

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

**LANNER ELECTRONICS INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 2018 and 2017**

**Address: 7rd Floor, No. 173, Sec. 2, Datong Rd., Xizhi Dist., New Taipei City,
Taiwan, R.O.C.**

Telephone: (02)8692-6060

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

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to the Consolidated Interim Financial Statements	
(1) Company history	8
(2) Approval date and procedures of the consolidated financial statements	8
(3) New standards, amendments and interpretations adopted	8~14
(4) Summary of significant accounting policies	14~19
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	19
(6) Explanation of significant accounts	20~39
(7) Related-party transactions	39~40
(8) Pledged assets	40
(9) Significant Commitments and Contingencies	41
(10) Losses due to major disasters	41
(11) Subsequent events	41
(12) Other	41~42
(13) Other disclosures	
(a) Information on significant transactions	43~45
(b) Information on investees	45
(c) Information on investment in Mainland China	45
(14) Segment information	46



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Review Report

To the Board of Directors
LANNER ELECTRONICS INC.:

Introduction

We have reviewed the accompanying consolidated balance sheets of the LANNER ELECTRONICS INC. (the "Company") and its subsidiaries (together referred to as the "Group") as of June 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, as well as the changes in equity and cash flows for the six months ended June 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$430,026 thousand and \$349,260 thousand, each constituting 8% of the consolidated total assets; the total liabilities amounting to \$33,304 thousand and \$33,158 thousand, constituting 1% and 2% of the consolidated total liabilities as of June 30, 2018 and 2017, respectively; and the total comprehensive income (loss) amounting to \$15,863 thousand, \$19,989 thousand, \$24,658 thousand and \$35,017 thousand, constituting 14%, 25%, 14% and 35% of the consolidated total comprehensive income (loss) for the three months and six months ended June 30, 2018 and 2017, respectively.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews and the review report of another auditor (please refer to Other Matter paragraph), nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2018 and 2017, and of its consolidated financial performance for the three months and six months ended June 30, 2018 and 2017, as well as its consolidated cash flows for the six months ended June 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Other Matter

We did not review the financial statements of LANNER ELECTRONICS USA., a subsidiary of the Group. Those financial statements were reviewed by another auditor, whose review report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for LANNER ELECTRONICS USA., is based solely on the review report of another auditor. The financial statements of LANNER ELECTRONICS USA. reflect the total assets amounting to \$662,927 thousand and \$575,517 thousand, constituting 12% of consolidated the total assets as of June 30, 2018 and 2017, and the total revenues amounting to \$521,620 thousand, \$476,741 thousand, \$924,444 thousand and \$812,145 thousand, constituting 29%, 31%, 28% and 28% of the consolidated total revenues for the three months and six months ended June 30, 2018 and 2017, respectively.

KPMG

Taipei, Taiwan (Republic of China)
August 9, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statements 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 financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of June 30, 2018 and 2017

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018, December 31 and June 30, 2017

(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2018		December 31, 2017		June 30, 2017		Liabilities and Equity	
Assets	Amount	%	Amount	%	Amount	%	Current liabilities:	
Current assets:								
Cash and cash equivalents (note 6(a))	\$ 627,153	11	788,156	16	427,026	9	2100 Short-term debts (notes 6(j) and 8)	
Financial assets at fair value through profit or loss— current (note 6(b))	492,376	9	104,784	2	300,138	7	2120 Long-term debts, current portion (notes 6(h) and 8)	
Notes receivable, net (note 6(c))	18,487	-	2,739	-	11,226	-	Financial liabilities at fair value through profit or loss— current (note 6(b))	
Accounts receivable, net (note 6(c))	1,147,201	21	1,100,465	21	1,009,113	22	2170 Accounts payable	
Other receivables (notes 6(d) and 7)	27,736	1	97,214	2	20,087	-	2216 Dividend payable (note 6(n))	
Inventories (note 6(c))	1,872,210	34	1,754,500	34	1,424,532	31	2230 Current tax liabilities	
Other financial assets— current (note 8)	2,361	-	2,351	-	78,378	2	2219 Other payables (note 6(s))	
Prepayments	80,325	1	69,370	1	69,578	1	2250 Provisions— current (note 6(k))	
Other current assets	47,568	1	51,007	1	50,380	1	2399 Other current liabilities (notes 6(q) and 6(r))	
Total current assets	4,315,417	78	3,970,586	77	3,390,458	73	Total current liabilities	
Non-current assets:							Non-Current liabilities:	
Non-current financial assets at fair value through other comprehensive income (note 6(f))	500	-	-	-	-	-	2540 Long-term debts (notes 6(j) and 8)	
Financial assets carried at cost — non-current (note 6(g))	-	-	500	-	500	-	2630 Long-term deferred revenue (notes 6(q) and 6(r))	
Property, plant and equipment (notes 6(h) and 8)	1,044,106	20	1,078,987	21	1,072,874	24	2640 Deferred income tax liabilities	
Prepayments for equipment	56,081	1	51,920	1	59,084	1	2670 Accrued pension liabilities	
Intangible assets (note 6(i))	5,646	-	6,369	-	7,007	-	Other non-current liabilities	
Deferred income tax assets	54,751	1	54,563	1	60,453	1	Total non-current liabilities	
Other non-current assets (note 7)	21,566	-	18,155	-	21,145	1	Total liabilities	
Total non-current assets	1,182,650	22	1,210,494	23	1,221,063	27	Equity attributable to shareholders of the company (note 6(n)):	
							Share capital:	
							Common stock	
							3110 Stock dividend to be distributed	
							3150	
							Capital surplus	
							3200	
							Retained earnings:	
							3310 Legal reserve	
							3320 Special reserve	
							3350 Unappropriated retained earnings	
							Other equity:	
							3410 Financial statements translation differences for foreign operations	
							Total equity attributable to shareholders of the company	
							Non-controlling interests	
							Total equity	
							Total liabilities and equity	

