u>\$ -</u>	<u>1,009</u>	<u>23</u>

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

The Company had not provided any financial assets mentioned above as collateral as of March 31, 2017, December 31 and March 31, 2016.

The Group uses derivative financial instruments to manage exposures due to fluctuations of foreign exchange risk derived from its operating activities. As of March 31, 2017 and December 31, 2016, the Group reported the following derivative financial instruments as available-for-sale financial assets (liabilities) without the application of hedge accounting:

	<u>Fair value</u>	<u>Currency</u>	<u>Contract amount</u>
March 31, 2017			
Forward Contracts	\$ 248	USD/TWD	350
December 31, 2016			
Forward Contracts	\$ (1,009)	USD/TWD	1,550

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

As of March 31, 2017 and December 31, 2016, the maturity dates of the derivative financial assets and liabilities were between April 24, 2017 to May 2, 2017 and January 25, 2017 to March 6, 2017.

(c) Notes and accounts receivable and other receivables

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Notes receivable	\$ 649	6,461	10,628
Accounts receivable	887,538	1,116,096	902,918
Other receivables	56,366	69,031	1,656
Less: allowance for impairment	<u>10,158</u>	<u>10,753</u>	<u>8,638</u>
	<u><u>\$ 934,395</u></u>	<u><u>1,180,835</u></u>	<u><u>906,564</u></u>

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

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Past due 1~30 days	\$ 66,795	49,661	99,826
Past due 31~90 days	18,767	26,228	48,960
Past due over 90 days	<u>10,672</u>	<u>7,708</u>	<u>13,539</u>
	<u><u>\$ 96,234</u></u>	<u><u>83,597</u></u>	<u><u>162,325</u></u>

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

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance at January 1, 2017	\$ 10,753	-	10,753
Impairment loss reversed	(512)	-	(512)
Effect of changes in exchange rates	<u>(83)</u>	<u>-</u>	<u>(83)</u>
Balance at March 31, 2017	<u><u>\$ 10,158</u></u>	<u><u>-</u></u>	<u><u>10,158</u></u>
	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance at January 1, 2016	\$ 5,554	-	5,554
Impairment loss recognized	3,111	-	3,111
Effect of changes in exchange rates	<u>(27)</u>	<u>-</u>	<u>(27)</u>
Balance at March 31, 2016	<u><u>\$ 8,638</u></u>	<u><u>-</u></u>	<u><u>8,638</u></u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(d) Inventories

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Merchandise	\$ 1,138	1,360	2,444
Finished goods	675,857	689,966	678,817
Work in process	236,742	265,186	242,745
Raw material	497,657	429,012	509,589
Total	<u>\$ 1,411,394</u>	<u>1,385,524</u>	<u>1,433,595</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 March 31, 2017, December 31 and March 31, 2016, 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 are as follows:

	<u>For the three months ended March 31</u>	
	<u>2017</u>	<u>2016</u>
Loss on market value of inventory	<u>\$ 9,048</u>	<u>5,486</u>

(e) Financial assets carried at cost—noncurrent

	<u>Stockholding rate %</u>	<u>Investment cost</u>	<u>Amount</u>
March 31, 2017			
Alliance III venture Capital Corp.	1.00	\$ <u>500</u>	<u>500</u>
	<u>Stockholding rate %</u>	<u>Investment cost</u>	<u>Amount</u>
December 31, 2016			
Alliance III venture Capital Corp	1.00	\$ <u>500</u>	<u>500</u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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	<u>Stockholding rate %</u>	<u>Investment cost</u>	<u>Amount</u>
March 31, 2016			
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 canceling 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.

(f) Property, plant and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Carrying value:						
January 1, 2017	\$ 500,964	384,083	33,164	196,339	-	1,114,550
March 31, 2017	\$ 499,173	378,824	28,666	191,288	-	1,097,951
March 31, 2016	\$ 500,937	393,368	42,695	208,718	-	1,145,718

For the three months period ended March 31, 2017 and 2016, 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. For other relative information, please refers to note 6(g) of the annual consolidated financial statements.

