

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2016 AND 2015

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS

(16) PWCR16003263

To the Board of Directors and Shareholders of Chenbro Micom Co., Ltd.

Opinion

We have audited the accompanying balance sheets of Chenbro Micom Co., Ltd. (the “Company”) as at December 31, 2016 and 2015, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of accounts receivable

Description

Please refer to Note 4(7) for accounting policy on allowance for uncollectible accounts, and Note 6(2) for details of allowance for uncollectible accounts. As of December 31, 2016, the balances of accounts receivable and allowance for uncollectible accounts are NT\$283,218 thousand and NT\$17,628 thousand, respectively.

The Company assesses bad debts based on historical experience, known reason or existing objective evidences. A provision for impairment is recognized for those accounts which are considered uncollectible. Management evaluates the reasonableness of estimated provision periodically. As the estimation of allowance for uncollectible accounts is subject to management's judgement, the amount of provision is based on the collectability of accounts receivable, and considering that accounts receivable and allowance for uncollectible accounts are material to the financial statements, we consider the allowance for uncollectible accounts a key audit matter.

How our audit addressed the matter

Our procedures in relation to management's valuation of accounts receivable included:

- Assessing the reasonableness of policies and procedures on allowance for uncollectible accounts, including the reasonableness of classification of customer's credit quality and ageing analysis, based on accounting principles and credit quality of customer.
- Comparing the provision policy on allowance for uncollectible accounts whether it has been consistently applied in the comparative periods of financial statements.
- Assessing the adequacy of allowance for uncollectible accounts estimated by management and checking its appropriation.
- Testing collections after the balance sheet date to check the adequacy of allowance for uncollectible accounts.

Valuation of inventories

Description

Please refer to Note 4(9) for accounting policy on inventory valuation, Note 5 for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(4) for description of allowance for inventory valuation losses. As of December 31, 2016, the Company's inventory and allowance for market value decline and obsolete and slow-moving inventories amounted to NT\$190,736 thousand and NT\$28,166 thousand, respectively.

The Company is primarily engaged in manufacturing and sales of computer peripheral equipment. As technology changes rapidly and the life cycle of electronic products is short, inventories may become obsolete within a short period. The Company measures inventories at the lower of cost and net realisable value, and assesses whether the value of inventories has declined and any losses incurred due to obsolescence based on inventory aging and closeout inventory are examined by management periodically.

As the value of inventory is significant, the inventory items are numerous, and the accounting estimates are subject to management's judgment, we consider valuation of inventories a key audit matter.

How our audit addressed the matter

Our procedures in relation to valuation of inventories included:

- Obtaining the provision policies on allowance for inventory valuation losses and comparing whether the policies applied on allowance for inventory valuation losses are consistent for all periods. Assessing the reasonableness of net realizable value determined by the management and relevant assumptions of inventory classification and closeout inventory.
- Checked whether the logic of inventory aging report generated by the system is appropriate, confirming whether the information on the report was in agreement with the Group's policy and analysing with historical data;
- Matched information obtained in physical counts of disposed and obsolete inventory list prepared by management and interviewing management and employees to determine whether there are any obsolete, slow-moving or damaged inventories that were not included in the list.
- Assessed the reasonableness of net realizable value based on the inventory age and closeout inventory individually identified by the management, and obtaining evidences.

Other matter – Scope of the Audit

As stated in Note 6(6), we did not audit the financial statements of certain investees accounted for using equity method. The balances of these long-term equity investments amounted to NT\$176,978 thousand and NT\$142,558 thousand as of December 31, 2016 and 2015, respectively, and the related investment income (loss) was NT\$8,614 thousand and NT\$(1,069) thousand for the years then ended, respectively. Those statements were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in these financial statements and the information disclosed in Note 13 relative to these investees is based solely on the audit reports of the other independent accountants.

