

**LANNER ELECTRONICS INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 2019 and 2018**

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

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Independent Auditors' Review Report

To the Board of Directors
LANNER ELECTRONICS INC.:

Introduction

We have reviewed the accompanying consolidated balance sheets of LANNER ELECTRONICS INC. ("the Company") and its subsidiaries ("the Group") as of June 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and six months then ended, as well as the changes in equity and cash flows for the six months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. 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 Standard 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 reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standard 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 the total assets amounting to \$519,660 thousand and \$430,026 thousand, constituting 9% and 8% of the consolidated total assets; the total liabilities amounting to \$62,435 thousand and \$33,304 thousand, constituting 2% and 1% of the consolidated total liabilities as of June 30, 2019 and 2018, respectively; and the total comprehensive income (loss) amounting to \$27,255 thousand, \$15,863 thousand, \$40,343 thousand and \$24,658 thousand, constituting 26%, 14%, 16% and 14% of the consolidated total comprehensive income (loss) for the three months and six months ended June 30, 2019 and 2018, 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, 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, 2019 and 2018, and of its consolidated financial performance for the three months and six months then ended, as well as its consolidated cash flows for the six months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 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, INC. (LANNER (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 (USA) is based solely on the review report of another auditor. The financial statements of LANNER (USA) reflect the total assets amounting to \$623,479 thousand and \$662,927 thousand, constituting 11% and 12% of the consolidated total assets as of June 30, 2019 and 2018, and the total revenues amounting to \$477,606 thousand, \$521,620 thousand, \$1,004,871 thousand and \$924,444 thousand, constituting 28%, 29%, 28% and 28% of the consolidated total revenues for the three months and six months ended June 30, 2019 and 2018, respectively.

KPMG

Taipei, Taiwan (Republic of China)
August 8, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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’ review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors’ review 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 generally accepted auditing standards

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2019 and 2018

(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			
		2019		2018		2019		2018	
		Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating revenue (note 6(r))	\$ 1,716,521	100	1,812,889	100	3,654,092	100	3,335,373	100
5000	Operating cost (notes 6(e), 6(h), 6(l), 6(m) and 6(s))	<u>1,211,907</u>	<u>70</u>	<u>1,349,530</u>	<u>74</u>	<u>2,637,908</u>	<u>72</u>	<u>2,473,740</u>	<u>74</u>
	Gross profit, net	<u>504,614</u>	<u>30</u>	<u>463,359</u>	<u>26</u>	<u>1,016,184</u>	<u>28</u>	<u>861,633</u>	<u>26</u>
	Operating expenses (notes 6(c), 6(h), 6(l), 6(m), 6(s) and 7):								
6100	Selling expenses	148,904	9	133,131	7	288,883	8	263,326	8
6200	Administrative expenses	71,425	4	81,863	5	153,570	4	150,621	4
6300	Research and development expenses	152,901	9	128,882	7	292,375	8	256,868	8
6450	Impairment loss (impairment gain and reversal of impairment loss)	<u>3,044</u>	<u>-</u>	<u>(825)</u>	<u>-</u>	<u>6,787</u>	<u>-</u>	<u>(825)</u>	<u>-</u>
	Total operating expenses	<u>376,274</u>	<u>22</u>	<u>343,051</u>	<u>19</u>	<u>741,615</u>	<u>20</u>	<u>669,990</u>	<u>20</u>
	Operating profit	<u>128,340</u>	<u>8</u>	<u>120,308</u>	<u>7</u>	<u>274,569</u>	<u>8</u>	<u>191,643</u>	<u>6</u>
	Non-operating income and expenses (notes 6(l), 6(t) and 7):								
7010	Other income	16,072	-	17,891	1	25,246	1	31,445	1
7020	Other gains and losses	(2,699)	-	7,896	-	5,585	-	6,669	-
7050	Financial costs	<u>(1,382)</u>	<u>-</u>	<u>(550)</u>	<u>-</u>	<u>(3,598)</u>	<u>-</u>	<u>(1,116)</u>	<u>-</u>
	Total non-operating income and expenses	<u>11,991</u>	<u>-</u>	<u>25,237</u>	<u>1</u>	<u>27,233</u>	<u>1</u>	<u>36,998</u>	<u>1</u>
	Net Income before tax	140,331	8	145,545	8	301,802	9	228,641	7
7950	Less: Income tax expenses	<u>29,121</u>	<u>2</u>	<u>33,251</u>	<u>2</u>	<u>66,674</u>	<u>2</u>	<u>60,301</u>	<u>2</u>
	Net income	<u>111,210</u>	<u>6</u>	<u>112,294</u>	<u>6</u>	<u>235,128</u>	<u>7</u>	<u>168,340</u>	<u>5</u>
8300	Other comprehensive income (loss):								
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss								
8361	Exchange differences on translation of foreign financial statements	(7,691)	-	(2,380)	-	16,447	-	7,896	-
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>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(7,691)</u>	<u>-</u>	<u>(2,380)</u>	<u>-</u>	<u>16,447</u>	<u>-</u>	<u>7,896</u>	<u>-</u>
8300	Other comprehensive income	<u>(7,691)</u>	<u>-</u>	<u>(2,380)</u>	<u>-</u>	<u>16,447</u>	<u>-</u>	<u>7,896</u>	<u>-</u>
	Total comprehensive income	<u>\$ 103,519</u>	<u>6</u>	<u>109,914</u>	<u>6</u>	<u>251,575</u>	<u>7</u>	<u>176,236</u>	<u>5</u>
	Net income attributable to:								
8610	Shareholders of the parent company	\$ 98,514	5	104,648	6	202,530	6	149,523	4
8620	Non-controlling interests	<u>12,696</u>	<u>1</u>	<u>7,646</u>	<u>-</u>	<u>32,598</u>	<u>1</u>	<u>18,817</u>	<u>1</u>
		<u>\$ 111,210</u>	<u>6</u>	<u>112,294</u>	<u>6</u>	<u>235,128</u>	<u>7</u>	<u>168,340</u>	<u>5</u>
	Total comprehensive income attributable to:								
8710	Shareholders of the parent company	\$ 94,939	6	105,127	6	216,345	6	156,061	5
8720	Non-controlling interests	<u>8,580</u>	<u>-</u>	<u>4,787</u>	<u>-</u>	<u>35,230</u>	<u>1</u>	<u>20,175</u>	<u>-</u>
		<u>\$ 103,519</u>	<u>6</u>	<u>109,914</u>	<u>6</u>	<u>251,575</u>	<u>7</u>	<u>176,236</u>	<u>5</u>
9750	Basic earnings per share (in New Taiwan dollars) (note 6(q))	<u>\$ 0.90</u>		<u>0.97</u>		<u>1.86</u>		<u>1.38</u>	
9850	Diluted earnings per share (in New Taiwan dollars) (note 6(q))	<u>\$ 0.90</u>		<u>0.96</u>		<u>1.84</u>		<u>1.36</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, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent							Financial statements				
	Share capital			Retained earnings				translation differences for foreign operations	Total equity attributable to owners of parent	Non-controlling Interests	Total equity	
	Common stock	Advance share capital	Stock dividend to be distributed	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings					Total retained earnings
Balance at January 1, 2018	\$ 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	-	-	-	-	34,863	-	(34,863)	-	-	-	-	-
Special reserve	-	-	-	-	-	14,807	(14,807)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(212,340)	(212,340)	-	(212,340)	(7,353)	(219,693)
Stock dividends	21,240	-	-	-	-	-	(21,240)	(21,240)	-	-	-	-
Net income	-	-	-	-	-	-	149,523	149,523	-	149,523	18,817	168,340
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	6,538	6,538	1,358	7,896
Total comprehensive income (loss)	-	-	-	-	-	-	149,523	149,523	6,538	156,061	20,175	176,236
Remuneration cost of employee stock options	-	-	-	1,033	-	-	-	-	-	1,033	-	1,033
Stock options exercised by employees	15,200	-	-	32,984	-	-	-	-	-	48,184	-	48,184
Balance at June 30, 2018	\$ 1,082,934	-	-	690,365	267,854	44,515	614,720	927,089	(37,977)	2,662,411	260,261	2,922,672
Balance at January 1, 2019	\$ 1,089,934	-	-	704,585	267,854	44,515	888,967	1,201,336	(57,366)	2,938,489	276,212	3,214,701
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	-	-	42,424	-	(42,424)	-	-	-	-	-
Special reserve	-	-	-	-	-	12,851	(12,851)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(218,540)	(218,540)	-	(218,540)	-	(218,540)
Stock dividends	-	-	87,420	-	-	-	(87,420)	(87,420)	-	-	-	-
Net income	-	-	-	-	-	-	202,530	202,530	-	202,530	32,598	235,128
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	13,815	13,815	2,632	16,447
Total comprehensive income (loss)	-	-	-	-	-	-	202,530	202,530	13,815	216,345	35,230	251,575
Stock options exercised by employees	-	2,730	-	-	-	-	-	-	-	8,109	-	8,109
Balance at June 30, 2019	\$ 1,089,934	2,730	87,420	709,964	310,278	57,366	730,262	1,097,906	(43,551)	2,944,403	311,442	3,255,845

