

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

**LANNER ELECTRONICS INC.
AND ITS SUBSIDIARIES**

Consolidated Interim Financial Statements

June 30, 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 June 30, 2017 and 2016, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2017 and 2016, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 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 \$575,517 thousand and \$483,352 thousand, constituting 12.48% and 10.70%, respectively, of the related consolidated total assets; and the net sales amounting to \$476,741 thousand, \$365,505 thousand, \$812,145 thousand and \$667,803 thousand, constituting 31.37%, 23.14%, 27.81% and 22.51%, respectively, of the related consolidated net sales for the three months and six months ended June 30, 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 \$349,260 thousand and \$230,949 thousand, constituting 7.57% and 5.11%, respectively, of the related consolidated total assets; and the total liabilities amounting to \$33,158 thousand and \$18,766 thousand, constituting 1.60% and 0.84% of the related total liabilities as of June 30, 2017 and 2016, respectively; the total comprehensive income amounting to \$19,989 thousand, \$6,595 thousand, \$35,017 thousand, and \$6,763 thousand, constituting 25.20%, 9.49%, 35.10% and 5.08%, respectively, of the related consolidated total comprehensive income for the three months and six months ended June 30, 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)
August 10, 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.

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017, December 31 and June 30, 2016

(Expressed in Thousands of New Taiwan Dollars)

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(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 and six months ended June 30, 2017 and 2016