Responsibilities of management and those charged with governance for the parent company only financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audrey Tseng

Chih, Ping-Chiun

for and on behalf of PricewaterhouseCoopers, Taiwan

February 23, 2017

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	2016		2015		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 157,009	4	\$ 210,074	6
1150	Notes receivable, net		-	-	232	-
1170	Accounts receivable, net	6(2)	265,590	7	350,783	9
1180	Accounts receivable - related parties	7	527,500	13	345,524	9
1200	Other receivables	6(3)	35,027	1	30,852	1
1210	Other receivables - related parties	7	183,006	4	114,363	3
1220	Current income tax assets		4,851	-	-	-
130X	Inventories	6(4)	162,570	4	145,808	4
1410	Prepayments		2,357	-	3,540	-
1470	Other current assets	8	6,420	-	1,198	-
11XX	Total current assets		<u>1,344,330</u>	<u>33</u>	<u>1,202,374</u>	<u>32</u>
Non-current assets						
1543	Non-current financial assets measured at cost	6(5)	31,625	1	-	-
1550	Investments accounted for using equity method	6(6)(16)	2,362,067	58	2,202,382	59
1600	Property, plant and equipment	6(7) and 7	263,378	7	273,907	8
1780	Intangible assets	6(8)	7,562	-	9,706	-
1840	Deferred income tax assets	6(21)	33,665	1	28,900	1
1900	Other non-current assets	6(9)	7,007	-	6,929	-
15XX	Total non-current assets		<u>2,705,304</u>	<u>67</u>	<u>2,521,824</u>	<u>68</u>
1XXX	Total assets		<u>\$ 4,049,634</u>	<u>100</u>	<u>\$ 3,724,198</u>	<u>100</u>

(Continued)

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	2016		2015		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2100	Short-term borrowings	6(10)	\$ 94,500	2	\$ 65,690	2
2150	Notes payable		-	-	18	-
2170	Accounts payable		309,438	8	254,516	7
2180	Accounts payable - related parties	7	451,273	11	404,907	11
2200	Other payables	6(11)	192,765	5	167,133	4
2220	Other payables - related parties	7	7,191	-	22,823	1
2230	Current income tax liabilities		67,419	2	374	-
2300	Other current liabilities		3,729	-	5,895	-
21XX	Total current liabilities		<u>1,126,315</u>	<u>28</u>	<u>921,356</u>	<u>25</u>
Non-current liabilities						
2570	Deferred income tax liabilities	6(21)	40,138	1	56,007	1
2600	Other non-current liabilities	6(12)	26,387	-	38,820	1
25XX	Total non-current liabilities		<u>66,525</u>	<u>1</u>	<u>94,827</u>	<u>2</u>
2XXX	Total liabilities		<u>1,192,840</u>	<u>29</u>	<u>1,016,183</u>	<u>27</u>
Equity						
Share capital						
3110	Share capital - common stock	6(13)	1,197,260	30	1,201,260	32
Capital surplus						
3200	Capital surplus	6(14)	48,209	1	56,749	1
Retained earnings						
3310	Legal reserve	6(15)	458,888	11	408,404	11
3320	Special reserve		65,573	2	65,573	2
3350	Unappropriated retained earnings		1,163,915	29	933,712	25
Other equity interest						
3400	Other equity interest	6(16)	(77,051)	(2)	54,857	2
3500	Treasury stocks	6(13)	-	-	(12,540)	-
3XXX	Total equity		<u>2,856,794</u>	<u>71</u>	<u>2,708,015</u>	<u>73</u>
Significant contingent liabilities and unrecorded contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 4,049,634</u>	<u>100</u>	<u>\$ 3,724,198</u>	<u>100</u>

The accompanying notes are an integral part of these financial statements.