See accompanying notes to consolidated financial statements.

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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, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2019	2018
Cash flows from operating activities:		
Consolidated net income before tax	\$ 301,802	228,641
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	71,545	50,281
Amortization expense	254	771
Impairment loss (reversal of impairment loss) determined in accordance with IFRS 9	6,787	(825)
Net loss on financial assets or liabilities at fair value through profit or loss	104	2,004
Interest expense	3,598	1,116
Interest income	(3,053)	(3,814)
Remuneration cost of employee stock options	-	1,033
Loss (gains) on disposal of property, plant and equipment, net	(61)	42
Total adjustments to reconcile profit and loss	79,174	50,608
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets or liabilities at fair value through profit or loss	(400,359)	(389,596)
Notes receivable	37,463	(15,748)
Accounts receivable	121,129	(45,969)
Other receivable	(3,248)	69,478
Inventories	314,953	(117,710)
Prepayments	11,820	(10,955)
Other current assets	(29,740)	3,439
Other financial assets	(22)	(22)
Total changes in operating assets, net	51,996	(507,083)
Changes in operating liabilities:		
Financial liabilities at fair value through profit or loss	359	2,039
Contract liabilities	(13,765)	-
Accounts payable	(225,740)	157,134
Other payables	(61,335)	(51,204)
Provisions	(8,325)	(6,235)
Other current liabilities	19,469	69,226
Net defined benefit liability	8	(1)
Deferred revenue	3,514	(3,440)
Total changes in operating liabilities, net	(285,815)	167,519
Total changes in operating assets and liabilities, net	(233,819)	(339,564)
Total adjustments	(154,645)	(288,956)
Cash provided by (used in) operating activities	147,157	(60,315)
Interest income received	3,060	3,826
Interest paid	(3,112)	(1,244)
Income taxes paid	(56,404)	(35,946)
Net cash provided by (used in) operating activities	90,701	(93,679)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(29,565)	(12,579)
Proceeds from disposal of property, plant and equipment	118	-
Decrease in refundable deposits	3,917	-
Decrease (increase) in other non-current assets	801	(3,411)
Increase in prepayments for equipment	(16,297)	(5,266)
Net cash used in investing activities	(41,026)	(21,256)
Cash flows from financing activities:		
Increase in short-term loans	95,478	-
Decrease in short-term loans	(302,150)	(102,390)
Repayments of long-term debt	(17,471)	(888)
Payment of lease liabilities	(21,027)	-
Increase in other non-current liabilities	-	37
Decrease in other non-current liabilities	(1,811)	-
Exercise of employee share options	8,109	48,184
Net cash used in financing activities	(238,872)	(55,057)
Effect of exchange rate changes on cash and cash equivalents	8,070	8,989
Net decrease in cash and cash equivalents	(181,127)	(161,003)
Cash and cash equivalents at beginning of period	955,871	788,156
Cash and cash equivalents at end of period	\$ 774,744	627,153

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, 2019 and 2018

(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 approved by the Board of Directors and issued on August 8, 2019.

(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, or after, January 1, 2019. 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>
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

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".

(Continued)

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

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is, or contains, a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in note 4(c).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on, or after, January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes the right-of-use assets and lease liabilities for most its leases, which are recorded in the balance sheet.

The Group decided to apply the recognition exemptions to the short-term leases of its buildings and leases of transportation equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize the right-of-use assets and liabilities for leases with less than 12 months of lease term.