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2018 and 2017

(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			
		2018		2017		2018		2017	
		Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating revenue (notes 6(q), 6(r) and 7)	\$ 1,812,889	100	1,519,738	100	3,335,373	100	2,920,831	100
5000	Operating cost (notes 6(d), 6(l), 6(s) and 7)	<u>1,349,530</u>	<u>74</u>	<u>1,129,518</u>	<u>74</u>	<u>2,473,740</u>	<u>74</u>	<u>2,148,830</u>	<u>74</u>
	Gross profit, net	<u>463,359</u>	<u>26</u>	<u>390,220</u>	<u>26</u>	<u>861,633</u>	<u>26</u>	<u>772,001</u>	<u>26</u>
	Operating expenses (notes 6(c), 6(l), 6(s) and 7):								
6100	Selling expenses	132,592	7	123,551	8	263,326	8	236,318	8
6200	Administrative expenses	81,863	5	75,460	5	150,621	4	140,354	5
6300	Research and development expenses	128,882	7	116,974	8	256,868	8	216,959	7
6450	Impairment loss (impairment gain and reversal of impairment loss)	<u>(286)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(825)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total operating expenses	<u>343,051</u>	<u>19</u>	<u>315,985</u>	<u>21</u>	<u>669,990</u>	<u>20</u>	<u>593,631</u>	<u>20</u>
	Operating profit	<u>120,308</u>	<u>7</u>	<u>74,235</u>	<u>5</u>	<u>191,643</u>	<u>6</u>	<u>178,370</u>	<u>6</u>
	Non-operating income and expenses (notes 6(k) and 6(t)):								
7010	Other income	17,891	1	1,192	-	31,445	1	13,474	-
7020	Other gains and losses	7,896	-	3,895	-	6,669	-	(40,147)	(1)
7050	Financial costs	<u>(550)</u>	<u>-</u>	<u>(1,156)</u>	<u>-</u>	<u>(1,116)</u>	<u>-</u>	<u>(1,747)</u>	<u>-</u>
	Total non-operating income and expenses	<u>25,237</u>	<u>1</u>	<u>3,931</u>	<u>-</u>	<u>36,998</u>	<u>1</u>	<u>(28,420)</u>	<u>(1)</u>
	Net income before tax	145,545	8	78,166	5	228,641	7	149,950	5
7951	Less: income tax expense (note 6(m))	<u>33,251</u>	<u>2</u>	<u>14,357</u>	<u>1</u>	<u>60,301</u>	<u>2</u>	<u>25,617</u>	<u>1</u>
	Net income	<u>112,294</u>	<u>6</u>	<u>63,809</u>	<u>4</u>	<u>168,340</u>	<u>5</u>	<u>124,333</u>	<u>4</u>
8300	Other comprehensive income (loss):								
8360	Items that may be reclassified subsequently to profit or loss								
8361	Exchange differences on translation of foreign financial statements	(2,380)	-	15,515	1	7,896	-	(24,577)	(1)
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>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total Items that may be reclassified subsequently to profit or loss	<u>(2,380)</u>	<u>-</u>	<u>15,515</u>	<u>1</u>	<u>7,896</u>	<u>-</u>	<u>(24,577)</u>	<u>(1)</u>
8300	Other comprehensive income (loss), net	<u>(2,380)</u>	<u>-</u>	<u>15,515</u>	<u>1</u>	<u>7,896</u>	<u>-</u>	<u>(24,577)</u>	<u>(1)</u>
	Total comprehensive income	<u>\$ 109,914</u>	<u>6</u>	<u>79,324</u>	<u>5</u>	<u>176,236</u>	<u>5</u>	<u>99,756</u>	<u>3</u>
	Net income attributable to:								
8610	Shareholders of the parent company	\$ 104,648	6	53,700	3	149,523	4	105,854	3
8620	Non-controlling interests	<u>7,646</u>	<u>-</u>	<u>10,109</u>	<u>1</u>	<u>18,817</u>	<u>1</u>	<u>18,479</u>	<u>1</u>
	Total comprehensive income attributable to:	<u>\$ 112,294</u>	<u>6</u>	<u>63,809</u>	<u>4</u>	<u>168,340</u>	<u>5</u>	<u>124,333</u>	<u>4</u>
	Shareholders of the parent company	\$ 105,127	6	67,015	4	156,061	5	84,193	3
8720	Non-controlling interests	<u>4,787</u>	<u>-</u>	<u>12,309</u>	<u>1</u>	<u>20,175</u>	<u>-</u>	<u>15,563</u>	<u>-</u>
	Total comprehensive income attributable to:	<u>\$ 109,914</u>	<u>6</u>	<u>79,324</u>	<u>5</u>	<u>176,236</u>	<u>5</u>	<u>99,756</u>	<u>3</u>
9750	Basic earnings per share (in New Taiwan dollars) (note 6(p))	<u>\$ 0.99</u>		<u>0.51</u>		<u>1.41</u>		<u>1.01</u>	
9850	Diluted earnings per share (in New Taiwan dollars) (note 6(p))	<u>\$ 0.98</u>		<u>0.51</u>		<u>1.39</u>		<u>1.00</u>	

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										Non-controlling interests	Total equity
	Retained earnings					Total retained earnings	Total equity attributable to owners of parent					
	Ordinary shares	Share dividend to be distributed	Total share capital	Capital surplus	Legal reserve			Special reserve	Unappropriated retained earnings			
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 of retained earnings:												
Legal reserve appropriated	-	-	-	-	38,092	-	(38,092)	-	-	-	-	-
Special reserve appropriated	-	-	-	-	-	27,483	(27,483)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(313,950)	(313,950)	-	(313,950)	-	(313,950)
Net income	-	-	-	-	-	-	105,854	105,854	-	105,854	18,479	124,333
Other comprehensive income	-	-	-	-	-	-	-	-	(21,661)	(21,661)	(2,916)	(24,577)
Total comprehensive income	-	-	-	-	-	-	105,854	105,854	(21,661)	84,193	15,563	99,756
Share-based payments	-	-	-	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
Balance at January 1, 2018	\$ 1,046,494	-	1,046,494	656,348	232,991	29,708	748,447	1,011,146	(44,515)	2,669,473	247,439	2,916,912
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	-	-	34,863	-	(34,863)	-	-	-	-	-
Special reserve appropriated	-	-	-	-	-	14,807	(14,807)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(212,340)	(212,340)	-	(212,340)	(7,353)	(219,693)
Stock dividends of ordinary share	-	21,240	21,240	-	-	-	(21,240)	(21,240)	-	-	-	-
Net income	-	-	-	-	-	-	149,523	149,523	-	149,523	18,817	168,340
Other comprehensive income	-	-	-	-	-	-	-	-	6,538	6,538	1,358	7,896
Total comprehensive income	-	-	-	-	-	-	149,523	149,523	6,538	156,061	20,175	176,236
Share-based payments	-	-	-	1,033	-	-	-	-	-	1,033	-	1,033
Stock options exercised by employees	15,200	-	15,200	32,984	-	-	-	-	-	48,184	-	48,184
Balance at June 30, 2018	\$ 1,061,694	21,240	1,082,934	690,365	267,854	44,515	614,720	927,089	(37,977)	2,662,411	260,261	2,922,672