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

		For the three months ended June 30				For the six months ended June 30			
		2017		2016		2017		2016	
		Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating revenue (notes 6(p) and 7)	\$ 1,519,738	100	1,579,286	100	2,920,831	100	2,966,356	100
5000	Operating cost (notes 6(d), 6(k), 6(q) and 7)	<u>1,129,518</u>	<u>74</u>	<u>1,165,343</u>	<u>74</u>	<u>2,148,830</u>	<u>74</u>	<u>2,149,517</u>	<u>72</u>
	Gross profit, net	<u>390,220</u>	<u>26</u>	<u>413,943</u>	<u>26</u>	<u>772,001</u>	<u>26</u>	<u>816,839</u>	<u>28</u>
	Operating expenses (notes 6(c), 6(k), 6(q) and 7):								
6100	Selling expenses	123,551	8	145,312	9	236,318	8	269,691	9
6200	Administrative expenses	75,460	5	76,952	5	140,354	5	161,502	6
6300	Research and development expenses	<u>116,974</u>	<u>8</u>	<u>116,797</u>	<u>7</u>	<u>216,959</u>	<u>7</u>	<u>210,610</u>	<u>7</u>
	Total operating expenses	<u>315,985</u>	<u>21</u>	<u>339,061</u>	<u>21</u>	<u>593,631</u>	<u>20</u>	<u>641,803</u>	<u>22</u>
	Operating profit	<u>74,235</u>	<u>5</u>	<u>74,882</u>	<u>5</u>	<u>178,370</u>	<u>6</u>	<u>175,036</u>	<u>6</u>
	Non-operating income and expenses (notes 6(i) and 6(r)):								
7010	Other income	1,192	-	30,783	2	13,474	-	42,676	1
7020	Other gains and losses	3,895	-	9,255	-	(40,147)	(1)	(14,481)	-
7050	Financial costs	<u>(1,156)</u>	<u>-</u>	<u>(1,924)</u>	<u>-</u>	<u>(1,747)</u>	<u>-</u>	<u>(3,964)</u>	<u>-</u>
	Total non-operating income and expenses	<u>3,931</u>	<u>-</u>	<u>38,114</u>	<u>2</u>	<u>(28,420)</u>	<u>(1)</u>	<u>24,231</u>	<u>1</u>
	Net income before tax	78,166	5	112,996	7	149,950	5	199,267	7
7951	Less: income tax expense (note 6(l))	<u>14,357</u>	<u>1</u>	<u>25,866</u>	<u>2</u>	<u>25,617</u>	<u>1</u>	<u>45,005</u>	<u>2</u>
	Net income	<u>63,809</u>	<u>4</u>	<u>87,130</u>	<u>5</u>	<u>124,333</u>	<u>4</u>	<u>154,262</u>	<u>5</u>
8300	Other comprehensive income (loss) (note 6(m)):								
8360	Items that may be reclassified subsequently to profit or loss								
8361	Exchange differences on translation of foreign financial statements	15,515	1	(17,601)	(1)	(24,577)	(1)	(21,125)	(1)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-	-	-	-
	Total Items that may be reclassified subsequently to profit or loss	<u>15,515</u>	<u>1</u>	<u>(17,601)</u>	<u>(1)</u>	<u>(24,577)</u>	<u>(1)</u>	<u>(21,125)</u>	<u>(1)</u>
8300	Other comprehensive income (loss), net	<u>15,515</u>	<u>1</u>	<u>(17,601)</u>	<u>(1)</u>	<u>(24,577)</u>	<u>(1)</u>	<u>(21,125)</u>	<u>(1)</u>
	Total comprehensive income	<u>\$ 79,324</u>	<u>5</u>	<u>69,529</u>	<u>4</u>	<u>99,756</u>	<u>3</u>	<u>133,137</u>	<u>4</u>
	Net income attributable to:								
8610	Shareholders of the parent company	\$ 53,700	3	83,369	5	105,854	3	146,457	5
8620	Non-controlling interests	<u>10,109</u>	<u>1</u>	<u>3,761</u>	<u>-</u>	<u>18,479</u>	<u>1</u>	<u>7,805</u>	<u>-</u>
		<u>\$ 63,809</u>	<u>4</u>	<u>87,130</u>	<u>5</u>	<u>124,333</u>	<u>4</u>	<u>154,262</u>	<u>5</u>
	Total comprehensive income attributable to:								
8710	Shareholders of the parent company	\$ 67,015	4	68,216	4	84,193	3	128,053	4
8720	Non-controlling interests	<u>12,309</u>	<u>1</u>	<u>1,313</u>	<u>-</u>	<u>15,563</u>	<u>-</u>	<u>5,084</u>	<u>-</u>
		<u>\$ 79,324</u>	<u>5</u>	<u>69,529</u>	<u>4</u>	<u>99,756</u>	<u>3</u>	<u>133,137</u>	<u>4</u>
9750	Basic earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ 0.51</u>		<u>0.85</u>		<u>1.01</u>		<u>1.50</u>	
9850	Diluted earnings per share (in New Taiwan dollars) (note 6(o))	<u>\$ 0.51</u>		<u>0.80</u>		<u>1.00</u>		<u>1.41</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 six months ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Financial statements attributable to translation differences for foreign operations	Total equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
	Common stock		Retained earnings											
	Common stock	Advance receipts for share capital	Total	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total						
Balance at 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		
Appropriation and distribution:														
Legal reserve	-	-	-	-	31,840	-	(31,840)	-	-	-	-	-		
Cash dividends	-	-	-	-	-	-	(195,010)	(195,010)	-	(195,010)	-	(195,010)		
Net income	-	-	-	-	-	-	146,457	146,457	-	146,457	7,805	154,262		
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(18,404)	(18,404)	(2,721)	(21,125)		
Total comprehensive income (loss)	-	-	-	-	-	-	146,457	146,457	(18,404)	128,053	5,084	133,137		
Conversion of convertible bonds	251	503	754	2,220	-	-	-	-	-	2,974	-	2,974		
Remuneration cost of employee stock options	-	-	-	4,647	-	-	-	-	-	4,647	-	4,647		
Changes in non-controlling interests from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	30,333	30,333		
Due to donated assets received	-	-	-	10,814	-	-	-	-	-	10,814	1,081	11,895		
Balance at June 30, 2016	\$ 975,259	503	975,762	479,816	194,899	2,225	548,331	745,455	1,591	2,202,624	88,851	2,291,475		
Balance at January 1, 2017	\$ 1,036,446	-	1,036,446	639,874	194,899	2,225	778,494	975,618	(27,483)	2,624,455	105,123	2,729,578		
Appropriation and distribution:														
Legal reserve	-	-	-	-	38,092	-	(38,092)	-	-	-	-	-		
Special reserve	-	-	-	-	-	27,483	(27,483)	-	-	-	-	-		
Cash dividends	-	-	-	-	-	-	(313,950)	(313,950)	-	(313,950)	-	(313,950)		
Net income	-	-	-	-	-	-	105,854	105,854	-	105,854	18,479	124,333		
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(21,661)	(21,661)	(2,916)	(24,577)		
Total comprehensive income (loss)	-	-	-	-	-	-	105,854	105,854	(21,661)	84,193	15,563	99,756		
Remuneration cost of employee stock options	-	-	-	4,648	-	-	-	-	-	4,648	-	4,648		
Stock options exercised by employees	10,048	-	10,048	8,441	-	-	-	-	-	18,489	-	18,489		
Balance at June 30, 2017	\$ 1,046,494	-	1,046,494	652,963	232,991	29,708	504,823	767,522	(49,144)	2,417,835	120,686	2,538,521		

See accompanying notes to consolidated interim financial statements.