(Continued)

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

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amounts of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group recognizes its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, the Group is required to assess the classification of a sub-lease by reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Group concluded that the sub-lease is a finance lease under IFRS 16.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognized the additional amounts of \$78,031 thousands of right-of-use assets lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 3.56%.

The explanation of the differences between the operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and the lease liabilities recognized in the statement of financial position at the date of initial application disclosed is as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 88,789
Recognition exemption for:	
leases of low-value assets	(7,567)
	\$ 81,222
Discounted using the incremental borrowing rate at January 1, 2019	\$ 78,031
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	\$ 78,031

(Continued)

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

(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.

The Group does not expect the application of IFRIC 23 to have any significant impact on its consolidated financial statements on June 30, 2019.

(b) The impact of IFRS endorsed by FSC that will soon take effect

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning, or after, January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (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

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

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

(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, 2018. For related information, please referred to note 4 of the consolidated financial statement for the year ended December 31, 2018.

(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" and IAS 34 "Interim Financial Reporting", which was endorsed by the FSC. These consolidated financial statements do not include all of the information required by the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRSs endorsed by the FSC) for the year-end 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, 2018. For the related information, please refer to note 4(c) to the consolidated financial statements for the year ended December 31, 2018.

List of subsidiaries included in the consolidated financial statements

Name of investor	Name of subsidiary	Scope of business	Percentage of ownership			Note
			June 30, 2019	December 31, 2018	June 30, 2018	
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 2
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 %	
LANCOM	Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral products	100.00 %	100.00 %	100.00 %	
L&S	Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	100.00 %	100.00 %	100.00 %	

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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, 2019	December 31, 2018	June 30, 2018	
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 %	39.90 %	Notes 1 and 2

Note 1: 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 2: The financial statements have not been reviewed.

(c) Leases (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct use of the asset when it has the decision-making rights that are most relevant to changing how, and for what purpose, the asset is used. In rare cases where the decision about how, and for what purpose, the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how, and for what purpose, it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

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

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by using the impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents its right-of-use assets that do not meet the definition of investment and its lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize the right-of-use assets and lease liabilities for its short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Group acts as a lessor, it determines, at lease commencement, whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

(d) 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, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other one time events.

(e) Income tax

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

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

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

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

The preparation of the consolidated 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, 2018.

(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, 2018. For the related information, please refer to note 6 of the consolidated financial statements for the year ended December 31, 2018.

(a) Cash and cash equivalents

	June 30, 2019	December 31, 2018	June 30, 2018
Cash	\$ 5,947	8,577	6,055
Working capital	-	80	80
Demand deposits	445,246	651,854	371,002
Checking deposits	8,532	7,759	21,592
Time deposits	6,746	-	-
Foreign currency deposits	308,273	287,601	228,424
Cash and cash equivalents per consolidated statements of cash flow	<u>\$ 774,744</u>	<u>955,871</u>	<u>627,153</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

	June 30, 2019	December 31, 2018	June 30, 2018
Mandatorily measured at fair value through profit or loss:			
Derivative instruments not used for hedging	\$ -	112	-
Non-derivative financial assets	400,367	-	492,376
Total	<u>\$ 400,367</u>	<u>112</u>	<u>492,376</u>

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

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Financial liabilities held for trading:			
Derivative instruments not used for hedging	\$ <u>359</u>	<u>-</u>	<u>2,039</u>

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

The Group uses derivative financial instruments to manage exposures due to fluctuations of foreign exchange risk derived from its operating activities. As of June 30, 2019, December 31 and June 30, 2018, 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, 2019			
Forward Contracts	\$ (359)	USD/TWD	4,300
December 31, 2018			
Forward Contracts	\$ 112	USD/TWD	2,450
June 30, 2018			
Forward Contracts	\$ (2,039)	USD/TWD	2,720

As of June 30, 2019, December 31 and June 30, 2018, the maturity dates of the derivative financial assets and liabilities were between July 1, 2019 to September 16, 2019, January 18, 2019 to February 1, 2019 and August 2, 2018 to October 23, 2018.

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

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Notes receivable	\$ 19,128	56,591	18,487
Accounts receivable	1,252,211	1,373,332	1,164,119
Less: allowance for impairment	<u>22,768</u>	<u>15,973</u>	<u>16,918</u>
	<u>\$ 1,248,571</u>	<u>1,413,950</u>	<u>1,165,688</u>

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

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. 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 in Asia (except China), America and Europe was determined as follows:

June 30, 2019			
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 832,405	0.06%~0.18%	499
1 to 30 days past due	45,784	0.47%~1.11%	215
31 to 60 days past due	3,859	1.71%~27.12%	66
61 to 90 days past due	14,203	17.10%~47.82%	2,493
91 to 120 days past due	5,577	54.02%~100%	3,013
More than 121 days past due	6,986	100%	6,986
	\$ 908,814		13,272

December 31, 2018			
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 896,036	0.06%~0.18%	691
1 to 30 days past due	108,019	0.47%~1.11%	1,001
31 to 60 days past due	2,361	1.71%~27.12%	128
61 to 90 days past due	13,590	17.10%~47.82%	2,778
91 to 120 days past due	2,467	54.02%~100%	2,157
More than 121 days past due	4,802	100%	4,802
	\$ 1,027,275		11,557

June 30, 2018			
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
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%	-
	\$ 920,141		8,932

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

The loss allowance provision in China as of June 30, 2019 was determined as follows:

June 30, 2019			
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 285,555	0%~0.75%	2,142
1 to 30 days past due	53,053	1.41%~3.19%	796
31 to 60 days past due	14,002	4.44%~6.10%	622
61 to 90 days past due	2,463	7.32%~9.03%	180
91 to 120 days past due	416	17.77%~37.57%	74
121 to 150 days past due	1,993	37.62%~60%	750
151 to 180 days past due	325	65.89%~80%	214
More than 181 days past due	4,718	100%	4,718
	\$ 362,525		9,496
December 31, 2018			
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 380,757	0%~0.75%	29
1 to 30 days past due	7,734	1.41%~3.19%	109
31 to 60 days past due	5,229	4.44%~6.10%	232
61 to 90 days past due	2,249	7.32%~9.03%	165
91 to 120 days past due	2,051	17.77%~37.57%	365
121 to 150 days past due	1,628	37.62%~60%	613
151 to 180 days past due	285	65.89%~80%	188
More than 181 days past due	2,715	100%	2,715
	\$ 402,648		4,416
June 30, 2018			
	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
	\$ 262,465		7,986