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	2017
Cash flows from operating activities:		
Consolidated net income before tax	\$ 228,641	149,950
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	50,281	51,019
Amortization expense	771	744
Expected credit gain / Reversal of provision for bad debt expense	(825)	(562)
Net loss on financial assets or liabilities at fair value through profit or loss	2,004	414
Interest expense	1,116	1,747
Interest income	(3,814)	(2,388)
Remuneration cost of employee stock options	1,033	4,648
Loss on disposal of property, plant and equipment, net	42	118
Total adjustments to reconcile profit and loss	50,608	55,740
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss	(389,596)	-
Financial assets or liabilities at fair value through profit or loss	-	(250,543)
Notes receivable	(15,748)	(4,765)
Accounts receivable	(45,969)	96,864
Other receivable	69,478	48,944
Inventories	(117,710)	(39,008)
Prepayments	(10,955)	(3,855)
Other current assets	3,439	183
Other financial assets	(22)	6,504
Total changes in operating assets, net	(507,083)	(145,676)
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	2,039	577
Notes payable	-	(7,060)
Accounts payable	157,134	(134,426)
Other payables	(51,204)	(157,423)
Provisions	(6,235)	1,158
Other current liabilities	69,226	(6,651)
Net defined benefit liability	(1)	2
Deferred revenue	(3,440)	(1,779)
Total changes in operating liabilities, net	167,519	(305,602)
Total changes in operating assets and liabilities, net	(339,564)	(451,278)
Total adjustments	(288,956)	(395,538)
Cash used in operating activities	(60,315)	(245,588)
Interest income received	3,826	2,365
Interest paid	(1,244)	(1,741)
Income taxes paid	(35,946)	(32,889)
Net cash used in operating activities	(93,679)	(277,853)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(12,579)	(15,836)
Proceeds from disposal of property, plant and equipment	-	1,011
Increase in other financial assets	-	(8,938)
Increase in other non-current assets	(3,411)	(9,703)
Increase in prepayments for equipment	(5,266)	(4,262)
Net cash used in investing activities	(21,256)	(37,728)
Cash flows from financing activities:		
Decrease in short-term loans	(102,390)	(16,303)
Repayments of long-term debt	(888)	(921)
Increase in guarantee deposits received	-	940
Increase in other non-current liabilities	37	14
Exercise of employee share options	48,184	18,489
Net cash provided by (used in) financing activities	(55,057)	2,219
Effect of exchange rate changes on cash and cash equivalents	8,989	(20,935)
Net decrease in cash and cash equivalents	(161,003)	(334,297)
Cash and cash equivalents at beginning of period	788,156	761,323
Cash and cash equivalents at end of period	\$ 627,153	427,026

See accompanying notes to consolidated financial statements.

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

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

June 30, 2018 and 2017

(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 financial statements were reported to the Board of Directors and published on August 9, 2018.

(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, 2018. The differences between the current version and the previous version are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of 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

(Continued)

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

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

(i) 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 the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts". The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue is currently recognized when 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. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

There are no impacts of adopting IFRS15 on the Group's consolidated financial statements.

(ii) 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.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

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

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous 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 asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(c).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(c).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed 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.

(Continued)

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

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Equity instruments	Financial assets at cost	500	FVOCI	500
Trade and other receivables	Loans and receivables (note 2)	1,103,204	Amortized cost	1,103,204

Note 1: As permitted by IFRS 9, these investments at the date of initial application were measured at FVOCI. Since the amounts of unrealized gain or loss were immaterial, the Group would not make any retroactive adjustment.

Note 2: Notes receivables and accounts receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings effect	2018.1.1 Other equity effect
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 104,784	-	-	104,784	-	-
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 500	-	-	500	-	-
Amortized cost						
Beginning balance of trade and other receivables	\$ 1,103,204	-	-	1,103,204	-	-

(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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

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

(i) IFRS 16“Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group’s discounting rate, the composition of the Group’s lease portfolio at that date, the Group’s latest assessment of whether it will exercise any lease renewal options, and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases of offices, warehouses, and factory facilities. No significant impact is expected for the Group’s finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

1) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(Continued)

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

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

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, as well as 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, as well as 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.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

(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 have yet to be 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 17 "Insurance Contracts"	January 1, 2021

(Continued)

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

The Group assessed that the above IFRSs may not be relevant to the Group.

(4) Summary of significant accounting policies

Except for the following, the significant accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017. For related information, please referred to note 4 of the consolidated financial statement for the year ended December 31, 2017.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" ("Regulations") and IAS 34 Interim Financial Reporting endorsed by the FSC, 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 financial statements is consistent with that applied in the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note 4(c) to the consolidated financial statements for the year ended December 31, 2017.

List of subsidiaries included in the consolidated financial statements

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
The Company	LANNER ELECTRONICS USA, INC. (LANNER (USA))	Trading of computer peripheral products	100.00 %	100.00 %	100.00 %	
The Company	LANNER ELECTRONICS (MAURITIUS) INC. (LANNER (MAURITIUS))	Investing	100.00 %	100.00 %	100.00 %	
The Company	LEI TECHNOLOGY CANADA INC. (LEI)	Trading of computer peripheral products	100.00 %	100.00 %	100.00 %	Note 5
LANNER (MAURITIUS)	LANCOM HOLDING CO., LTD. (LANCOM)	Investing	100.00 %	100.00 %	100.00 %	
LANCOM	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Trading of computer peripheral products	80.00 %	80.00 %	80.00 %	Note 1
LANCOM	Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral products	100.00 %	100.00 %	-	% Note 2

(Continued)

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

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
L&S	Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	100.00 %	100.00 %	100.00 %	
Beijing LSZC Investment Co., Ltd.	Dongguan Lihua Haiwell Tech. Co., Ltd. (Haiwell)	Manufacture and trading of computer peripheral products	100.00 %	100.00 %	100.00 %	
Beijing LSZC Investment Co., Ltd.	Beijing HDZX Technology Co., Ltd. (HDZX)	Trading of computer peripheral products	39.90 %	39.90 %	42.99 %	Notes 3, 4 and 5

Note 1: In June 2017, Beijing LSEC Investment Co., Ltd had a capital increase in cash of CNY 3,000 thousand. However, the Group did not acquire these new common shares proportionally, resulting in the Group's shares to decrease.