Please refer to note 8 for the information of the pledged property, plant and equipment, as of March 31, 2017, December 31 and March 31, 2016.

(g) Intangible assets

	<u>Goodwill</u>	<u>Customer relation</u>	<u>Total</u>
Carrying value:			
January 1, 2017	\$ 4,654	3,321	7,975
March 31, 2017	\$ 4,438	2,802	7,240
March 31, 2016	\$ 4,957	5,017	9,974

Goodwill and customer relations were obtained by acquiring subsidiaries in March 2015. For the three months ended March 31, 2017 and 2016, the Group did not have any significant purchase, disposal, impairment or reversal on intangible assets. For amortization expense, please refer to note 12. For other relative information, please refer to note 6(h) of the annual consolidated financial statements.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(h) 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

March 31, 2017			
	Currency	Interest rate	Maturity year
Unsecured loans	RMB	5.22	2017
Unsecured loans	USD	3.1856	2017
Total			\$ 52,510

December 31, 2016			
	Currency	Interest rate	Maturity year
Unsecured loans	RMB	5.22	2017
Unsecured loans	USD	3.0095	2017
Total			\$ 55,659

March 31, 2016			
	Currency	Interest rate	Maturity year
Secured loans	TWD	1.1000	2016
Unsecured loans	USD	2.5762	2016
Total			\$ 131,829

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

As of March 31, 2017, December 31 and March 31, 2016 the unused credit facilities of the Group's short-term borrowings amounted to \$876,769 thousand, \$877,195 thousand and \$780,000 thousand, respectively.

(ii) Long-term borrowings

March 31, 2017			
	Currency	Interest rate	Maturity year
Secured loans	USD	2.9829	2020
Current			\$ 1,817
Non-current			36,936
Total			\$ 38,753

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

December 31, 2016			
	Currency	Interest rate	Maturity year
Secured loans	USD	2.9829	2020
Current			\$ <u>41,705</u>
Non-current			\$ 1,932
Total			<u>39,773</u> \$ <u>41,705</u>

March 31, 2016			
	Currency	Interest rate	Maturity year
Secured loans	USD	2.4490	2020
Current			\$ <u>43,115</u>
Non-current			\$ 1,930
Total			<u>41,185</u> \$ <u>43,115</u>

(iii) Collateral of loans

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

(i) Bonds payable

The Company issued unsecured convertible bonds as follows:

	December 31, 2016	March 31, 2016
Total amount of convertible Bonds	400,000	400,000
Discount on bonds payable unamortized balance	-	(2,945)
Accumulated converted balance	(375,700)	(172,300)
Redemption	(24,300)	-
Bonds payable of ending balance	<u>\$ -</u>	<u>224,755</u>
Embedded Derivatives—put option and call option (financial liability at fair value through profit or loss— non-current)	<u>\$ -</u>	<u>(23)</u>
Equity component—conversion options (Capital surpluses — Share options)	<u>\$ -</u>	<u>11,483</u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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	For the three months ended March 31 2016
Embedded Derivatives — put option and call option measured at fair value through profit or loss (reported in other gains and losses)	\$ <u>-</u>
Interest expenses (financial costs)	\$ <u>1,250</u>

In 2013, the Company issued the debenture convertible bonds; and residual outstanding bonds had been redeemed in October 2016.

(j) Provisions

	March 31, 2017	December 31, 2016	March 31, 2016
Warranty	\$ 37,381	34,984	32,527
Legal	6,370	6,370	6,370
Total	\$ <u>43,751</u>	<u>41,354</u>	<u>38,897</u>

For the three months ended March 31, 2017 and 2016, the Group did not have any significant change on the provisions. Please refer to note 6(k) of the year-ended 2016 of the consolidated financial statements for relative information.

(k) 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, 2016 and 2015.