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

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

	For the six months ended June 30	
	2019	2018
Balance on January 1, 2019 and 2018	\$ 15,973	17,685
Impairment losses recognized	6,787	-
Impairment losses reversed	-	(825)
Foreign exchange losses	8	58
Balance on June 30, 2019 and 2018	<u>\$ 22,768</u>	<u>16,918</u>

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

(d) Other receivables

	June 30, 2019	December 31, 2018	June 30, 2018
Other	<u>\$ 67,348</u>	<u>15,529</u>	<u>27,736</u>

As of June 30, 2019, December 31 and June 30, 2018, 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

	June 30, 2019	December 31, 2018	June 30, 2018
Merchandise	\$ 683	1,327	507
Finished goods	715,433	995,938	781,345
Work in process	325,383	352,595	389,520
Raw material	640,288	646,880	700,838
Total	<u>\$ 1,681,787</u>	<u>1,996,740</u>	<u>1,872,210</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, 2019, December 31 and June 30, 2018, the Group's inventories had not pledged as collateral.

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

Aside from charging operating costs through the ordinary sale of inventories, other gains and losses directly recorded under operating costs were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Loss on (reversal of) market value of inventory	\$ 14,893	14,514	8,137	22,049
Loss on physical count	-	-	7,432	-
Loss from scrapped inventory	114	-	114	-
Total	\$ 15,007	14,514	15,683	22,049

The Group reversed the allowance for loss on inventory for the six months ended June 30, 2019, when the Group sold or used the inventories for which an allowance had been provided for the year ended December 31, 2018.

(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>

(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.

(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) Property, plant and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Total</u>
Carrying value:					
January 1, 2019	\$ 509,882	355,830	31,778	175,820	1,073,310
June 30, 2019	\$ 510,210	570,015	25,254	216,841	1,322,320
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

Expect for the property, plant were reclassified amounting to \$263,352 thousand from prepayments for equipment in June, 2019. For the six months ended June 30, 2019 and 2018, 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.

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

Please refer to note 8 for the information of the pledged property, plant and equipment, as of June 30, 2019, December 31 and June 30, 2018.

(h) Right-of-use assets

The Group leases its assets including its buildings and transportation equipment. Information about leases, for which the Group is the lessee, is presented below:

	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ -	-	-
Effects of retrospective application	<u>71,613</u>	<u>6,498</u>	<u>78,111</u>
Balance at January 1, 2019	71,613	6,498	78,111
Additions	1,532	1,478	3,010
Lease modification	(4,002)	-	(4,002)
Effect of changes in foreign exchange rates	721	-	721
Balance at June 30, 2019	<u>\$ 69,864</u>	<u>7,976</u>	<u>77,840</u>
Accumulated depreciation and impairment losses:			
Balance at January 1, 2019	\$ -	-	-
Depreciation	19,928	1,203	21,131
Effect of changes in exchange rates	<u>(101)</u>	<u>-</u>	<u>(101)</u>
Balance at June 30, 2019	<u>\$ 19,827</u>	<u>1,203</u>	<u>21,030</u>
Carrying value:			
June 30, 2019	<u>\$ 50,037</u>	<u>6,773</u>	<u>56,810</u>

(i) Intangible assets

	<u>Goodwill</u>	<u>Customer relation</u>	<u>Total</u>
Carrying value:			
January 1, 2019	<u>\$ 4,502</u>	<u>249</u>	<u>4,751</u>
June 30, 2019	<u>\$ 4,553</u>	<u>-</u>	<u>4,553</u>
January 1, 2018	<u>\$ 4,601</u>	<u>1,768</u>	<u>6,369</u>
June 30, 2018	<u>\$ 4,628</u>	<u>1,018</u>	<u>5,646</u>

For the six months ended June 30, 2019 and 2018, 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 for the year ended December 31, 2018.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
Notes to the Consolidated Interim 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, 2019				
	Currency	Interest rate	Maturity year	Amount
Unsecured loans	RMB	5.046	2020	\$ 44,973
Unsecured loans	USD	4.4569	2019	2,468
Total				<u><u>\$ 47,441</u></u>
December 31, 2018				
	Currency	Interest rate	Maturity year	Amount
Secured loans	TWD	1.05	2019	\$ 98,000
Unsecured loans	TWD	1.05	2019	100,000
Unsecured loans	RMB	5.39	2019	44,491
Unsecured loans	USD	4.4571	2019	11,037
Total				<u><u>\$ 253,528</u></u>
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><u>\$ 23,208</u></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, 2019, December 31 and June 30, 2018, the unused credit facilities of the Group's short-term borrowings amounted to \$868,000 thousand, \$670,000 thousand and \$930,015 thousand, respectively.

(ii) Long-term borrowings

June 30, 2019				
	Currency	Interest rate	Maturity year	Amount
Secured loans	USD	4.9326	2020	\$ 2,289
Current				\$ 2,084
Non-current				205
Total				<u><u>\$ 2,289</u></u>

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

December 31, 2018			
	Currency	Interest rate	Maturity year
			Amount
Secured loans	USD	4.4675	2020
Current			\$ <u>1,840</u>
Non-current			<u>17,743</u>
Total			\$ <u><u>19,583</u></u>

June 30, 2018			
	Currency	Interest rate	Maturity year
			Amount
Secured loans	USD	4.4368	2020
Current			\$ <u>1,826</u>
Non-current			<u>20,074</u>
Total			\$ <u><u>21,900</u></u>

For the six months ended June 30, 2019 and 2018, the Group repaid the amounts of \$17,471 thousand and \$888 thousand, respectively, of its long-term borrowings. Please refer to note 6(i) of the consolidated financial statements for the year ended December 31, 2018 for related information.

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, 2019	December 31, 2018	June 30, 2018
Warranty	\$ <u><u>38,580</u></u>	<u><u>46,905</u></u>	<u><u>42,134</u></u>

The Group did not have any significant change in the provisions for the six months ended June 30, 2019 and 2018. Please refer to note 6(i) of the consolidated financial statements for the year ended December 31, 2018 for relative information.