(English Translation of Consolidated Interim Financial Statements and Report Originally Issued in Chinese)
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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2017	2016
Cash flows from operating activities:		
Consolidated net income before tax	\$ 149,950	199,267
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	51,019	47,723
Amortization expense	744	560
Provision (reversal) for bad debt	(562)	5,038
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	414	(958)
Interest expense	1,747	3,964
Interest income	(2,388)	(2,543)
Remuneration cost of employee stock options	4,648	4,647
Loss on disposal of property, plant and equipment, net	118	181
Total adjustments to reconcile profit and loss	55,740	58,612
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss	(250,543)	(100,000)
Notes receivable	(4,765)	(24,594)
Accounts receivable (including related parties)	96,864	213,942
Other receivable	48,944	(12,226)
Inventories	(39,008)	271,966
Prepayments	(3,855)	(29,241)
Other current assets	183	(1,245)
Other financial assets	6,504	1,005
Total changes in operating assets, net	(145,676)	319,607
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	577	-
Notes payable	(7,060)	-
Accounts payable (including related parties)	(134,426)	(307,331)
Other payables	(157,423)	(25,309)
Provisions	1,158	12,540
Other current liabilities	(6,651)	(2,301)
Net defined benefit liability	2	2
Deferred revenue	(1,779)	1,506
Total changes in operating liabilities, net	(305,602)	(320,893)
Total changes in operating assets and liabilities, net	(451,278)	(1,286)
Total adjustments	(395,538)	57,326
Cash provided by (used in) operating activities	(245,588)	256,593
Interest income received	2,365	2,528
Interest paid	(1,741)	(1,455)
Income taxes paid	(32,889)	(58,007)
Net cash provided by (used in) operating activities	(277,853)	199,659
Cash flows from investing activities:		
Net cash flow from acquisition of subsidiaries	-	8,780
Acquisition of property, plant and equipment	(15,836)	(36,846)
Proceeds from disposal of property, plant and equipment	1,011	143
Increase in refundable deposits	(9,703)	(528)
Increase in other financial assets	(8,938)	33,772
Increase in prepayments for equipment	(4,262)	15,351
Net cash provided by (used in) investing activities	(37,728)	20,672
Cash flows from financing activities:		
Increase in short-term loans	-	105,118
Decrease in short-term loans	(16,303)	(90,000)
Repayments of long-term debt	(921)	(987)
Increase in guarantee deposits received	940	-
Increase (decrease) in other non-current liabilities	14	(29)
Exercise of employee share options	18,489	-
Net cash provided by financing activities	2,219	14,102
Effects of changes in exchange rates	(20,935)	(20,650)
Net increase (decrease) in cash and cash equivalents	(334,297)	213,783
Cash and cash equivalents at beginning of period	761,323	412,427
Cash and cash equivalents at end of period	\$ 427,026	626,210

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 as of June 30, 2017 and 2016

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

June 30, 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 August 10, 2017.

(3) New standards, amendments and interpretations adopted

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017. The differences between the current and previous versions 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
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

(Continued)

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

The Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated interim financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 “Classification and Measurement of Share based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	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 IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated interim financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at June 30, 2017 and hedging relationships designated under during the first half of 2017 under IAS 39.

(Continued)

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at June 30, 2017, would have had a material impact on its accounting for trade receivables and investments in equity securities that are managed on a fair value basis. At June 30, 2017, the Group had financial assets measured at cost of \$500 thousand that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of IFRS 9, the Group may elect then to classify them as FVOCI or FVTPL. The Group has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognized in profit or loss as they arise, increasing volatility in the Group's profits.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

(Continued)

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-months ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The preliminary assessment of the Group indicated that the application of IFRS 9 impairment requirements would not have any material impact on its consolidated interim financial statements.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. However, Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Transition

The Group plans to adopt IFRS 15 in its consolidated interim financial statements using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its consolidated interim financial statements.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed contracts at the beginning of the earliest period presented, are not restated.

The preliminary assessment of the Group indicated that the application of IFRS 15 Revenue from Contracts with Customers would not have any material impact on its consolidated interim financial statements.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

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

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

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.
June 7, 2017	IFRIC 23 “Uncertainty over Income Tax Treatments”	<ul style="list-style-type: none"> • In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

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

The Group is evaluating the impact on its consolidated financial position and consolidated 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 refer 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 Standards, IFRIC Interpretations, or SIC Interpretations endorsed by the FSC (hereinafter referred to as 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.

(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.

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

(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 for the following disclosures, 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>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Cash	\$ 1,164	1,275	1,190
Working capital	80	80	80
Cash in banks	211,839	419,498	393,288
Checking deposits	12,293	16,053	1,434
Time deposits	7,595	8,051	8,058
Foreign currency deposits	194,055	316,366	222,160
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 427,026</u>	<u>761,323</u>	<u>626,210</u>

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>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Financial assets held for trading:			
Non-derivative financial assets	\$ 300,138	50,009	100,011
Derivative instruments not used for hedging	-	-	947
Total	<u>\$ 300,138</u>	<u>50,009</u>	<u>100,958</u>

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 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	1,586	1,009	-
Total	<u>\$ 1,586</u>	<u>1,009</u>	<u>23</u>

Please refer to note 6(s) for the 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 June 30, 2017, December 31 and June 30, 2016.