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Notes	Capital Reserves			Retained Earnings			Financial statements translation differences of foreign operations	Treasury stocks	Total equity
		Share capital - common stock	Total capital surplus, additional paid-in capital	Treasury stock transactions	Legal reserve	Special reserve	Unappropriated retained earnings			
2015										
Balance at January 1, 2015		\$ 1,201,260	\$ 42,127	\$ 14,622	\$ 354,277	\$ 65,573	\$ 844,851	\$ 88,782	(\$ 12,540)	\$ 2,598,952
Distribution of 2014 earnings (Note 1)	6(15)									
Legal reserve		-	-	-	54,127	-	(54,127)	-	-	-
Cash dividends		-	-	-	-	-	(359,178)	-	-	(359,178)
Other comprehensive loss for the year	6(16)	-	-	-	-	-	(2,668)	(33,925)	-	(36,593)
Profit for the year		-	-	-	-	-	504,834	-	-	504,834
Balance at December 31, 2015		<u>\$ 1,201,260</u>	<u>\$ 42,127</u>	<u>\$ 14,622</u>	<u>\$ 408,404</u>	<u>\$ 65,573</u>	<u>\$ 933,712</u>	<u>\$ 54,857</u>	<u>(\$ 12,540)</u>	<u>\$ 2,708,015</u>
2016										
Balance at January 1, 2016		\$ 1,201,260	\$ 42,127	\$ 14,622	\$ 408,404	\$ 65,573	\$ 933,712	\$ 54,857	(\$ 12,540)	\$ 2,708,015
Distribution of 2015 earnings (Note 2)	6(15)									
Legal reserve		-	-	-	50,484	-	(50,484)	-	-	-
Cash dividends		-	-	-	-	-	(311,287)	-	-	(311,287)
Retirement of treasury share	6(13)	(4,000)	(140)	(8,400)	-	-	-	-	12,540	-
Other comprehensive loss for the year	6(16)	-	-	-	-	-	(8,214)	(131,908)	-	(140,122)
Profit for the year		-	-	-	-	-	600,188	-	-	600,188
Balance at December 31, 2016		<u>\$ 1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 458,888</u>	<u>\$ 65,573</u>	<u>\$ 1,163,915</u>	<u>(\$ 77,051)</u>	<u>\$ -</u>	<u>\$ 2,856,794</u>

Note 1: The directors' and supervisors' remuneration amounting to \$14,627 and employees' bonuses amounting to \$58,508 had been deducted from comprehensive income for 2014.

Note 2: The directors' and supervisors' remuneration amounting to \$13,009 and employees' bonuses amounting to \$44,231 had been deducted from comprehensive income for 2015. The amount approved was \$59,171 and the difference of \$1,931 had been adjusted in the statement of comprehensive income for 2016.

The accompanying notes are an integral part of these financial statements.

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars)

	Notes	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 696,730	\$ 591,279
Adjustments			
Adjustments to reconcile profit (loss)			
Provision (reversal of allowance) for doubtful accounts	6(2)	1,683	(4,362)
Depreciation	6(7)(20)	26,667	31,309
Amortization	6(8)(20)	4,602	5,184
Interest expense		914	1,324
Interest income	6(18)	(423)	(3,954)
Gain on disposal of property, plant and equipment	6(19)	(1,551)	(420)
Share of profit of subsidiaries, associates and joint ventures	6(6)	(297,761)	(240,851)
Net unrealised profit from sales	6(6)	12,149	(16,291)
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		232	223
Accounts receivable		83,510	(105,468)
Accounts receivable - related parties		(181,976)	12,123
Other receivables		(4,185)	9,337
Other receivables - related parties		(68,643)	(37,270)
Inventories		(16,762)	81,848
Prepayments		1,183	1,214
Other current assets		(5,222)	(36)
Changes in operating liabilities			
Notes payable		(18)	(474)
Accounts payable		54,922	22,769
Accounts payable - related parties		46,366	(52,350)
Other payables (including related parties)		12,346	1,683
Other current liabilities		(2,166)	(3,597)
Other non-current liabilities		(22,329)	467
Cash inflow generated from operations		340,268	293,687
Interest received		433	5,115
Interest paid		(1,130)	(1,359)
Income tax paid		(27,656)	(164,176)
Net cash flows from operating activities		<u>311,915</u>	<u>133,267</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets measured at cost	6(5)	(31,625)	-
Acquisition of investments accounted for using equity method	6(6)	(31,625)	(9,019)
Acquisition of property, plant and equipment	6(23)	(18,838)	(29,216)
Proceeds from disposal of property, plant and equipment		2,121	420
Acquisition of intangible assets		(2,458)	(3,624)
Increase in other non-current assets		(78)	(536)
Net cash flows used in investing activities		<u>(82,503)</u>	<u>(41,975)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in short-term borrowings		28,810	(29,260)
Payment of cash dividends	6(15)	(311,287)	(359,178)
Net cash flows used in financing activities		<u>(282,477)</u>	<u>(388,438)</u>
Net decrease in cash and cash equivalents		(53,065)	(297,146)
Cash and cash equivalents at beginning of year	6(1)	210,074	507,220
Cash and cash equivalents at end of year	6(1)	<u>\$ 157,009</u>	<u>\$ 210,074</u>