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

(l) Lease liabilities

The Group's lease liabilities were as follow:

	June 30, 2019		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 36,331	1,500	34,831
Between one and five years	22,378	396	21,982
	<u>\$ 58,709</u>	<u>1,896</u>	<u>56,813</u>
Current	<u>\$ 36,331</u>	<u>1,500</u>	<u>34,831</u>
Non-current	<u>\$ 22,378</u>	<u>396</u>	<u>21,982</u>

There were no significant issues, repurchases and repayments of lease liabilities for the six months ended June 30, 2019.

The amounts recognized in profit or loss were as follows:

	For the three months ended June 30, 2019	For the six months ended June 30, 2019
Interest on lease liabilities	<u>\$ 540</u>	<u>1,189</u>
Expenses relating to short-term leases	<u>\$ 1,598</u>	<u>1,598</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 2,624</u>	<u>3,137</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

	For the six months ended June 30, 2019
Total cash outflow for leases	<u>\$ 26,951</u>

(m) 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, 2018 and 2017.

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

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	
	2019	2018	2019	2018
Operating costs	\$ 100	108	203	217
Selling expenses	66	48	122	91
Administrative expenses	101	66	176	134
Research and development expenses	55	73	101	143
Total	<u>\$ 322</u>	<u>295</u>	<u>602</u>	<u>585</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	
	2019	2018	2019	2018
Operating costs	\$ 2,255	2,345	4,526	4,190
Selling expenses	1,671	1,816	3,373	3,581
Administrative expenses	1,457	1,419	2,701	2,833
Research and development expenses	3,837	3,879	7,744	7,774
Total	<u>\$ 9,220</u>	<u>9,459</u>	<u>18,344</u>	<u>18,378</u>

(n) Income tax

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

The Group's income tax expense were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Current tax expense				
Current period	\$ 30,311	35,130	67,864	62,180
Adjustment for prior periods	(1,190)	(1,879)	(1,190)	(1,879)
Income tax expense from continuing operations	<u>\$ 29,121</u>	<u>33,251</u>	<u>66,674</u>	<u>60,301</u>

The tax returns of the Company were examined and approved by the tax authorities through 2016.

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

(o) Capital and other equity

As of June 30, 2019, December 31 and June 30, 2018, the ordinary shares with par value of \$10 per share, amounted to \$1,500,000 thousand; also, 108,993 thousand, 108,993 thousand and 106,169 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, 2019 and 2018 were as follows:

	Unit: thousands shares	
	For the six months ended June 30	
	2019	2018
Balance at January 1	108,993	104,649
Exercise of employee share options	-	1,520
Balance at June 30	108,993	106,169

(i) Issue of common stock

For the six months ended June 30, 2019 and 2018, the Company issued 273 thousand shares and 1,520 thousand shares of common stocks, as its employees exercised their stock option at \$29.7 per share and \$31.7 per share. However, since the registration process has not yet been completed, the amount of money obtained through the issuance of stocks is recorded under advance receipts for share capital.

(ii) Capital surplus

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

	June 30, 2019	December 31, 2018	June 30, 2018
Share premium from issuance	\$ 681,333	673,767	654,368
Changes in equity of associates and joint ventures accounted for using equity method	17,539	17,539	17,539
Employee share options	1,700	3,887	9,426
Employee share options expired	9,392	9,392	9,032
	\$ 709,964	704,585	690,365

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.

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

(iii) Retained earnings — Earnings distribution

In accordance with the Company's articles of incorporation require amended on June 19, 2019, 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. Distribution plan shall be executed after a resolution by the shareholders' meeting. The Company authorizes the Distribution plan paid in cash shall be executed after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

In accordance with Article 241 of the Company Act, the distribution of its legal reserve and the following capital reserve, in whole or in part, by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash ; Once upon by cash, the Company authorizes the distribution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

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, 2019, December 31 and June 30, 2018 the special earnings reserve amounted to \$57,366 thousand, \$44,515 thousand and \$44,515 thousands, respectively.

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

Earnings distribution for 2018 and 2017 was decided via the general meeting of shareholders held on June 19, 2019 and 2018, respectively. The relevant dividend distributions to shareholders were as follows:

	2018		2017	
	Amount per share (NT dollars)	Total Amount	Amount per share (NT dollars)	Total Amount
Dividends distributed to common stockholders:				
Cash	\$ 2.0	218,540	2.0	212,340
Stock	0.8	87,420	0.2	21,240
Total		<u><u>\$ 305,960</u></u>		<u><u>233,580</u></u>

(iv) Other equities (net of tax)

	Foreign exchange differences arising from foreign operation	Non-controlling interests	Total
Balance at January 1, 2019	\$ (57,366)	(10,429)	(67,795)
Foreign exchange differences arising from net assets of foreign operation	13,815	2,632	16,447
Balance at June 30, 2019	<u><u>\$ (43,551)</u></u>	<u><u>(7,797)</u></u>	<u><u>(51,348)</u></u>
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><u>\$ (37,977)</u></u>	<u><u>(2,996)</u></u>	<u><u>(40,973)</u></u>

(p) Share-based payment

On September 17, 2015, the Group provided stock options to its employees. For the six months ended June 30, 2019 and 2018, 273 units and 1,520 units were exercised. In spite of the aforementioned matter, there were no significant changes for the six months ended June 30, 2019 and 2018, please refer to note 6(n) to the consolidated financial statements for the year ended December 31, 2018.

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

(q) Earnings per share

(i) Basic earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Net income attributable to ordinary shareholders of the Company	\$ <u>98,514</u>	<u>104,648</u>	<u>202,530</u>	<u>149,523</u>
Weighted-average number of ordinary shares	<u>109,224</u>	<u>107,538</u>	<u>109,110</u>	<u>108,117</u>
Basic earnings per share (in NT dollars)	\$ <u>0.90</u>	<u>0.97</u>	<u>1.86</u>	<u>1.38</u>

(ii) Diluted earnings per share

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Net income attributable to ordinary shareholders of the Company (diluted)	\$ <u>98,514</u>	<u>104,648</u>	<u>202,530</u>	<u>149,523</u>
Weighted-average number of ordinary shares (basic)	109,224	107,538	109,110	108,117
Impact of potential common shares				
Effect of employee stock bonus	466	558	884	1,119
Effect of employee stock option	<u>127</u>	<u>387</u>	<u>121</u>	<u>364</u>
Weighted-average number of ordinary shares (diluted)	<u>109,817</u>	<u>108,483</u>	<u>110,115</u>	<u>109,600</u>
Diluted earnings per share (in NT dollars)	\$ <u>0.90</u>	<u>0.96</u>	<u>1.84</u>	<u>1.36</u>

For calculation of the dilutive effect of the stock option, the average market value is assessed based on the quoted market price where the Company's option is outstanding.