The Group uses derivative financial instruments to manage exposures due to fluctuations of foreign exchange risk derived from its operating activities. As of June 30, 2017, December 31 and June 30, 2016, the Group reported the following derivative financial instruments as held-for-trading financial assets (liabilities) without the application of hedge accounting:

	<u>Fair value</u>	<u>Currency</u>	<u>Contract amount</u>
June 30, 2017			
Forward Contracts	\$ (1,586)	USD/TWD	160,416
December 31, 2016			
Forward Contracts	\$ (1,009)	USD/TWD	1,550
June 30, 2016			
Forward Contracts	\$ 947	USD/TWD	3,990

As of June 30, 2017, December 31 and June 30, 2016, the maturity dates of the derivative financial assets and liabilities were between July 18, 2017 to September 5, 2017, January 25, 2017 to March 6, 2017 and August 15, 2016 to October 11, 2016.

(c) Notes and accounts receivable and other receivables

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Notes receivable	\$ 11,226	6,461	37,100
Accounts receivable	1,019,232	1,116,096	961,412
Other receivables	20,087	69,031	14,151
Less: allowance for impairment	<u>10,119</u>	<u>10,753</u>	<u>10,552</u>
	<u>\$ 1,040,426</u>	<u>1,180,835</u>	<u>1,002,111</u>

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

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

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

	June 30, 2017	December 31, 2016	June 30, 2016
Past due 1~30 days	\$ 84,507	49,661	30,481
Past due 31~90 days	12,809	26,228	7,000
Past due over 90 days	7,185	7,708	27,460
	<u><u>\$ 104,501</u></u>	<u><u>83,597</u></u>	<u><u>64,941</u></u>

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

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2017	\$ 10,753	-	10,753
Impairment loss reversed	(562)	-	(562)
Effect of changes in exchange rates	(72)	-	(72)
Balance at June 30, 2017	<u><u>\$ 10,119</u></u>	<u><u>-</u></u>	<u><u>10,119</u></u>

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

(d) Inventories

	June 30, 2017	December 31, 2016	June 30, 2016
Merchandise	\$ 1,049	1,360	1,473
Finished goods	586,501	689,966	651,742
Work in process	310,076	265,186	324,015
Raw material	526,906	429,012	438,422
Total	<u><u>\$ 1,424,532</u></u>	<u><u>1,385,524</u></u>	<u><u>1,415,652</u></u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Inventories are measured at the lower of cost and net realizable value. Hence, the Group makes judgments and estimates in the net realizable value of inventory for financial statement. The rapid development on technology may significantly affect the market demand on electronic products, which can lead to product obsolescence, resulting in the cost of inventory to exceed its net realizable value. Valuation of the inventory is based according to the estimated future demand for its products. Hence, there is a possibility for the valuation to have a significant fluctuation.

As of June 30, 2017, December 31 and June 30, 2016, the Group's inventories had 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:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Loss on market value of inventory	\$ <u>7,236</u>	<u>14,007</u>	<u>16,284</u>	<u>19,493</u>

(e) Financial assets carried at cost — noncurrent

	Stockholding rate %	Investment cost	Amount
June 30, 2017			
Alliance III venture Capital Corp	1.00	\$ <u>500</u>	<u>500</u>
	Stockholding rate %	Investment cost	Amount
December 31, 2016			
Alliance III venture Capital Corp	1.00	\$ <u>500</u>	<u>500</u>
	Stockholding rate %	Investment cost	Amount
June 30, 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.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

(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
June 30, 2017	\$ 499,271	368,657	24,273	180,673	-	1,072,874
June 30, 2016	\$ 500,987	390,326	40,551	212,874	-	1,144,738

For the six months ended June 30, 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 refer to note 12(a). For other relative information, please refer 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 June 30, 2017, December 31 and June 30, 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
June 30, 2017	\$ 4,524	2,483	7,007
June 30, 2016	\$ 4,884	4,289	9,173

Goodwill and customer relations were obtained by acquiring subsidiaries in March 2016. For the six months ended June 30, 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.

(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

	<u>June 30, 2017</u>		
	<u>Currency</u>	<u>Interest rate</u>	<u>Maturity year</u>
Unsecured loans	USD	3.37	2017
			\$ 39,494

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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	Amount
Unsecured loans	RMB	5.22	2017	\$ 41,866
Unsecured loans	USD	3.0095	2017	13,793
Total				<u>\$ 55,659</u>

June 30, 2016				
	Currency	Interest rate	Maturity year	Amount
Secured loans	TWD	5.22	2017	\$ 14,474
Unsecured loans	USD	2.8124	2016	41,899
Total				<u>\$ 56,373</u>

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

As of June 30, 2017, December 31 and June 30, 2016, the unused credit facilities of the Group's short-term borrowings amounted to \$868,000 thousand, \$877,195 thousand and \$879,649 thousand, respectively.