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

	For the three months ended March 31 2017	2016
Operating costs	\$ 111	122
Selling expenses	45	42
Administrative expenses	75	76
Research and development expenses	66	66
Total	\$ <u>297</u>	<u>306</u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Interim 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:

	For the three months ended March 31	
	2017	2016
Operating costs	\$ 1,687	1,866
Selling expenses	1,641	1,180
Administrative expenses	1,324	1,175
Research and development expenses	3,253	2,680
Total	<u>\$ 7,905</u>	<u>6,901</u>

(l) 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:

	For the three months ended March 31	
Current tax expense		
Current period	\$ 11,260	19,139
Income tax expense from continuing operations	<u>\$ 11,260</u>	<u>19,139</u>

The tax authorities have assessed the Company's income tax return for 2014. However, as the tax authorities ruled that extra taxes of \$22,149 thousand be paid, the company is intended to appeal to the court for re-assessment.

As of March 31, 2017, 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(m) of year-ended 2016 consolidated financial statements for further information.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Unappropriated earnings of 1997 and before	\$ -	-	-
Unappropriated earnings of 1998 and after	830,648	778,494	691,812
	<u>\$ 830,648</u>	<u>778,494</u>	<u>691,812</u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Balance of imputation credit account	\$ <u>101,097</u>	<u>92,440</u>	<u>64,802</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 2017 was estimated at 18.20%. The actual imputation tax credit ratio of earnings distributed in 2016 was 15.87%.

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

(m) Capital and other equity

As of March 31, 2017, December 31 and March 31, 2016, the ordinary shares of 150,000 thousand, 150,000 thousand and 100,000 thousand, with par value of \$10 per share, amounted to \$1,500,000 thousand, \$1,500,000 thousand and \$1,000,000 thousand, respectively; also, 104,649 thousand, \$103,645 thousand and 97,501 thousand common stocks, respectively, were issued from the shares mentioned above. All issued shares were paid up upon issuance.

A reconciliation of the Company's outstanding shares for the three months ended March 31, 2017 and 2016 were as follows:

	Unit: thousands shares For the three months ended March 31	
	<u>2017</u>	<u>2016</u>
Balance at January 1	103,645	97,501
Exercise of employee share options	<u>1,004</u>	<u>-</u>
Balance at December 31	<u><u>104,649</u></u>	<u><u>97,501</u></u>

(i) Issue of common stock

For the three months ended March 31, 2017, the Company issued 1,004 thousand shares of common stocks, as its employees exercised their stock option at \$19.2 per share. The registration process has been completed, and the amount of money obtained through the issuance of stocks is recorded under common stock.

The Company's issuance of common stocks in 2016 was due to the capitalization of conversion on puttable convertible bonds, and exercise of employee stock options. For details, please refer to note 6(n) to the consolidated financial statement for the year ended December 31, 2016.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(ii) Capital surplus

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Share premium from issuance	\$ 610,986	600,483	430,911
Changes in equity of associates and joint ventures accounted for using equity method	16,693	16,693	16,693
Employee share options	14,530	14,269	8,983
Share options	-	-	11,483
Employee share options expired	<u>8,429</u>	<u>8,429</u>	<u>7,203</u>
	<u><u>\$ 650,638</u></u>	<u><u>639,874</u></u>	<u><u>475,273</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 — Earnings distribution

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.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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On March 2, 2017, the Company's board of directors resolved to appropriate the 2016 earnings. On June 16, 2016, the shareholder's meetings resolved to distribute the 2015 earnings. These earnings were appropriated as follows:

	2016 (proposed)		2015	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 3.0000	<u>313,950</u>	1.9713	<u>195,010</u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2017	\$ (27,483)	(2,833)	(30,316)
Foreign exchange differences arising from net assets of foreign operation	(34,976)	(5,116)	(40,092)
Balance at March 31, 2017	<u>\$ (62,459)</u>	<u>(7,949)</u>	<u>(70,408)</u>
Balance at January 1, 2016	\$ 19,995	5,031	25,026
Foreign exchange differences arising from net assets of foreign operation	(3,251)	(273)	(3,524)
Balance at March 31, 2016	<u>\$ 16,744</u>	<u>4,758</u>	<u>21,502</u>

(n) Share-based payment

Among all the stock options, the Group provided to its employees on June 7, 2012, 725 units were exercised during the three months ended March 31, 2017. For details, please refer to note 6(o) of the consolidated financial statements for the year ended 2016.