Note 2: In March 2017, the Board of Directors approved a resolution to acquire 100% ownership of Lanner Technology (Dongguan) Co., Ltd. at price of USD250 thousand.

Note 3: In July 2017, Beijing LSZC Investment Co., Ltd (LSZC) had a capital increase in cash of CNY1,438 thousand. However, the Group did not acquire these new common shares proportionally, resulting in the Group's shares to decrease.

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

Note 5: An immaterial subsidiary, whose financial statements have not been reviewed.

(c) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Continued)

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

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivable, and guarantee deposit paid and other financial assets).

(Continued)

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

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

(Continued)

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

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(ii) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

(d) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods

The Group manufactures and sells industrial personal computers and network communication apparatus to computer manufacturers. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group's obligation to provide a refund for faulty electronic components under the standard warranty terms is recognized as a provision for warranty; please refer to note 6(k).

(Continued)

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

The Group provides certain customers who buy product with an extended warranty over the two-year period in addition to the assurance that the product complies with agreed-upon specifications. This kind of contract contains two performance obligations and, therefore, the transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. Management estimates the stand-alone selling prices at contract inception based on the observable prices at which the Group would sell the product and the extended warranty separately in similar circumstances and to similar customers. The Group recognizes revenue for the service-type warranty on a straight-line basis over the extended warranty period. The payment terms of the extended warranty are similar to product.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) **Financing components**

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(e) **Employee benefits**

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

(f) **Income tax**

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

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

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements is in conformity with IAS 34 "Interim Financial Reporting" endorsed by FSC. The standard requires management to make judgments, estimations and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

During the preparation of the consolidated financial statements, except for additional information, the management adopts similar method used in accounting policy judgements and assumptions which are in conformity with note 5 of the consolidated financial statements for the year ended December 31, 2017.

(Continued)

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

(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, 2017. For the related information, please refer to note 6 of the consolidated financial statements for the year ended December 31, 2017.

(a) Cash and cash equivalents

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Cash	\$ 6,055	9,244	1,164
Working capital	80	80	80
Cash in banks	371,002	360,208	211,839
Checking deposits	21,592	5,385	12,293
Time deposits	-	-	7,595
Foreign currency deposits	<u>228,424</u>	<u>413,239</u>	<u>194,055</u>
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 627,153</u>	<u>788,156</u>	<u>427,026</u>

Please refer to note 6(u) 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, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Financial assets at fair value through comprehensive income:			
Non-derivative financial assets	\$ 492,376		
Financial assets held for trading:			
Derivative instruments not used for hedging		250	-
Non-derivative financial assets		<u>104,534</u>	<u>300,138</u>
Total	<u>\$ 492,376</u>	<u>104,784</u>	<u>300,138</u>

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Financial liabilities held for trading:			
Derivative instruments not used for hedging	<u>\$ 2,039</u>	<u>-</u>	<u>1,586</u>

Please refer to note 6(u) 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, 2018, December 31 and June 30, 2017.

(Continued)

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

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, 2018, December 31 and June 30, 2017, 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, 2018			
Forward Contracts	\$ (2,039)	USD/TWD	2,720
December 31, 2017			
Forward Contracts	\$ 250	USD/TWD	2,800
June 30, 2017			
Forward Contracts	\$ (1,586)	USD/TWD	5,330

As of June 30, 2018, December 31 and June 30, 2017, the maturity dates of the derivative financial assets and liabilities were between August 2, 2018 to October 23, 2018, February 2, 2018 to March 5, 2018 and July 18, 2017 to September 5, 2017.

(c) Notes and accounts receivable and other receivables

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Notes receivable	\$ 18,487	2,739	11,226
Accounts receivable	1,164,119	1,118,150	1,019,232
Less: allowance for impairment	<u>16,918</u>	<u>17,685</u>	<u>10,119</u>
	<u><u>\$ 1,165,688</u></u>	<u><u>1,103,204</u></u>	<u><u>1,020,339</u></u>

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

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on June 30, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of June 30, 2018 was determined as follows:

	<u>Gross carrying amount</u>	<u>Weighted-average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 848,915	0.01%~2.77%	2,896
1 to 30 days past due	65,248	1.61%~6.80%	4,388
31 to 60 days past due	5,510	24.25%~26.45%	1,400
61 to 90 days past due	468	36.05%~91.99%	248
More than 121 days past due	-	100%	-
	<u><u>\$ 920,141</u></u>		<u><u>8,932</u></u>

(Continued)

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

The loss allowance provision in china as of June 30, 2018 was determined as follows:

	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 152,307	0%~1.19%	15
1 to 30 days past due	87,095	0.01%~6.74%	9
31 to 60 days past due	6,673	0.01%~8.60%	435
61 to 90 days past due	7,429	11.62%	863
91 to 120 days past due	1,548	15.36%	238
121 to 150 days past due	976	36.03%	352
151 to 180 days past due	804	36.43%~80.93%	441
More than 181 days past due	5,633	100%	5,633
	<u>\$ 262,465</u>		<u>7,986</u>

As of December 31 and June 30, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and trade receivable, and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

	December 31, 2017	June 30, 2017
Past due 1 to 30 days	\$ 133,357	84,507
Past due 31 to 90 days	74,551	12,809
More than 90 days past due	14,334	7,185
	<u>\$ 222,242</u>	<u>104,501</u>

The movement in the allowance for notes and accounts receivable was as follows:

	For the six months ended June 30, 2018	For the six months ended June 30, 2017		
		Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2018 and 2017 per IAS 39	\$ 17,685	10,753	-	10,753
Adjustment on initial application of IFRS 9	-			
Balance on January 1, 2018 per IFRS 9	17,685			
Impairment loss reversed	(825)	(562)	-	(562)
Foreign exchange losses	58	(72)	-	(72)
Balance on June 30, 2018 and 2017	<u>\$ 16,918</u>	<u>10,119</u>	<u>-</u>	<u>10,119</u>

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

(Continued)

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

(d) Other receivables

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Other receivables — related parties	\$ -	75,770	-
Other	<u>27,736</u>	<u>21,444</u>	<u>20,087</u>
	<u>\$ 27,736</u>	<u>97,214</u>	<u>20,087</u>

As of June 30, 2018, December 31 and June 30, 2017, the Group had no other receivables that were past due. Therefore, no provisions for doubtful debt were required after the management's assessment. For other credit risk information, please refers to note 6(u).