(ii) Long-term borrowings

June 30, 2017				
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	3.2748	2020	\$ <u>38,431</u>
Current				\$ 1,823
Non-current				36,608
Total				<u>\$ 38,431</u>

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

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

June 30, 2016			
	Currency	Interest rate	Maturity year
Secured loans	USD	2.7541	2020
Current			
Non-current			
Total			
			\$ <u>42,705</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	June 30, 2016
Total amount of convertible Bonds	\$ 400,000	400,000
Discount on bonds payable unamortized balance	-	(1,665)
Accumulated converted balance	(375,700)	(175,300)
Redemption	(24,300)	-
Bonds payable of ending balance	\$ -	223,035
Embedded Derivatives— put option and call option (financial liability at fair value through profit or loss— non-current)	\$ -	(23)
Equity component— conversion options (Capital surpluses — Share options)	\$ -	11,331

	For the three months ended June 30	For the six months ended June 30
	2017	2016
Interest expenses (financial costs)	\$ -	1,254
	-	2,504

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

(j) Provisions

	June 30, 2017	December 31, 2016	June 30, 2016
Warranty	\$ 36,142	34,984	38,800
Legal	6,370	6,370	6,370
Total	\$ 42,512	41,354	45,170

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

For the six months ended June 30, 2017 and 2016, the Group did not have any significant change on the provisions. Please refer to note 6(k) of the annual consolidated financial statements for relative information.

(k) Employee benefits

(i) Defined benefit plans

Since prior fiscal year, there was no material volatility of the market, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying consolidated interim financial statements was measured and disclosed according to the actual report as of December 31, 2016 and 2015.

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Operating costs	\$ 114	121	225	243
Selling expenses	45	43	90	85
Administrative expenses	77	78	152	154
Research and development expenses	67	69	133	135
Total	\$ 303	311	600	617

(ii) Defined contribution plans

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Operating costs	\$ 1,621	1,783	3,308	3,649
Selling expenses	1,715	1,368	3,357	2,548
Administrative expenses	1,296	3,234	2,620	4,409
Research and development expenses	3,502	2,727	6,755	5,407
Total	\$ 8,134	9,112	16,040	16,013

(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.

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

The Group's income tax expense were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Current tax expense				
Current period	\$ 25,476	26,943	36,736	46,022
Adjustment for prior periods	(11,119)	(1,077)	(11,119)	(1,017)
Income tax expense from continuing operations	<u>\$ 14,357</u>	<u>25,866</u>	<u>25,617</u>	<u>45,005</u>

The tax returns of the Company were examined and approved by the tax authorities through 2014.

As of June 30, 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 the annual consolidated financial statements for relative information.

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

	June 30, 2017	December 31, 2016	June 30, 2016
Unappropriated earnings of 1997 and before	\$ -	-	-
Unappropriated earnings of 1998 and after	504,823	778,494	548,331
	<u>\$ 504,823</u>	<u>778,494</u>	<u>548,331</u>

	June 30, 2017	December 31, 2016	June 30, 2016
Balance of the imputation credit account	\$ 120,524	92,240	99,809

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 16.72%. 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.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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(m) Capital and other equity

As of June 30, 2017, December 31 and June 30, 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 97,526 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 six months ended June 30, 2017 and 2016 were as follows:

	Unit: thousands shares For the six months ended June 30	
	2017	2016
Balance at January 1	103,645	97,501
Exercise of employee share options	1,004	-
Conversion of convertible bonds	-	25
Balance at June 30	<u>104,649</u>	<u>97,526</u>

(i) Issue of common stock

For the six months ended June 30, 2017, the Company issued 1,004 thousand shares of common stocks, as its employees exercised their stock option 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.

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.

(ii) Capital surplus

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

	June 30, 2017	December 31, 2016	June 30, 2016
Share premium from issuance	\$ 610,987	600,483	433,283
Changes in equity of associates and joint ventures accounted for using equity method	16,693	16,693	16,693
Employee share options	16,655	14,269	11,306
Share options	-	-	11,331
Employee share options expired	8,628	8,429	7,203
	<u>\$ 652,963</u>	<u>639,874</u>	<u>479,816</u>

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES
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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.

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. The amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. As of June 30, 2017, December 31 and June 30, 2016 the special earnings reserve amounted to \$29,708 thousand, \$2,225 thousand and \$2,225 thousands, respectively.

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

Earnings distribution for 2016 and 2015 was decided via the general meeting of shareholders held on June 15, 2017 and June 16, 2016, respectively. The relevant dividend distributions to shareholders were as follows:

	2016		2015	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 3.0000	<u><u>313,950</u></u>	1.9713	<u><u>195,010</u></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	(21,661)	(2,916)	(24,577)
Balance at June 30, 2017	<u><u>\$ (49,144)</u></u>	<u><u>(5,749)</u></u>	<u><u>(54,893)</u></u>
Balance at January 1, 2016	\$ 19,995	5,031	25,026
Foreign exchange differences arising from net assets of foreign operation	(18,404)	(2,721)	(21,125)
Balance at June 30, 2016	<u><u>\$ 1,591</u></u>	<u><u>2,310</u></u>	<u><u>3,901</u></u>

(n) Share-based payment

On June 7, 2012, the Group provided stock options to its employees, with validity until June 7, 2017. For the six months ended June 30, 2017, 725 units were exercised and 70 units were written off. For details, please refer to note 6(o) of the consolidated financial statements for the year ended 2016.