(o) Earnings per share

(i) Basic earnings per share

	For the three months ended March 31	
	2017	2016
Net income attributable to ordinary shareholders of the Company	<u>\$ 52,154</u>	<u>63,088</u>
Weighted-average number of ordinary shares	<u>104,292</u>	<u>97,501</u>
Basic earnings per share (in NT dollars)	<u>\$ 0.50</u>	<u>0.65</u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(ii) Diluted earnings per share

	For the three months ended March 31	
	2017	2016
Net income of the company	\$ 52,154	63,088
Effect of after tax interest expense of conversion bonds	-	1,037
Net income attributable to ordinary shareholders of the Company	<u>\$ 52,154</u>	<u>64,125</u>
Weighted-average number of ordinary shares (basic)	104,292	97,501
Impact of potential common shares		
Effect of employee stock bonus	1,065	1,263
Effect of employee stock option	700	1,399
Effect of conversion bonds	-	5,721
Weighted-average number of ordinary shares (diluted)	<u>106,057</u>	<u>105,884</u>
Diluted earnings per share (in NT dollars)	<u>\$ 0.49</u>	<u>0.61</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.

(p) Revenue

The details of the Group's revenue for the three months ended March 31, 2017 and 2016 were as follows:

	For the three months ended March 31	
	2017	2016
Sale of goods	<u>\$ 1,401,093</u>	<u>1,387,070</u>

Unearned revenue, net for consolidated company amounted to \$(760) thousand and \$991 thousand for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, December 31 and March 31, 2016, accumulated unearned revenue amounted to \$58,218 thousand, \$58,978 thousand and \$52,622 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

In 2016, operating revenue and operating costs December 31 incurred from repurchase transactions are not recognized after the management's judgment. As of December 31, 2016, receivables and payables incurred from those transaction were recognized as other receivables and other payable amounting to \$18,179 thousand and \$15,818 thousand, respectively.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(q) Remuneration to employees, directors and supervisors

In accordance with the Company's article, the Company should contribute 10% to 20% of its profit as employees' 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.

The employees' remuneration, and directors' and supervisors' remuneration were recognized as cost of sales or operating expenses on a specific percentage of the net income. These amounts are calculated by using the Company's net income before tax (without the employee remuneration, and directors' and supervisors' remuneration), multiplied by the percentage specified in the Company's article for each period. For the three months ended March 31, 2017 and 2016, the Company recognized its employees' remuneration of \$8,210 thousand and \$10,811 thousand, respectively, and directors' and supervisors' remuneration of \$1,350 thousand and \$1,108 thousand, respectively.

There are no differences between the amounts of employees' remuneration, directors' and supervisors remuneration approved in the board meeting and those estimated in 2015 financial statement. On the board meeting at March 2, 2017, the Company approved that the amount for remuneration to employees, directors and supervisors are \$59,972 thousand and \$6,920 thousand, respectively. The difference between these amounts and the 2016 financial statement estimated amounts are recognized as gains (losses) of 2017.

(r) Non-operating income and expenses

(i) Other income

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

	For the three months ended March 31	
Rent income	\$ 182	206
Interest income	1,174	1,862
Other	<u>10,926</u>	<u>9,825</u>
	<u><u>\$ 12,282</u></u>	<u><u>11,893</u></u>

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(ii) Other gains and losses

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

	For the three months ended March 31	
Loss on foreign exchange	\$ (44,391)	(19,047)
Loss on disposal of property, plant and equipment	(10)	(121)
Valuation gain on financial assets	1,283	-
Other	(924)	(4,568)
	<u>\$ (44,042)</u>	<u>(23,736)</u>

(iii) Finance costs

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

	For the three months ended March 31	
	2017	2016
Interest expenses — convertible bonds	\$ -	1,250
Interest expenses — short-term loans	591	790
	<u>\$ 591</u>	<u>2,040</u>

(s) 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(t) of the consolidated financial statements for the year ended December 31, 2016.