(e) Inventories

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Merchandise	\$ 507	1,092	1,049
Finished goods	781,345	846,761	586,501
Work in process	389,520	234,957	310,076
Raw material	<u>700,838</u>	<u>671,690</u>	<u>526,906</u>
Total	<u>\$ 1,872,210</u>	<u>1,754,500</u>	<u>1,424,532</u>

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, 2018, December 31 and June 30, 2017, 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:

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Loss on market value of inventory	<u>\$ 14,514</u>	<u>7,236</u>	<u>22,049</u>	<u>16,284</u>

(f) Financial assets at fair value through other comprehensive income

	<u>June 30, 2018</u>
Equity investments at fair value through other comprehensive income:	
Unlisted stocks (domestic)	<u>\$ 500</u>

(Continued)

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

(i) Equity investments at fair value through other comprehensive income

The Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as financial assets at cost on December 31 and June 30, 2017.

(ii) For credit risk and market risk, please refer to note 6(u).

(iii) The Group did not hold any collateral for the collectible amounts.

(g) Financial assets carried at cost—noncurrent

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

(h) 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, 2018	\$ 498,671	362,081	21,643	196,592	-	1,078,987
June 30, 2018	\$ 499,312	356,833	21,378	166,583	-	1,044,106
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

For the six months ended June 30, 2018 and 2017, the Group did not have any significant purchase, disposal, impairment or reversal on fixed assets. For depreciation expense of the current period, please refers to note 12(a). For other relative information, please refers to note 6(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, 2018, December 31 and June 30, 2017.

(i) Intangible assets

	<u>Goodwill</u>	<u>Customer relation</u>	<u>Total</u>
Carrying value:			
January 1, 2018	\$ 4,601	1,768	6,369
June 30, 2018	\$ 4,628	1,018	5,646
January 1, 2017	\$ 4,654	3,321	7,975
June 30, 2017	\$ 4,524	2,483	7,007

(Continued)

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

For the six months ended June 30, 2018 and 2017, 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.

(j) Short-term and long-term borrowings

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

(i) Short-term borrowings

June 30, 2018				
	Currency	Interest rate	Maturity year	Amount
Unsecured loans	RMB	5.65	2018	\$ 13,721
Unsecured loans	USD	4.2838	2018	9,487
Total				<u>\$ 23,208</u>

December 31, 2017				
	Currency	Interest rate	Maturity year	Amount
Secured loans	TWD	1.05	2018	\$ 50,000
Unsecured loans	TWD	1.08	2018	50,000
Unsecured loans	RMB	5.65	2018	13,635
Unsecured loans	USD	3.6183	2018	11,672
Total				<u>\$ 125,307</u>

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

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

As of June 30, 2018, December 31 and June 30, 2017, the unused credit facilities of the Group's short-term borrowings amounted to \$930,015 thousand, \$829,815 thousand and \$868,000 thousand, respectively.

(Continued)

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

(ii) Long-term borrowings

June 30, 2018			
	Currency	Interest rate	Maturity year
Secured loans	USD	4.4368	2020
Current			
Non-current			
Total			
			\$ 21,900

December 31, 2017			
	Currency	Interest rate	Maturity year
Secured loans	USD	3.4606	2020
Current			
Non-current			
Total			
			\$ 20,071

June 30, 2017			
	Currency	Interest rate	Maturity year
Secured loans	USD	3.2748	2020
Current			
Non-current			
Total			
			\$ 38,431

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

(iii) Collateral of loans

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

(k) Provisions

	June 30, 2018	December 31, 2017	June 30, 2017
Warranty	\$ 42,134	41,999	36,142
Legal	-	6,370	6,370
Total	\$ 42,134	48,369	42,512

(Continued)

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

A legal claim brought against the Group and another individual by a former employee demanding for compensation, wherein the Group originally estimated the related damage to be \$6,370 thousand as of December 31 and June 30, 2017. However, based on the final decision made by the court in April 2018, both accused will only have to pay the amount of \$3,884 thousand, plus, interest, which is calculated using 5% rate per annum beginning October 14, 2007 until the repayment date. Out of the said amount, the Group has to pay \$1,000 thousand, with the remaining amount being assumed by the other individual. Since the Group had overestimated its debt provision, the remaining balance had been recognized as other income.

For the six months ended June 30, 2018 and 2017, despot of lawsuit, 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.

(I) 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 financial statements was measured and disclosed according to the actual report as of December 31, 2017 and 2016.

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	
	2018	2017	2018	2017
Operating costs	\$ 108	114	217	225
Selling expenses	48	45	91	90
Administrative expenses	66	77	134	152
Research and development expenses	73	67	143	133
Total	<u>\$ 295</u>	<u>303</u>	<u>585</u>	<u>600</u>

(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	
	2018	2017	2018	2017
Operating costs	\$ 2,345	1,621	4,190	3,308
Selling expenses	1,816	1,715	3,581	3,357
Administrative expenses	1,419	1,296	2,833	2,620
Research and development expenses	3,879	3,502	7,774	6,755
Total	<u>\$ 9,459</u>	<u>8,134</u>	<u>18,378</u>	<u>16,040</u>

(Continued)

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

(m) Income tax

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

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. The group spreads the effect of the change amounting to \$9,298 thousand in the tax rate by an adjustment to the estimated annual effective income tax rate.

The Group's income tax expense were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Current tax expense				
Current period	\$ 35,130	25,476	62,180	36,736
Adjustment for prior periods	(1,879)	(11,119)	(1,879)	(11,119)
Income tax expense from continuing operations	<u>\$ 33,251</u>	<u>14,357</u>	<u>60,301</u>	<u>25,617</u>

The tax returns of the Company were examined and approved by the tax authorities through 2015.

(n) Capital and other equity

As of June 30, 2018, December 31 and June 30, 2017, the ordinary shares with par value of \$10 per share, amounted to \$1,500,000 thousand; also, 106,169 thousand, \$104,649 thousand and 104,649 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, 2018 and 2017 were as follows:

	Unit: thousands shares For the six months ended June 30	
	2018	2017
Balance at January 1	104,649	103,645
Exercise of employee share options	1,520	1,004
Balance at June 30	<u>106,169</u>	<u>104,649</u>

(i) Issue of common stock

For the six months ended June 30, 2018 and 2017, the Company issued 1,520 thousand shares and 1,004 thousand shares of common stocks, as its employees exercised their stock option at \$31.7 per share and \$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.