The accompanying notes are an integral part of these financial statements.

CHENBRO MICOM CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

Chenbro Micom Co., Ltd. was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) in December 1983. The Company is primarily engaged in computer software design, export and import of computer products and peripherals, and design, manufacturing, processing and trading of computer peripherals and system of expendables.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were authorised for issuance by the Board of Directors on February 23, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments as endorsed by FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The above standards and interpretations have no significant impact to the Company's financial condition and operating results based on the Company's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and operating results based on the Company's assessment. The impact amount will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction Contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognise revenue when the performance obligation is satisfied

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity

to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

C. Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from Contracts with Customers’

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

D. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

E. Amendments to IAS 7, ‘Disclosure initiative’

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

(2) Basis of preparation

A. Except for the defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, the financial statements have been prepared under the historical cost convention.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements

are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in New Taiwan Dollars.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses’

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and jointly controlled entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Company retains partial interest in the former foreign subsidiary after losing control of the former foreign

subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be paid off within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) Accounts receivable

Accounts receivable are receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(7) Impairment of financial assets

A. The Company assesses at each balance sheet date whether there is objective evidence that a

financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
- (a) Significant financial difficulty of the debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group.
- C. When the Company assesses that financial assets measured at amortised cost has objective evidence of impairment and an impairment loss has occurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(8) Derecognition of financial assets

The Company derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has not retained control of the financial asset.

(9) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the

weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads allocated based on normal operating capacity. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(10) Financial assets measured at cost

- A. On a regular way purchase or sale basis, financial assets measured at cost are recognised and derecognised using trade date accounting.
- B. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is presented in 'financial assets measured at cost'.

(11) Investments accounted for using equity method / subsidiaries

- A. Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Unrealised gains or losses on transactions between the Company and its subsidiaries have been eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise losses proportionate to its ownership.
- D. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are

depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	10~50 years
Machinery and equipment	6 years
Mold equipment	2~4 years
Computer communication equipment	3~4 years
Testing equipment	3~4 years
Transportation equipment	5 years
Office equipment	3 years
Other equipment	3~4 years

(13) Intangible assets

A. Trademarks

Separately acquired trademarks are stated at historical cost. Trademarks have a finite useful life and are amortised on a straight-line basis over their estimated useful life of 10 years.

B. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 4 years.

(14) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(15) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs)

and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(16) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(17) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(18) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(19) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plan

For defined contribution plan, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plan

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).
- ii. Remeasurements arising on defined benefit plan are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(20) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

(21) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(22) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(23) Revenue recognition

The Company manufactures and sells computer cases and related products. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these financial statements does not require management to make critical judgements in applying the Company's accounting policies. The management makes critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Valuation of accounts receivable

The Company assesses bad debts based on historical experience, known reason or existing objective evidences. A provision for impairment is recognized for those accounts which are considered uncollectible. As the estimation of allowance for uncollectible accounts is based on the possibility of accounts recovery, the change in estimates may be material.