(i) Credit risk

As of March 31, 2017, December 31 and March 31, 2016, the major client contributed approximately 23%, 34% and 26% of total receivables, respectively. The other four clients contributed no more than 25%, 22% and 15% of total receivables, respectively.

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(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1-2 years</u>	<u>3-5 years</u>	<u>Over 5 years</u>
March 31, 2017						
Non-derivative financial liabilities						
Short-term debts	\$ 52,510	53,140	53,140	-	-	-
Notes payable	1,852	1,852	1,852	-	-	-
Accounts payable	746,808	746,808	746,808	-	-	-
Other payables	175,603	175,603	175,603	-	-	-
Long-term debts (including due within a year)	38,753	42,692	2,001	2,001	38,690	-
	<u>\$ 1,015,526</u>	<u>1,020,095</u>	<u>979,404</u>	<u>2,001</u>	<u>38,690</u>	<u>-</u>
December 31, 2016						
Non-derivative financial liabilities						
Current financial liabilities at fair value through profit or loss	\$ 1,009	1,009	1,009	-	-	-
Short-term debts	55,659	56,794	56,794	-	-	-
Notes payable	7,060	7,060	7,060	-	-	-
Accounts payable	1,022,436	1,022,436	1,022,436	-	-	-
Other payables	289,054	289,054	289,054	-	-	-
Long-term debts (including due within a year)	41,705	46,061	2,134	2,134	41,793	-
	<u>\$ 1,416,923</u>	<u>1,422,414</u>	<u>1,378,487</u>	<u>2,134</u>	<u>41,793</u>	<u>-</u>
March 31, 2016						
Non-derivative financial liabilities						
Short-term debts	\$ 131,829	132,220	132,220	-	-	-
Bonds payable	224,755	224,755	224,755	-	-	-
Notes payable	2,094	2,094	2,094	-	-	-
Accounts payable (including related parties)	659,423	659,423	659,423	-	-	-
Other payables	244,259	244,259	244,259	-	-	-
Long-term debts (including due within a year)	43,115	47,609	2,132	2,132	6,396	36,949
	<u>\$ 1,305,475</u>	<u>1,310,360</u>	<u>1,264,883</u>	<u>2,132</u>	<u>6,396</u>	<u>36,949</u>

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
March 31, 2017			
Financial assets:			
Monetary items:			
USD (note)	\$ 44,197	30.2750	1,338,052

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	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
Financial liabilities:			
Monetary items:			
USD (note)	\$ 25,620	30.2750	775,632
March 31, 2016			
Financial assets:			
Monetary items:			
USD (note)	\$ 47,664	32.2050	1,535,035
Financial liabilities:			
Monetary items:			
USD (note)	\$ 32,936	32.2050	1,060,705
March 31, 2016			
Financial assets:			
Monetary items:			
USD (note)	\$ 38,862	32.1760	1,250,430
Financial liabilities:			
Monetary items:			
USD (note)	\$ 16,038	32.1760	516,034

Note: Amounts are designated before consolidation.

1) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables and trade payables that are denominated in foreign currency. A 1 dollar appreciation (depreciation) of the NTD against the USD as of March 31, 2017 and 2016 would have increased or decreased the net income by \$15,419 thousand and \$18,944 thousand, respectively. The analysis is performed on the same basis for both periods.

2) Foreign exchange gain and loss on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on Monetary items is disclosed by total amount. For the three months ended March 31, 2017 and 2016, foreign exchange gain (loss) (including realized and unrealized abortions) amounted to \$(44,391) thousand and \$(19,047) thousand, respectively.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(iv) Interest rate analysis

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

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

If the interest rate increases or decreases by 1%, the Group's net income will increase /decrease by \$757 thousand and \$1,452 thousand, respectively, for the three months period ended March 31, 2017 and 2016, with all other variable factors remain constant. This is mainly due to the Group's borrowing in variable rates.