(Continued)

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

(ii) Capital surplus

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

	June 30, 2018	December 31, 2017	June 30, 2017
Share premium from issuance	\$ 654,368	610,987	610,987
Changes in equity of associates and joint ventures accounted for using equity method	17,539	17,539	16,693
Employee share options	9,426	19,016	16,655
Employee share options expired	9,032	8,806	8,628
	<u>\$ 690,365</u>	<u>656,348</u>	<u>652,963</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 against 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, 2018, December 31 and June 30, 2017 the special earnings reserve amounted to \$44,515 thousand, \$29,708 thousand and \$29,708 thousands, respectively.

(Continued)

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

Earnings distribution for 2017 and 2016 was decided via the general meeting of shareholders held on June 19, 2018 and June 15, 2017, respectively. The relevant dividend distributions to shareholders were as follows:

	2017		2016	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 2.0	212,340	3.0	313,950
Stock	0.2	21,240	-	-
Total		<u>\$ 233,580</u>		<u>313,950</u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2018	\$ (44,515)	(4,354)	(48,869)
Foreign exchange differences arising from net assets of foreign operation	6,538	1,358	7,896
Balance at June 30, 2018	<u>\$ (37,977)</u>	<u>(2,996)</u>	<u>(40,973)</u>
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>\$ (49,144)</u>	<u>(5,749)</u>	<u>(54,893)</u>

(o) 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, 2018, 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 2017. On September 17, 2015, the Group provided stock options to its employees. For the six months ended June 30, 2018, 1,520 units were exercised and 30 units were written off. In spite of the aforementioned matter, there were no significant changes for the six months ended June 30, 2018.

(Continued)

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

(p) Earnings per share

(i) Basic earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Net income attributable to ordinary shareholders of the Company	\$ <u>104,648</u>	<u>53,700</u>	<u>149,523</u>	<u>105,854</u>
Weighted-average number of ordinary shares	<u>105,414</u>	<u>104,649</u>	<u>105,993</u>	<u>104,472</u>
Basic earnings per share (in NT dollars)	\$ <u>0.99</u>	<u>0.51</u>	<u>1.41</u>	<u>1.01</u>

(ii) Diluted earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Net income attributable to ordinary shareholders of the Company (diluted)	\$ <u>104,648</u>	<u>53,700</u>	<u>149,523</u>	<u>105,854</u>
Weighted-average number of ordinary shares (basic)	105,414	104,649	105,993	104,472
Impact of potential common shares				
Effect of employee stock bonus	558	366	1,119	807
Effect of employee stock option	<u>387</u>	<u>705</u>	<u>364</u>	<u>675</u>
Weighted-average number of ordinary shares (diluted)	<u>106,359</u>	<u>105,720</u>	<u>107,476</u>	<u>105,954</u>
Diluted earnings per share (in NT dollars)	\$ <u>0.98</u>	<u>0.51</u>	<u>1.39</u>	<u>1.00</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 SUBSIDIARIES
Notes to the Consolidated Interim Financial Statements

(iii) Pro-forma earnings per share

On June 19, 2018, the stockholders approved a capital injection by converting the undistributed earnings of \$21,240 thousand to 2,124 new shares of common stocks. If the date of the stock issuance is before the date on which the financial statement is announced, the Pro-forma Earnings Per Share will be as follows:

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Basic earnings per share (in NT dollars)	\$ <u>0.97</u>	<u>0.50</u>	<u>1.38</u>	<u>0.99</u>
Diluted earnings per share (in NT dollars)	\$ <u>0.96</u>	<u>0.50</u>	<u>1.36</u>	<u>0.98</u>

(q) Revenue from contracts with customers—disaggregation of revenue

For the three months ended June 30, 2018			
	Sale of Network Communication and other related products	Others	Total
Primary geographical markets:			
Asia	\$ 733,938	3,395	737,333
America	866,077	12,031	878,108
Europe	150,198	46	150,244
Others	<u>47,204</u>	<u>-</u>	<u>47,204</u>
	<u>\$ 1,797,417</u>	<u>15,472</u>	<u>1,812,889</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 1,535,590	15,421	1,551,011
Others	<u>261,827</u>	<u>51</u>	<u>261,878</u>
	<u>\$ 1,797,417</u>	<u>15,472</u>	<u>1,812,889</u>

(Continued)

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

For the three months ended June 30, 2018			
	Sale of Network Communication and other related products	Others	Total
Primary geographical markets:			
Asia	\$ 1,337,474	9,538	1,347,012
America	1,628,659	21,209	1,649,868
Europe	262,408	48	262,456
Others	<u>76,034</u>	<u>3</u>	<u>76,037</u>
	<u>\$ 3,304,575</u>	<u>30,798</u>	<u>3,335,373</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 2,896,219	30,743	2,926,962
Others	<u>408,356</u>	<u>55</u>	<u>408,411</u>
	<u>\$ 3,304,575</u>	<u>30,798</u>	<u>3,335,373</u>

Unearned revenue, net for consolidated Company amounted to \$(811) thousand and \$(3,440) thousand for the three months and six months ended June 30, 2018, respectively. As of June 30, 2018, accumulated unearned revenue amounted to \$50,922 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(r) Revenue

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

	For the three months ended June 30, 2017	For the six months ended June 30, 2017
Sale of goods	\$ 1,509,913	2,899,147
Service income	<u>9,825</u>	<u>21,684</u>
	<u>\$ 1,519,738</u>	<u>2,920,831</u>

Unearned revenue, net for consolidated Company amounted to \$(1,323) thousand and \$(2,083) thousand for the three months and six months ended June 30, 2017, respectively. As of December 31 and June 30, 2017, accumulated unearned revenue amounted to \$54,362 thousand and \$56,895 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(s) 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.

(Continued)

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

For the three months and six months ended June 30, 2018 and 2017, the Company recognized its employee remuneration of \$18,114 thousand, \$8,489 thousand, \$26,049 thousand and \$16,699 thousand, respectively, and directors' and supervisors' remuneration of \$1,797 thousand, \$849 thousand, \$2,591 thousand and \$2,199 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.