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

(iii) Pro-forma earnings per share

On June 19, 2019, the stockholders approved a capital injection by converting the undistributed earnings of \$87,420 thousand to 8,742 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	
	2019	2018	2019	2018
Basic earnings per share (in NT dollars)	\$ <u>0.84</u>	<u>0.90</u>	<u>1.72</u>	<u>1.28</u>
Diluted earnings per share (in NT dollars)	\$ <u>0.83</u>	<u>0.89</u>	<u>1.70</u>	<u>1.26</u>

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended June 30, 2019		
	Sale of Network Communication and other related products	Others	Total
Primary geographical markets:			
Asia	\$ 709,092	1,913	711,005
America	766,275	2,470	768,745
Europe	204,572	224	204,796
Others	<u>31,852</u>	<u>123</u>	<u>31,975</u>
	<u>\$ 1,711,791</u>	<u>4,730</u>	<u>1,716,521</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 1,456,836	4,287	1,461,123
Others	<u>254,955</u>	<u>443</u>	<u>255,398</u>
	<u>\$ 1,711,791</u>	<u>4,730</u>	<u>1,716,521</u>

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

For the three months ended June 30, 2019			
	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	47,204	-	47,204
	<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	261,827	51	261,878
	<u>\$ 1,797,417</u>	<u>15,472</u>	<u>1,812,889</u>
For the six months ended June 30, 2019			
	Sale of Network Communication and other related products	Others	Total
Primary geographical markets:			
Asia	\$ 1,517,264	7,819	1,525,083
America	1,735,174	49,110	1,784,284
Europe	289,409	333	289,742
Others	54,809	174	54,983
	<u>\$ 3,596,656</u>	<u>57,436</u>	<u>3,654,092</u>
Primary merchandises/services lines:			
Network communication apparatus	\$ 3,133,226	56,892	3,190,118
Others	463,430	544	463,974
	<u>\$ 3,596,656</u>	<u>57,436</u>	<u>3,654,092</u>

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

For the six 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 the Group's amounted to \$5,874 thousand, \$(811) thousand, \$3,367 thousand and \$(3,440) thousand for the three months and six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, December 31 and June 30, 2018, accumulated unearned revenue amounted to \$52,972 thousand, \$49,458 thousand and \$50,922 thousand, respectively. Unearned revenue was booked due to identifiable services to be rendered.

(ii) Contract balance

	June 30, 2019	December 31, 2018	June 30, 2018
Current contract liabilities	<u>\$ 25,255</u>	<u>39,020</u>	<u>43,148</u>

For details on accounts receivable and allowance for impairment, please refer to note 6(c).

The amount of revenue recognized for the six months ended June 30, 2019 and 2018 that was included in the contract liability balance at the beginning of the period was \$39,020 thousand and \$16,698 thousand, respectively.

The contract liabilities primarily relate to the advance consideration received from customers for the electronic components sales contracts, for which revenue is recognized when products are delivered to customers.

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

(s) Employee compensation and directors' and supervisors' remuneration

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 pervading target given via shares includes these dependent employees of the Company's subsidiaries under certain requirements.

For the three months and six months ended June 30, 2019 and 2018, the Company recognized its employee remuneration of \$16,526 thousand, \$18,114 thousand, \$33,776 thousand and \$26,049 thousand, respectively, and directors' and supervisors' remuneration of \$2,685 thousand, \$1,797 thousand, \$3,378 thousand and \$2,591 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. Related information would be available at the Market Observation Post System website.

For the years ended December 31, 2018 and 2017, the Company estimated its employees' compensation were \$72,462 thousand and \$54,193 thousand, respectively, and the estimated amounts of directors' and supervisors' remuneration were \$7,246 thousand and \$5,648 thousand, respectively. There are no differences between the amounts of remuneration to employees, directors and supervisors approved by the Board of Directors. 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	
	2019	2018	2019	2018
Interest income	\$ 1,836	2,038	3,053	3,814
Rent income	1,372	1,571	2,738	3,122
Other	12,864	14,282	19,455	24,509
Total other income	<u>\$ 16,072</u>	<u>17,891</u>	<u>25,246</u>	<u>31,445</u>

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

(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	
	2019	2018	2019	2018
Gains (losses) on disposal of property, plant and equipment	\$ 43	(42)	61	(42)
Gains (losses) on foreign exchange, net	(2,834)	10,385	6,586	9,815
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	93	(2,447)	(104)	(2,004)
Other	(1)	-	(958)	(1,100)
Net other losses gains and losses	<u>\$ (2,699)</u>	<u>7,896</u>	<u>5,585</u>	<u>6,669</u>

(iii) Finance costs

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

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
Interest expense	<u>\$ 1,382</u>	<u>550</u>	<u>3,598</u>	<u>1,116</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, 2018.

(i) Credit risk

As of June 30, 2019, December 31 and June 30, 2018, the major client contributed approximately 13%, 19% and 17% of total receivables, respectively. The other four clients contributed no more than 26%, 25% and 24% of total receivables, respectively.

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

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within a year	1-2 years	3-5 years	Over 5 years
June 30, 2019						
Non-derivative financial liabilities						
Short-term debts	\$ 47,441	49,344	49,344	-	-	-
Accounts payable	1,176,839	1,176,839	1,176,839	-	-	-
Other payables	106,552	106,552	106,552	-	-	-
Long-term debts (including due within a year)	2,289	2,391	2,391	-	-	-
Lease liabilities	56,813	58,709	36,331	22,214	164	-
Guarantee deposits received	1,059	1,059	-	-	-	1,059
Derivative financial liabilities						
Other forward exchange contracts:						
Outflow	359	359	359	-	-	-
	<u>\$ 1,391,352</u>	<u>1,395,253</u>	<u>1,371,816</u>	<u>22,214</u>	<u>164</u>	<u>1,059</u>
December 31, 2018						
Non-derivative financial liabilities						
Short-term debts	\$ 253,528	255,454	255,454	-	-	-
Notes payable	39,020	39,020	39,020	-	-	-
Accounts payable	1,402,579	1,402,579	1,402,579	-	-	-
Other payables	144,255	144,255	144,255	-	-	-
Long-term debts (including due within a year)	19,583	20,896	1,963	18,933	-	-
Guarantee deposits received	2,673	2,673	-	-	-	2,673
	<u>\$ 1,861,638</u>	<u>1,864,877</u>	<u>1,843,271</u>	<u>18,933</u>	<u>-</u>	<u>2,673</u>
June 30, 2018						
Non-derivative financial liabilities						
Short-term debts	\$ 23,208	23,460	23,460	-	-	-
Accounts payable (including related parties)	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
Derivative financial liabilities						
Other forward exchange contracts:						
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>