(Continued)

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

(o) Earnings per share

(i) Basic earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Net income attributable to ordinary shareholders of the Company	\$ <u>53,700</u>	<u>83,369</u>	<u>105,854</u>	<u>146,457</u>
Weighted-average number of ordinary shares	<u>104,649</u>	<u>97,522</u>	<u>104,472</u>	<u>97,522</u>
Basic earnings per share (in NT dollars)	\$ <u>0.51</u>	<u>0.85</u>	<u>1.01</u>	<u>1.50</u>

(ii) Diluted earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Net income of the company	\$ 53,700	83,369	105,854	146,457
Effect of after tax interest expense of conversion bonds	-	1,041	-	2,078
Net income attributable to ordinary shareholders of the Company	\$ <u>53,700</u>	<u>84,410</u>	<u>105,854</u>	<u>148,535</u>
Weighted-average number of ordinary shares (basic)	104,649	97,522	104,472	97,522
Impact of potential common shares				
Effect of employee stock bonus	366	355	807	1,211
Effect of employee stock option	705	1,400	675	1,333
Effect of conversion bonds	-	5,646	-	5,646
Weighted-average number of ordinary shares (diluted)	<u>105,720</u>	<u>104,923</u>	<u>105,954</u>	<u>105,712</u>
Diluted earnings per share (in NT dollars)	\$ <u>0.51</u>	<u>0.80</u>	<u>1.00</u>	<u>1.41</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.

(Continued)

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

(p) Revenue

The details of the Group's revenue for the three months and six months ended June 30, 2017 and 2016 were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Sale of goods	<u><u>\$ 1,519,738</u></u>	<u><u>1,579,286</u></u>	<u><u>2,920,831</u></u>	<u><u>2,966,356</u></u>

Unearned revenue, net for consolidated Company amounted to \$(1,323) thousand, \$(110) thousand, \$(2,083) thousand and \$881 thousand for the three months and six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017, December 31 and June 30, 2016, accumulated unearned revenue amounted to \$56,895 thousand, \$58,978 thousand and \$54,391 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(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 employee remuneration, and no greater than 2% as directors' and supervisors' remuneration, when there is profit for the year. However, if the Company has accumulated deficits, the profit should first be used to offset the deficit. The amounts of remuneration to each director and supervisor, as well as the remuneration to employees, are subject for approval during the board of directors' meeting.

For the three months and six months ended June 30, 2017 and 2016, the Company recognized its employee remuneration of \$8,489 thousand, \$15,527 thousand, \$16,699 thousand and \$26,338 thousand, respectively, and directors' and supervisors' remuneration of \$849 thousand, \$1,593 thousand, \$2,199 thousand and \$2,701 thousand, respectively. These amounts are calculated by using the Company's pre-tax net profit for the period before deducting the amount of the remuneration to employees and directors under the Company's articles of association, and expensed under operating cost or expense.

There were no differences between the amounts of remuneration to employees, directors and supervisors approved by the board and those estimated in 2015 financial statement. The Company accrued its remuneration to employees, and directors and supervisors amounting to \$63,934 and \$6,393, respectively. However, the amounts approved by the board on March 2, 2017 were \$59,972 thousand and \$6,920 thousand, respectively. The differences between the actual amounts and the accrued amounts will be treated as the changes in accounting estimates and recognized as profit or loss in 2017.

(Continued)

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

(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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
Rent income	\$ 193	195	375	401
Interest income	1,214	681	2,388	2,543
Other	(215)	29,907	10,711	39,732
	<u>\$ 1,192</u>	<u>30,783</u>	<u>13,474</u>	<u>42,676</u>

(ii) Other gains and losses

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

	For the three months ended June 30		For the six months ended June 30	
Gian (loss) on foreign exchange	\$ 5,701	4,608	(38,690)	(14,439)
Loss on disposal of property, plant and equipment	(108)	(60)	(118)	(181)
Valuation gain (loss) on financial assets	(1,697)	958	(414)	958
Other gain (loss)	(1)	3,749	(925)	(819)
	<u>\$ 3,895</u>	<u>9,255</u>	<u>(40,147)</u>	<u>(14,481)</u>

(iii) Finance costs

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Interest expenses — convertible bonds	\$ -	1,254	-	2,504
Interest expenses — short-term loans	1,156	670	1,747	1,460
	<u>\$ 1,156</u>	<u>1,924</u>	<u>1,747</u>	<u>3,964</u>

(Continued)

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

(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 degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2016.