For the year ended December 31, 2016, the Company accrued its remuneration to employees, and directors and supervisors amounting to \$63,394 thousand and \$6,393 thousand, respectively. However, the amounts approved by the board 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 and loss in 2017. For the year ended December 31, 2017, the Company accrued its remuneration to employees, and directors and supervisors amounting to \$56,482 thousand and \$5,648 thousand, respectively. There were no differences between the amounts of remuneration to employees, directors and supervisors approved by the board. Related information would be available at the Market Observation Post System website.

(t) 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	
	2018	2017	2018	2017
Rent income	\$ 1,571	193	3,122	375
Interest income	2,038	1,214	3,814	2,388
Other	14,282	(215)	24,509	10,711
	<u>\$ 17,891</u>	<u>1,192</u>	<u>31,445</u>	<u>13,474</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	\$ 10,385	5,701	9,815	(38,690)
Loss on disposal of property, plant and equipment	(42)	(108)	(42)	(118)
Valuation loss on financial assets	(2,447)	(1,697)	(2,004)	(414)
Other loss	-	(1)	(1,100)	(925)
	<u>\$ 7,896</u>	<u>3,895</u>	<u>6,669</u>	<u>(40,147)</u>

(Continued)

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

(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	
	2018	2017	2018	2017
Interest expenses — short-term loans	\$ <u>550</u>	<u>1,156</u>	<u>1,116</u>	<u>1,747</u>

(u) 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(t) of the consolidated financial statements for the year ended December 31, 2017.

(i) Credit risk

As of June 30, 2018, December 31 and June 30, 2017, the major client contributed approximately 17%, 24% and 24% of total receivables, respectively. The other four clients contributed no more than 24%, 18% and 18% 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, 2018						
Non-derivative financial liabilities						
Short-term debts	\$ 23,208	23,460	23,460	-	-	-
Accounts payable	1,333,317	1,333,317	1,333,317	-	-	-
Dividends payable	219,693	219,693	219,693	-	-	-
Other payables	105,524	105,524	105,524	-	-	-
Long-term debts (including due within a year)	21,900	23,848	1,988	1,988	19,872	-
Guarantee deposits received	1,047	1,047	-	-	-	1,047
Outflow	2,039	2,039	2,039	-	-	-
	<u>\$ 1,706,728</u>	<u>1,708,928</u>	<u>1,686,021</u>	<u>1,988</u>	<u>19,872</u>	<u>1,047</u>
December 31, 2017						
Non-derivative financial liabilities						
Short-term debts	\$ 125,307	126,311	126,311	-	-	-
Accounts payable	1,176,183	1,176,183	1,176,183	-	-	-
Other payables	139,573	139,573	139,573	-	-	-
Long-term debts (including due within a year)	20,071	21,809	1,939	1,939	17,931	-
Guarantee deposits received	1,028	1,028	-	-	-	1,028
	<u>\$ 1,462,162</u>	<u>1,464,904</u>	<u>1,444,006</u>	<u>1,939</u>	<u>17,931</u>	<u>1,028</u>

(Continued)

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

	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 (including related parties)	888,010	888,010	888,010	-	-	-
Dividends payable	313,950	313,950	313,950	-	-	-
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
Outflow	1,586	1,586	1,586	-	-	-
	<u>\$ 1,384,409</u>	<u>1,388,359</u>	<u>1,347,169</u>	<u>2,002</u>	<u>38,209</u>	<u>979</u>

(iii) Currency risk

1) Exposure to foreign currency risk

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

	Foreign currency	Exchange rate	NTD
June 30, 2018			
Financial assets:			
Monetary items:			
USD (note)	\$ 49,686	30.4250	1,511,711
Financial liabilities:			
Monetary items:			
USD (note)	\$ 39,200	30.4250	1,192,658
December 31, 2017			
Financial assets:			
Monetary items:			
USD (note)	\$ 56,921	29.7350	1,692,556
Financial liabilities:			
Monetary items:			
USD (note)	\$ 37,726	29.7350	1,121,780
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

Note: Amounts are designated before consolidation.

(Continued)

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

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, 2018 and 2017 would have increased or decreased the net income by \$8,389 thousand and \$10,337 thousand, respectively. The analysis is performed on the same basis for both periods.

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, 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized abortions) amounted to \$9,815 thousand and \$(38,690) 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 \$180 thousand and \$323 thousand, respectively, for the six months ended June 30, 2018 and 2017, with all other variable factors remain constant. This is mainly due to the Group's borrowing in variable rates.

(Continued)

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

(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, 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 492,376	300,284	192,092	-	492,376
Financial assets at fair value through other comprehensive income					
Stocks unlisted on domestic markets	500	-	-	500	500
Total	<u>\$ 492,876</u>	<u>300,284</u>	<u>192,092</u>	<u>500</u>	<u>492,876</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	<u>\$ 2,039</u>	<u>-</u>	<u>2,039</u>	<u>-</u>	<u>2,039</u>
	December 31, 2017				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets for hedging	\$ 250	-	250	-	250
Non-derivative financial assets for trading	104,534	-	104,534	-	104,534
Total	<u>\$ 104,784</u>	<u>-</u>	<u>104,784</u>	<u>-</u>	<u>104,784</u>
	June 30, 2017				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Non-derivative financial assets for trading	<u>\$ 300,138</u>	<u>300,138</u>	<u>-</u>	<u>-</u>	<u>300,138</u>

(Continued)

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

	June 30, 2017				
	Carrying amount	Fair value			
		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>

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. The financial instrument in China is evaluated based on the market value. Equity instruments not held for trading are evaluated by using discounted cash flow method.

(v) 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, 2017.

(w) 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, 2017; 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, 2017. For related information, please refer to note(v) of the consolidated financial statements for the year ended December 31, 2017.

(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>
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

(Continued)

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

(b) Significant related party transactions

(i) 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, 2018 and 2017 and the six months ended June 30, 2018 and 2017 amounted to \$330 thousand, \$330 thousand, \$660 thousand and \$660 thousand. There were no outstanding balance as of June 30, 2018, December 31 and June 30, 2017.

(ii) Contribution

With the approval from the board of directors, the Group agreed to contribute \$1,500 thousand to Lanner Foundation for the six months ended June 30, 2018. Recorded under operating expenses—administrative expenses.