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
June 30, 2019			
Financial assets:			
Monetary items:			
USD (note)	\$ 40,720	31.0120	1,262,796
Financial liabilities:			
Monetary items:			
USD (note)	\$ 18,847	31.0120	584,490
December 31, 2018			
Financial assets:			
Monetary items:			
USD (note)	\$ 50,364	30.6590	1,544,115
Financial liabilities:			
Monetary items:			
USD (note)	\$ 36,591	30.6590	1,121,841
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

Note: Amounts are designated before consolidation.

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of foreign currency exchange gains and losses on cash and cash equivalents, trade receivables and trade and other payables that are denominated in foreign currency. A 1 dollar appreciation (depreciation) of the NTD against the USD as of June 30, 2019 and 2018 would have increased or decreased the net income by \$17,498 thousand and \$8,389 thousand, respectively. The analysis is performed on the same basis for both periods.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
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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 three months and six months ended June 30, 2019 and 2018, foreign exchange gain (loss) (including realized and unrealized abortions) amounted to \$2,834 thousand, \$10,385 thousand, \$6,586 thousand and \$9,815 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 \$199 thousand and \$180 thousand, respectively, for the six months ended June 30, 2019 and 2018, with all other variable factors remain constant. This is mainly due to the Group's borrowing in variable rates.

(v) Information of fair value

1) Categories and fair value of financial instruments

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

	June 30, 2019				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ <u>400,367</u>	<u>400,367</u>	<u>-</u>	<u>-</u>	<u>400,367</u>
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for hedging	\$ <u>359</u>	<u>-</u>	<u>359</u>	<u>-</u>	<u>359</u>

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

December 31, 2018					
	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	\$ <u>112</u>	<u>-</u>	<u>112</u>	<u>-</u>	<u>112</u>
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
Subtotal	<u>492,376</u>	<u>300,284</u>	<u>192,092</u>	<u>-</u>	<u>492,376</u>
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>

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.

(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, 2018.

(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, 2018; 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, 2018. For related information, please refer to note 6(v) of the consolidated financial statements for the year ended December 31, 2018.

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

(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

(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. Rent for the three months and six months ended June 30, 2018 amounted to \$330 thousand and \$660 thousand, respectively. There were no outstanding balance as of December 31 and June 30, 2018. The Group applied IFRS 16, with a date of initial application on January 1, 2019. This lease transaction recognized an additional amounts of \$1,855 thousand and \$1,855 thousand of right-of-use assets and lease liabilities, respectively. For the three months and six months ended June 30, 2019, the Group recognized the amount of \$2 thousand and \$5 thousand as interest expense, respectively. As of June 30, 2019, the balance of lease liabilities amounted to \$1,201 thousand.

(ii) Contribution

With the approval from the board of directors, the Group agreed to contribute \$1,500 thousand, \$0 thousand, \$1,500 thousand and \$1,500 thousand to Lanner Foundation for the three months and six months ended June 30, 2019 and 2018, recorded under operating expenses—administrative expenses.

(c) Key management personnel compensations

Key management personnel compensation comprised:

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 20,244	21,937	46,667	43,481
Post-employment benefits	206	244	398	451
	<u>\$ 20,450</u>	<u>22,181</u>	<u>47,065</u>	<u>43,932</u>

(Continued)

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

(8) Pledged assets

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Certificate of deposits (recorded under other financial assets — current)	Guarantee for customs	\$ 2,371	2,349	2,349
Land	Guarantee for long and short-term debts	414,767	414,439	414,222
Building	Guarantee for long and short-term debts	246,049	252,000	254,082
		<u>\$ 663,187</u>	<u>668,788</u>	<u>670,653</u>

(9) Significant Commitments and Contingencies

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

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Acquisition of property, plant and equipment	\$ -	112,673	115,827

(b) Operating lease commitments

As of December 31 and June 30, 2018, 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>December 31, 2018</u>	<u>June 30, 2018</u>
Under a year	\$ 45,597	40,020
Over 1 year but under 5 years	37,134	72,759
Over 5 years	6,058	40,766
	<u>\$ 88,789</u>	<u>153,545</u>

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

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

(12) Other

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

By function By nature	Three months ended June 30, 2019			Three months ended June 30, 2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	55,598	190,812	246,410	50,759	197,250	248,009
Labor and health insurance	5,340	12,014	17,354	5,401	11,890	17,291
Pension	2,355	7,187	9,542	2,453	7,301	9,754
Remuneration of directors	-	5,728	5,728	-	1,290	1,290
Others	3,592	9,139	12,731	788	8,199	8,987
Depreciation	9,356	14,382	23,738	8,151	16,983	25,134
Amortization	-	371	371	-	388	388

By function By nature	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	108,863	406,505	515,368	99,712	383,430	483,142
Labor and health insurance	12,086	25,413	37,499	10,385	24,470	34,855
Pension	4,729	14,217	18,946	4,407	14,556	18,963
Remuneration of directors	-	6,324	6,324	-	1,846	1,846
Others	7,216	19,253	26,469	3,826	16,235	20,061
Depreciation	22,143	49,402	71,545	16,520	33,761	50,281
Amortization	-	254	254	-	771	771

- (b) Operating and seasonality

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

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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:

Unit: thousand NTD

No.	Name of lender	Name of borrower	Financial statement account	Related party	Highest balance of financing to other parties during the year	Ending balance	Amount actually drawn	Range of interest rates	Purposes of fund financing for the borrowers (Note 5)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Financing limit for each borrowing company	Maximum financing limit for the lender
													Item	Value		
0	The Company	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Other receivables -- related parties	Yes	75,635	-	-	5.6%	2	-	Operating capital	-		-	588,881 (Note 2)	1,177,761 (Note 1)
2	Lancom Holding Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Other receivables -- related parties	Yes	57,838	-	-	5.6%	2	-	Operating capital	-		-	155,131 (Note 4)	310,262 (Note 3)

Note 1: The allowable aggregate amount of financing provided to others cannot exceed 40% of the Company's stockholder's equity.