(i) Credit risk

As of June 30, 2017, December 31 and June 30, 2016, the major client contributed approximately 24%, 34% and 32% of total receivables, respectively. The other four clients contributed no more than 18%, 22% and 22% 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
June 30, 2017						
Non-derivative financial liabilities						
Current financial liabilities at fair value through profit or loss	\$ 1,586	1,586	1,586	-	-	-
Short-term debts	39,494	39,662	39,662	-	-	-
Accounts payable	888,010	888,010	888,010	-	-	-
Other payables	100,373	100,373	100,373	-	-	-
Long-term debts (including due within a year)	38,431	42,213	2,002	2,002	38,209	-
Guarantee deposits received	979	979	-	-	-	979
	<u>\$ 1,068,873</u>	<u>1,072,823</u>	<u>1,031,633</u>	<u>2,002</u>	<u>38,209</u>	<u>979</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	-
Guarantee deposits received	39	39	-	-	-	39
	<u>\$ 1,416,962</u>	<u>1,422,453</u>	<u>1,378,487</u>	<u>2,134</u>	<u>41,793</u>	<u>39</u>
June 30, 2016						
Non-derivative financial liabilities						
Non-current financial liabilities at fair value through profit or loss	\$ 23	23	23	-	-	-
Short-term debts	56,373	56,171	56,171	-	-	-
Bonds payable	223,035	223,035	223,035	-	-	-
Accounts payable (including related parties)	891,596	891,596	891,596	-	-	-
Other payables	241,118	241,118	241,118	-	-	-
Long-term debts (including due within a year)	42,705	47,416	2,144	2,144	6,432	36,696
Guarantee deposits received	31	31	-	-	-	31
	<u>\$ 1,454,881</u>	<u>1,459,390</u>	<u>1,414,087</u>	<u>2,144</u>	<u>6,432</u>	<u>36,727</u>

(Continued)

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

(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>
June 30, 2017			
Financial assets:			
Monetary items:			
USD (note)	\$ 39,648	30.3800	1,204,500
Financial liabilities:			
Monetary items:			
USD (note)	\$ 27,194	30.3800	826,144
December 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
June 30, 2016			
Financial assets:			
Monetary items:			
USD (note)	\$ 38,857	32.2300	1,252,353
Financial liabilities:			
Monetary items:			
USD (note)	\$ 27,943	32.2300	848,940

Note: Amounts are designated before consolidation.

2) 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 receivables and trade and other payables that are denominated in foreign currency. A 1 dollar appreciation (depreciation) of the NTD against the USD as of June 30, 2017 and 2016 would have increased or decreased the net income by \$10,337 thousand and \$9,059 thousand, respectively. The analysis is performed on the same basis for both periods.

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

3) 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 six months ended June 30, 2017 and 2016, foreign exchange loss (including realized and unrealized abortions) amounted to \$38,690 thousand and \$14,439 thousand, respectively.

(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 or decrease by \$647 thousand and \$822 thousand, respectively, for the six months ended June 30, 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 following, 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.

		June 30, 2017			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial assets for trading	\$ 300,138	300,138	-	-	300,138

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

		June 30, 2017			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ <u>1,586</u>	<u>-</u>	<u>1,586</u>	<u>-</u>	<u>1,586</u>
		December 31, 2016			
		Fair value			
	Carrying amount	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>
		June 30, 2016			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 947	-	947	-	947
Non-derivative financial assets for trading	100,011	100,011	-	-	100,011
Total	\$ <u>100,958</u>	<u>100,011</u>	<u>947</u>	<u>-</u>	<u>100,958</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ <u>23</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>23</u>

(Continued)

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

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 December 31, 2016.

(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
Lanner Foundation	Related party

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

(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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
Other related parties	\$ -	-	-	<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.

(ii) Purchases

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Other related parties	\$ -	-	-	<u>498</u>

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

(iii) Property translation

In March 2016, 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 June 30, 2017 and 2016 and the six months ended June 30, 2017 and 2016 amounted to \$330 thousand, \$330 thousand, \$660 thousand and \$660 thousand. There were no outstanding balance as of June 30, 2017, December 31 and June 30, 2016.

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

(v) Contribution

With the approval from the board of directors, the Group agreed to contribute \$8,000 thousand to Lanner Foundation for the six months ended June 30, 2017. As of June 30, 2017, the Group had prepaid the amount of \$5,000 thousand. Since the foundation is not yet registered, the Group recognized the contribution under other current assets.

(c) Key management personnel compensations

Key management personnel compensation comprised:

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Short-term employee benefits	\$ 13,421	26,292	30,075	44,551
Post-employment benefits	211	292	422	477
	<u>\$ 13,632</u>	<u>26,584</u>	<u>30,497</u>	<u>45,028</u>

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	June 30, 2017	December 31, 2016	June 30, 2016
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	414,180	415,873	415,896
Building	Guarantee for long and short-term debts	262,600	268,313	272,677
		<u>\$ 679,107</u>	<u>686,488</u>	<u>690,875</u>

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

(9) Commitments and contingencies

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

	June 30, 2017	December 31, 2016	June 30, 2016
Acquisition of property, plant and equipment	<u>\$ 113,178</u>	<u>116,437</u>	<u>-</u>

(b) Operating lease commitments

As of June 30, 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:

	June 30, 2017	December 31, 2016	June 30, 2016
Under a year	\$ 36,695	38,180	41,033
Over 1 year but under 5 years	98,752	91,283	120,177
Over 5 years	54,623	64,560	86,202
	<u>\$ 190,070</u>	<u>194,023</u>	<u>247,412</u>

(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 June 30, 2017, December 31 and June 30, 2016, the Group has estimated the cost of the lawsuit amounting both 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.