(c) Key management personnel compensations

Key management personnel compensation comprised:

	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 14,059	13,421	31,216	30,075
Post-employment benefits	244	211	451	422
	<u>\$ 14,303</u>	<u>13,632</u>	<u>31,667</u>	<u>30,497</u>

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	June 30, 2018	December 31, 2017	June 30, 2017
Certificate of deposits (recorded under other financial assets—current)	Guarantee for customs	\$ 2,349	2,327	2,327
Land	Guarantee for long and short-term debts	414,222	413,582	414,180
Building	Guarantee for long and short-term debts	254,082	257,676	262,600
		<u>\$ 670,653</u>	<u>673,585</u>	<u>679,107</u>

(Continued)

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

(9) Significant Commitments and Contingencies

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Acquisition of property, plant and equipment	\$ <u>115,827</u>	<u>115,101</u>	<u>113,178</u>

(b) Operating lease commitments

As of June 30, 2018, December 31 and June 30, 2017, 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>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Under a year	\$ 40,020	37,112	36,695
Over 1 year but under 5 years	72,759	78,655	98,752
Over 5 years	40,766	46,664	54,623
	\$ <u>153,545</u>	<u>162,431</u>	<u>190,070</u>

(10) Losses due to major disasters: None.

(11) Subsequent events

In July 2018, the Securities and Futures Bureau approved the Company's issuance of 3,000 units of employee Stock option; with each unit representing 1,000 shares of common stock, wherein a total of 3,000 thousand shares may be subscribed.

(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, 2018			Three months ended June 30, 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	50,759	197,250	248,009	45,484	170,911	216,395
Labor and health insurance	5,401	11,890	17,291	3,718	11,243	14,961
Pension	2,453	7,301	9,754	1,735	6,703	8,438
Remuneration of directors	-	1,300	1,300	-	609	609
Others	788	8,199	8,987	3,111	6,417	9,528
Depreciation	8,151	16,983	25,134	10,310	14,445	24,755
Amortization	-	388	388	-	379	379

(Continued)

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

By function By item	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	99,712	383,430	483,142	87,439	328,801	416,240
Labor and health insurance	10,385	24,470	34,855	7,426	23,028	30,454
Pension	4,407	14,556	18,963	3,533	13,107	16,640
Remuneration of directors	-	1,846	1,846	-	1,569	1,569
Others	3,826	16,235	20,061	6,241	14,354	20,595
Depreciation	16,520	33,761	50,281	20,964	30,055	51,019
Amortization	-	771	771	-	744	744

(b) Operating and seasonality

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

(Continued)

LANNER ELECTRONICS INC. AND 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, 2018				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	9,342	150,000	- %	150,165	-
The Company	Fuh Hwa Money Market Fund	—	Financial assets at fair value though profit or loss — current	10,433	150,000	- %	150,119	-
Beijing L & S Lancom Platform of Technology CO., Ltd.	China Merchants Bank Financial Products - RMB quench Gold Pool	—	Financial assets at fair value though profit or loss — current	-	132,635	- %	132,635	-
Beijing L & S Lancom Platform of Technology CO., Ltd.	China Merchants Bank Financial Products - Point Gold Pool	—	Financial assets at fair value though profit or loss — current	-	59,457	- %	59,457	-

- (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	(775,645)	(30) %	90 days	-	-	448,857	39 %	(Note 1)
The Company	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Sales	(210,953)	(8) %	60 days	-	-	63,263	5 %	(Note 1)
The Company	LEI Technology Canada Ltd.	Subsidiary	Sales	(222,949)	(9) %	120 days	-	-	131,318	11 %	(Note 1)
Dongguan Lihua Haiwell Tech. Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Subsidiary	Sales	(433,520)	(76) %	60 days	-	-	-	- %	(Note 1)
Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	Associated company	Sales	(139,186)	(4) %	60 days	-	-	41,740	4 %	(Note 1)

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

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES
Notes to Consolidated 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 (Note)	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	448,857	3.54	-		162,355 (Until August 9, 2018)	-
The Company	LEI TECHNOLOGY CANADA INC.	Subsidiary	131,318	3.83	-		46,042 (Until August 9, 2018)	-

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).

(x) Significant transactions and business relationship between the parent company and its subsidiaries for the six months ended June 30, 2018:

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	775,645	No significant differences	23.26%
0	The Company	LEI Technology Canada Ltd.	1	Sales	222,949	120 days	6.68 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	210,953	No significant differences	6.32 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	448,857	No significant differences	8.16 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	131,318	120 days	2.39 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	63,263	No significant differences	1.15 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	433,520	No significant differences	13.00%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	162,364	No significant differences	2.95 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Sales	139,186	No significant differences	4.17 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Notes receivable and accounts receivable	41,740	No significant differences	0.76 %
2	LANNER ELECTRONICS USA, INC.	The Company	2	Sales	5,864	No significant differences	0.18 %
3	LEI Technology Canada Ltd.	The Company	2	Sales	17,339	No significant differences	0.52 %

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
- (2) Subsidiary starts from 1.

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, 2018 (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, 2018	December 31, 2017	Shares	Ratio of shares	Book value			
The Company	LANNER ELECTRONICS USA, INC. CO., LTD.	USA	Trading of computer peripheral equipment	140,935	140,935	2,500	100 %	133,759	18,935	18,935	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	666,097	31,875	31,875	(Note 1)
The Company	LEI Technology Canada Ltd.	Canada	Trading of computer peripheral equipment	92,282	56,936	3,105	100 %	69,738	6,378	6,378	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	78,251	78,251	2,623	100 %	712,307	28,589	28,589	(Note 1)

Note 1: Aforementioned amounts have been eliminated upon consolidation.

(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, 2018	Investment flow during current period		Cumulative investment (amount) from Taiwan as of June 30, 2018	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. (L&S)	Trading of computer peripheral equipment	118,398	(3)	75,982	-	-	75,982	39,154	80.00 %	31,324 (2)	676,935	-
Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	64,737	(4)a	-	-	-	-	13,437	80.00 %	10,750 (2)	141,974	-
Dongguan Lihua Huiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	48,777	(4)b	-	-	-	-	6,917	80.00 %	5,334 (2)	64,243	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	76,358	(4)b	-	-	-	-	18,280	31.02 %	5,218 (1)	49,069	-
Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral equipment	7,434	(1)	-	-	-	-	(2,735)	100.00 %	(2,735) (1)	4,851	-

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. 10720420590, and the certification is valid from 2018 to 2021. 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.

(Continued)

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

(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.