(v) Information of fair value

1) Categories and fair value of financial instruments

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

		March 31, 2017				
		Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss						
Derivative financial assets	\$	248	-	248	-	248
Non derivative financial assets for trading		50,000	50,000	-	-	50,000
Total	\$	50,248	50,000	248	-	50,248

(Continued)

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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		December 31, 2016				
		Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss						
Non derivative financial assets for trading		\$ <u>50,009</u>	<u>50,009</u>	<u>-</u>	<u>-</u>	<u>50,009</u>
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities		\$ <u>1,009</u>	<u>-</u>	<u>1,009</u>	<u>-</u>	<u>1,009</u>
		March 31, 2016				
		Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss						
Derivative financial liabilities		\$ <u>23</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>23</u>

2) 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.

(t) Financial risk management

The objective and policies of the consolidated company are identical to those disclosed in note 6(u) of the consolidated financial statements for the year ended 2016.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(u) 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, 2016; 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, 2016. For related information, please refer to note(v) of the consolidated financial statements for the year ended December 31, 2016.

(7) Related-party transactions

(a) Related-party and relationship between the Company

The Group has transactions with its related parties as follows:

<u>Related-parties</u>	<u>Relationship between the Company</u>
Beijing HDZX Technology Co., Ltd. (HDZX)	Since the acquisition date on March 1, 2016, the Group has obtained control over its related party, which therefrom, became its subsidiary
Jie Wei Investment Development Co., Ltd. (Jie Wei)	One of the board of directors of the Company also serves as a director of the related-party

(b) Significant related party transactions

(i) Operating revenue

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

	For the three months ended	
	March 31	
	<u>2017</u>	<u>2016</u>
Other related parties	\$ <u>-</u>	<u>17,694</u>

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

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(ii) Purchases

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

	For the three months ended March 31	
	2017	2016
Other related parties	\$ -	498

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

(iii) Property translation

In March 2015, the Group paid \$18,339 thousand (CNY\$3,700 thousand) to acquire 100% shares of Dongguan Lihua Haiwell Technology Co., Ltd. from the key management.

(iv) Leases

A lease contract with the period from June 2015 to May 2020 was signed with other related party on April 25, 2015. In accordance with the contract, the group provided \$175 thousand as deposit and booked the same amount under non-current asset. Rent for the three months ended March 31, 2017 and 2016 amounted both to \$330 thousand. There were no outstanding balance as of March 31, 2017, December 31 and March 31, 2016.

(c) Key management personnel compensations

Key management personnel compensation comprised:

	For the three months ended March 31	
	2017	2016
Short-term employee benefits	\$ 16,654	18,259
Post-employment benefits	211	185
	\$ 16,865	18,444

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

(8) Pledged assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Certificate of deposits (recorded under other financial assets – current)	Guarantee for customs	\$ 2,327	2,302	2,302
Land	Guarantee for long and short-term debts	414,083	415,873	415,846
Building	Guarantee for long and short-term debts	264,473	268,313	274,787
		<u>\$ 680,883</u>	<u>686,488</u>	<u>692,935</u>

(9) Commitments and contingencies

(a) The Group's unrecognized construction contract commitments are as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Acquisition of property, plant and equipment	\$ <u>111,038</u>	<u>116,437</u>	<u>-</u>

(b) Operating lease commitments

As of March 31, 2017 and 2016, the Group had signed uncancellable contracts in form of operating lease. The least amount of the rent to be paid in the future are listed as following:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Under an year	\$ 36,372	38,180	16,391
Over 1 year but under 5 years	85,537	91,283	44,718
Over 5 years	56,554	64,560	1,247
	<u>\$ 178,463</u>	<u>194,023</u>	<u>62,356</u>

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

(c) Contingencies

The Group assumed a contingent liability of \$10,963 thousand due to the compensation claim from its former employee. The high court ruled the amount of \$5,290 thousand paid by the Group plus an excluding 5% of annual interests counting back from October 14, 2007 to the date of discharged. The Group and the defendant have appealed to the Supreme Court and the Supreme Court then ruled the lawsuit back to the high court for reassessment in November 2014. The plaintiff appealed to the Supreme Court again but turn to the high court, the lawsuit is still pending on the high court. As of March 31, 2017 and 2016, the Group has estimated the cost of the lawsuit amounting to \$6,370 thousand, including the compensation and legal expenses, which is recognized as provision.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other