As of December 31, 2016, the carrying amount of accounts receivable amounted to \$265,590.

(2) Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories

is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2016, the carrying amount of inventories was \$162,570.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Petty cash and cash on hand	\$ 131	\$ 247
Demand deposits	38,614	53,309
Checking accounts	574	797
Time deposits (including foreign currencies)	-	28,000
Foreign currency deposits	117,690	127,721
	<u>\$ 157,009</u>	<u>\$ 210,074</u>

- A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. The Company has reclassified pledged cash and cash equivalents to ‘other current assets’. Details are provided in Note 8.

(2) Accounts receivable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 283,218	\$ 366,728
Less: allowance for bad debts	(17,628)	(15,945)
	<u>\$ 265,590</u>	<u>\$ 350,783</u>

- A. The Company has insured most of its accounts receivable from primary clients and is entitled for 90% of compensation if bad debts occur.
- B. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Company’s Credit Quality Control Policy:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Level 1	\$ -	\$ -
Level 2	202,238	309,525
Level 3	-	9,825
	<u>\$ 202,238</u>	<u>\$ 319,350</u>

Level 1: Accounts receivable factored and yet to be sold at the balance sheet date.

Level 2: Accounts receivable are insured so that the Company only bears 10% of the risk of default and insurance companies bear the remaining 90%. Because of the financial transparency, the domestic and foreign listed customers are listed in level 2 under approval of the chairman starting from January 30, 2015.

Level 3: Accounts receivable that are neither insured nor factored. The Company bears all risks.

C. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Up to 30 days	\$ 16,564	\$ 22,338
31 to 90 days	33,028	6,927
91 to 180 days	16,741	2,595
Over 180 days	130	1,001
	<u>\$ 66,463</u>	<u>\$ 32,861</u>

The above ageing analysis was based on past due date.

D. Movement analysis of financial assets that were impaired is as follows:

(a) As of December 31, 2016 and 2015, all of the Company's accounts receivable that were individually determined to be impaired amounted to \$14,517.

(b) Movements on the Company's provision for impairment of accounts receivable are as follows:

	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 14,517	\$ 1,428	\$ 15,945
Provision for impairment	-	1,683	1,683
At December 31	<u>\$ 14,517</u>	<u>\$ 3,111</u>	<u>\$ 17,628</u>
	<u>2015</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 14,695	\$ 5,612	\$ 20,307
Reversal of impairment	(178)	(4,184)	(4,362)
At December 31	<u>\$ 14,517</u>	<u>\$ 1,428</u>	<u>\$ 15,945</u>

E. The Company does not hold any collateral as security.

(3) Transfer of financial assets

The Company entered into a factoring agreement with banks to sell its accounts receivable. Under the agreement, the Company is not obligated to bear the default risk of the transferred accounts receivable, but is liable for the losses incurred on any business dispute. The financial assets meet the condition of derecognition. The Company decreased the estimated amount of business dispute and derecognised the transferred accounts receivable. As of December 31, 2016 and 2015, the related information is as follows:

December 31, 2016

Purchaser of <u>accounts receivable</u>	Accounts receivable transferred	Amount	Facilities	Amount	Interest rate	Footnote
	(Note)	derecognised		advanced	of amount advanced	
Chang Hwa Bank	\$ 15,803	\$ 15,803	\$ 30,000	\$ -	-	

December 31, 2015

Purchaser of <u>accounts receivable</u>	Accounts receivable transferred	Amount	Facilities	Amount	Interest rate	Footnote
	(Note)	derecognised		advanced	of amount advanced	
Chang Hwa Bank	\$ 12,868	\$ 12,868	\$ 30,000	\$ -	-	

Note: Shown as 'other receivables'.