Note 2: Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20 percent of the Company's stockholder's equity. The total amount lendable to other subsidiaries and the amount listed above cannot exceed 40 percent of the Company's stockholder's equity.

Note 3: The maximum loan extended to all parties of LANCOM HOLDING CO., Ltd. should not be over 40% of total equity.

Note 4: Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20 percent of LANCOM HOLDING CO., Ltd.'s stockholder's equity. The total amount lendable to other subsidiaries and the amount listed above cannot exceed 40 percent of LANCOM HOLDING CO., Ltd.'s stockholder's equity.

Note 5: Credit period: The financing period should not be over one year.

Note 6: Loans to other parties numbering is as follows:

- (1) if it's ordinary business relationship, the number is "1".
- (2) if it needs short-term financial funds, the number is "2".

Note 7: The transactions within the Group were eliminated in the consolidated interim financial statements

(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, 2019				Remarks
				Number of shares	Book value	Holding percentage	Market value	
The Company	Mutual fund: Capital Money Market Fund	-	Financial assets at fair value though profit or loss -- current	12,394	200,204	- %	200,204	-
The Company	Fuh Hwa You Li Money market Fund	-	Financial assets at fair value though profit or loss -- current	14,837	200,163	- %	200,163	

(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	(846,481)	(33) %	90 days	-	-	276,755	28 %	(Note 1)

(Continued)

LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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	Dongguan Lihua Haiwell Tech. Co., Ltd.	Subsidiary	Sales	(291,494)	(11) %	60 days	-		77,068	8 %	(Note 1)
The Company	LEI Technology Canada Ltd.	Subsidiary	Sales	(227,336)	(9) %	90 days	-		143,483	15 %	(Note 1)
Dongguan Lihua Haiwell Tech. Co., Ltd.	Beijing L&S Lancom Platform Tech. Co., Ltd. (L&S)	Subsidiary	Sales	(598,239)	(75) %	60 days	-		-	- %	(Note 1)
Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	Associated company	Sales	(178,096)	(22) %	60 days	-		-	- %	(Note 1)

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

(viii) Information regarding receivables from related-parties exceeding 100 million or 20% of the Company's paid-in capital:

Unit: thousand dollars

Name of related party	Counter-party	Relationship	Balance of receivables from related party (Note)	Turnover rate	Overdue amount		Amounts received in subsequent period	Allowances for bad debts
					Amount	Action taken		
The Company	LANNER ELECTRONICS USA, INC.	Subsidiary	276,755	5.31	-		141,801 (Until August 8, 2019)	-
The Company	LEI Technology Canada Ltd.	Subsidiary	143,483	3.82	-		61,263 (Until August 8, 2019)	-

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, 2019:

Unit: thousand dollars

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	846,481	No significant differences	23.17%
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Sales	291,494	No significant differences	7.98 %
0	The Company	LEI Technology Canada Ltd.	1	Sales	227,336	No significant differences	6.22 %
0	The Company	LANNER ELECTRONICS USA, INC.	1	Accounts receivable	276,755	No significant differences	4.76 %
0	The Company	Dongguan Lihua Haiwell Technology Co., Ltd.	1	Accounts receivable	77,068	No significant differences	1.33 %
0	The Company	LEI Technology Canada Ltd.	1	Accounts receivable	143,483	No significant differences	2.47 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Sales	598,239	No significant differences	16.37%
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing L & S Lancom Platform of Technology CO., Ltd.	3	Advance sales receipts	50,496	No significant differences	0.87 %

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LANNER ELECTRONICS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Sales	178,096	No significant differences	4.87 %
1	Dongguan Lihua Haiwell Technology Co., Ltd.	Beijing HDZX Technology CO., Ltd.	3	Advance sales receipts	5,349	No significant differences	0.09 %

Note 1: Company numbering is as follows:

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

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) "1" represents downstream transactions.
- (2) "2" represents upstream transactions.
- (3) "3" represents sidestream transactions.

(b) Information on investees:

The following are the information on investees for the six months ended June 30, 2019 (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, 2019	December 31, 2018	Shares	Ratio of shares	Book value			
The Company	LANNER ELECTRONICS USA, INC.	USA	Trading of computer peripheral equipment	248,819	248,819	8,000	100 %	266,024	14,402	14,402	(Note 1)
The Company	Lanner Electronics (Mauritius) Inc.	Mauritius	Investing	84,990	84,990	2,653	100 %	732,075	49,703	49,703	(Note 1)
The Company	LEI Technology Canada Ltd.	Canada	Trading of computer peripheral equipment	92,282	92,282	3,105	100 %	83,169	7,544	7,544	(Note 1)
Lanner Electronics (Mauritius) Inc.	Lancom Holding Co., Ltd.	Samoa	Investing	78,251	78,251	2,623	100 %	775,655	49,580	49,580	(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 January 1, 2019	Investment flow during current period		Cumulative investment (amount) from January 1, 2019	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	118,388	(3)	75,982	-	-	75,982	64,429	80.00 %	51,543 (2)	704,859	-
Beijing LSZC Investment Co., Ltd. (LSZC)	Investing	64,737	(4)a	-	-	-	-	13,733	80.00 %	10,986 (2)	207,067	-
Dongguan Lihua Haiwell Tech. Co., Ltd.	Manufacture and trading of computer peripheral products	48,777	(4)b	-	-	-	-	901	80.00 %	721 (2)	100,373	-
Beijing HDZX Technology Co., Ltd.	Trading of computer peripheral equipment	70,358	(4)b	-	-	-	-	32,799	31.92 %	10,267 (1)	71,745	-
Lanner Technology (Dongguan) Co., Ltd. (Lanner Technology)	Trading of computer peripheral equipment	15,617	(1)	-	-	-	-	(2,955)	100.00 %	(2,955) (2)	4,823	-

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.

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LANNER ELECTRONICS INC. AND SUBSIDIARIES
Notes to the 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.

(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.