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

By function By item	For the three months ended March 31, 2017			For the three months ended March 31, 2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	41,955	157,890	199,845	45,810	159,583	205,393
Labor and health insurance	3,708	11,785	15,493	4,029	11,103	15,132
Pension	1,798	6,404	8,202	1,988	5,219	7,207
Others	3,130	7,937	11,067	2,699	7,548	10,247
Depreciation	10,654	15,610	26,264	10,261	12,795	23,056
Amortization	-	365	365	-	-	-

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Other disclosures

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Information regarding securities held at the reporting date (subsidiaries, associates and joint ventures not included):

Unit: thousand dollars/thousand shares

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	March 31, 2017				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	-
The Company	Mutual fund: Capital Money Market	—	Financial assets at fair value through profit or loss—current	3,126	50,000	- %	50,000	

- (iv) Information regarding purchase or sale of securities for the period exceeding 300 million or 20% of the Company's paid-in capital: None.
- (v) Information on acquisition of real estate with purchase amount exceeding 300 million or 20% of the Company's paid-in capital: None.
- (vi) Information regarding receivables from disposal of real estate exceeding 300 million or 20% of the Company's paid-in capital: None.
- (vii) Information regarding related-parties purchases and/or sales exceeding 100 million or 20% of the Company's 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	(292,011)	(26)	%90 days	-	-	357,804	40 %	(Note 1)
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Sales	(111,397)	(10)	%60 days	-		91,483	10 %	(Note 1)

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

- (viii) Information regarding receivables from related-parties exceeding 100 million or 20% of the Company's 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	357,804 (Note)	3.27	-		137,193 (Until May 11, 2017)	-
The Company	LEI TECHNOLOGY CANADA INC.	Subsidiary	101,180 (Note)	2.31	-		35,575 (Until May 11, 2017)	-

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

- (ix) Information regarding trading in derivative financial instruments: Please refer to Notes 6(b).

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- (x) Significant transactions and business relationship between the parent company and its subsidiaries for the three months ended March 31, 2017:

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	292,011	No significant differences	20.84%
0	The Company	LEI Technology Canada Ltd.	1	Sales	63,575	120 days	4.54 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	111,397	No significant differences	7.95 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	357,804	No significant differences	8.15 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	101,180	120 days	2.31 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	91,483	No significant differences	2.09 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	181,039	No significant differences	12.92%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	121,314	No significant differences	2.76 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Accounts receivable	31,976	No significant differences	0.73 %

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 are the information on investees for the three months ended March 31, 2017 (excluding information on investees in Mainland China):

Name of investor	Investor investee	Address	Scope of business	Original cost		Ending balance		Book value	Net income of investee	Investment income (losses)	Remarks
				March 31, 2017	December 31, 2016	Shares	Ratio of shares				
The Company	LANNER ELECTRONICS USA, INC. CO., LTD.	USA	Trading of computer peripheral equipment	80,633	80,633	2,350	100 %	54,991	3,460	3,460	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	529,622	15,274	15,274	(Note 1)
The Company	LEI Technology Canada Ltd.	Canada	Trading of computer peripheral equipment	56,936	56,936	2,000	100 %	21,539	2,960	2,960	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	78,251	78,251	2,623	100 %	583,723	14,928	14,928	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(c) Information on investment in mainland China:

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

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2017	Investment flow during current period		Cumulative investment (amount) from Taiwan as of March 31, 2017	Net income on investee	Direct / indirect investment holding percentage	Investment income (loss) (Note 2)	Book value (Note 2)	Accumulated remitance of earnings in current period
					Remittance amount	Reparation amount						
Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral equipment	103,283	(3)	75,982	-	-	75,982	16,395	90.91 %	14,905 (2)	574,995	-
Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	64,737	(4)a	-	-	-	-	3,173	90.91 %	2,885 (2)	80,979	-
Dongguan Libas Huiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	48,777	(4)b	-	-	-	-	(1,638)	90.91 %	(1,489) (2)	39,822	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	63,841	(4)b	-	-	-	-	12,068	39.08 %	4,374 (1)	37,123	-

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.