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

(12) Other

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

By nature	Three months ended June 30, 2017			Three months ended June 30, 2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	45,484	170,911	216,395	46,183	180,022	226,205
Labor and health insurance	3,718	11,243	14,961	3,629	10,027	13,656
Pension	1,735	6,703	8,438	1,904	7,519	9,423
Others	3,111	6,417	9,528	2,691	5,435	8,126
Depreciation	10,310	14,445	24,755	11,142	13,525	24,667
Amortization	-	379	379	-	560	560

By item	Six months ended June 30, 2017			Six months ended June 30, 2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	87,439	328,801	416,240	91,993	340,714	432,707
Labor and health insurance	7,426	23,028	30,454	7,658	21,130	28,788
Pension	3,533	13,107	16,640	3,892	12,738	16,630
Others	6,241	14,354	20,595	5,390	11,874	17,264
Depreciation	20,964	30,055	51,019	21,403	26,320	47,723
Amortization	-	744	744	-	560	560

- (b) Operating and seasonality

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

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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	June 30, 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 though profit or loss—current	6,250	100,057	- %	100,057	-
The Company	Fuh Hwa Money Market Fund	—	Financial assets at fair value though profit or loss—current	6,977	100,049	- %	100,049	
The Company	Fuh Hwa You Li Money market Fund	—	Financial assets at fair value though profit or loss—current	7,475	100,032	- %	100,032	

- (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	(688,178)	(31) %	90 days	-	-	403,040	43 %	(Note 1)
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Sales	(192,132)	(9) %	60 days	-		58,202	6 %	(Note 1)
The Company	LEI Technology Canada Ltd.	Subsidiary	Sales	(130,551)	(6) %	120 days	-		97,980	10 %	(Note 1)
Dongguan Lihua Haiwell Tech. Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Subsidiary	Sales	(355,511)	(82) %	60 days	-		-	- %	(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	403,040 (Note)	3.62	-		105,998 (Until August 10, 2017)	-

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

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LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- (ix) Information regarding trading in derivative financial instruments: Please refer to Notes 6(b).
- (x) Significant transactions and business relationship between the parent company and its subsidiaries for the six months ended June 30, 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	688,178	No significant differences	23.56%
0	The Company	LEI Technology Canada Ltd.	1	Sales	130,551	120 days	4.47 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	192,132	No significant differences	6.58 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	403,040	No significant differences	8.74 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	97,980	120 days	2.12 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	58,202	No significant differences	1.26 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	355,511	No significant differences	12.17%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	138,846	No significant differences	3.01 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Accounts receivable	77,414	No significant differences	1.68 %
2	LANNER ELECTRONICS USA, INC.	The Company	2	Sales	41,666	No significant differences	1.43 %

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 six months ended June 30, 2017 (excluding information on investees in Mainland China):

Name of investor	investor investee	Address	Scope of business.	Original cost		Ending balance			Net income of investee	Investment income (losses)	Remarks
				June 30, 2017	December 31, 2016	Shares	Ratio of shares	Book value			
The Company	LANNER ELECTRONICS USA, INC. CO., LTD	USA	Trading of computer peripheral equipment	80,633	80,633	2,350	100 %	49,998	2,124	2,124	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	567,899	25,035	25,035	(Note 1)
The Company	LEI Technology Canada Ltd	Canada	Trading of computer peripheral equipment	56,936	56,936	2,000	100 %	30,424	7,214	7,214	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	78,251	78,251	2,623	100 %	606,423	26,326	26,326	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation

(Continued)

LANNER ELECTRONICS INC. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 June 30, 2017	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 Tech Co., Ltd. (LAS)	Trading of computer peripheral equipment	105,283	(3)	75,982	-	-	75,982	28,913	90.91 %	26,284 (2)	597,647	-
Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	64,737	(4)a	-	-	-	-	5,626	90.91 %	5,115 (2)	77,303	-
Dongguan Libun Haiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	48,777	(4)b	-	-	-	-	(5,581)	90.91 %	(5,074) (2)	33,293	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	63,841	(4)b	-	-	-	-	27,803	39.08 %	10,190 (1)	43,711	-

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 interim financial statements of the investee are reviewed by the auditors of the parent company.

Note 3: Aforementioned amounts have been eliminated upon consolidated interim financial statements.

(ii) Limitation on investment in Mainland China:

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

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

(iii) Significant transactions with investees in Mainland China:

Please refer to note 13(a)(j) 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.