(4) Inventories

December 31, 2016

	Cost	Allowance for valuation loss	Book value
	Raw materials	\$ 55,397	(\$ 14,273)
Finished goods	135,339	(13,893)	121,446
	<u>\$ 190,736</u>	<u>(\$ 28,166)</u>	<u>\$ 162,570</u>

December 31, 2015

	Cost	Allowance for valuation loss	Book value
	Raw materials	\$ 49,834	(\$ 9,335)
Finished goods	112,889	(7,580)	105,309
	<u>\$ 162,723</u>	<u>(\$ 16,915)</u>	<u>\$ 145,808</u>

The cost of inventories recognised as expense for the year:

	Years ended December 31,	
	2016	2015
Cost of goods sold	\$ 2,477,705	\$ 2,382,999
Loss on decline in market value	11,251	3,077
Gain on physical inventory	(69)	(15)
	<u>\$ 2,488,887</u>	<u>\$ 2,386,061</u>

(5) Financial assets measured at cost

<u>Items</u>	<u>December 31, 2016</u>
Non-current items:	
Unlisted stocks	<u>\$ 31,625</u>

- A. According to the Company's intention, its investment in unlisted stocks should be classified as 'available-for-sale financial assets'. However, as the unlisted stocks are not traded in active market, and no sufficient industry information of companies similar to the unlisted stocks can be obtained, the fair value of the investment in the unlisted stocks cannot be measured reliably. Accordingly, the Company classified those stocks as 'financial assets measured at cost'. As of December 31, 2015, the Company had no financial assets measured at cost.
- B. As of December 31, 2016, no financial assets measured at cost held by the Company were pledged to others.

(6) Investments accounted for using equity method

	<u>2016</u>	<u>2015</u>
At January 1	\$ 2,202,382	\$ 1,977,508
Addition of investments accounted for using equity method	31,625	9,019
Share of profit or loss of investments accounted for using equity method	297,761	240,851
Unrealised profit of inter-company transactions (12,149)	16,291
Changes in other equity items (Note 6(16))	(157,552)	(41,287)
At December 31	<u>\$ 2,362,067</u>	<u>\$ 2,202,382</u>

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Micom Source Holding Company	\$ 2,116,725	\$ 2,007,507
CLOUDWELL HOLDINGS, LLC.	119,960	87,557
Chenbro Europe B.V.	57,018	55,001
Chenbro Gmbh	8,779	9,186
Chenbro Micom (USA) Incorporation	59,585	43,131
	<u>\$ 2,362,067</u>	<u>\$ 2,202,382</u>

- A. The financial statements of investees accounted for using equity method, Chenbro Europe B.V. and CLOUDWELL HOLDINGS, LLC., were audited by their appointed independent accountants. The Company recognized income (loss) of \$8,614 and (\$1,069) on investees accounted for using equity method based on such financial statements for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the balance of the related investments accounted for using equity method was \$176,978 and \$142,558, respectively.
- B. Details of the Company's subsidiaries are provided in Note 4(4) of the Company's consolidated financial statements as of and for the year ended December 31, 2016.

(7) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Mold equipment	Computer communication equipment	Testing equipment	Office equipment	Others	Unfinished construction and equipment under acceptance	Total
<u>January 1, 2016</u>										
Cost	\$ 140,737	\$ 126,025	\$ 1,786	\$ 246,066	\$ 15,262	\$ 17,131	\$ 11,823	\$ 11,882	\$ 639	\$ 571,351
Accumulated depreciation	-	(38,345)	(1,381)	(210,303)	(9,715)	(16,367)	(11,369)	(9,964)	-	(297,444)
	<u>\$ 140,737</u>	<u>\$ 87,680</u>	<u>\$ 405</u>	<u>\$ 35,763</u>	<u>\$ 5,547</u>	<u>\$ 764</u>	<u>\$ 454</u>	<u>\$ 1,918</u>	<u>\$ 639</u>	<u>\$ 273,907</u>
<u>2016</u>										
Opening net book amount as at										
January 1	\$ 140,737	\$ 87,680	\$ 405	\$ 35,763	\$ 5,547	\$ 764	\$ 454	\$ 1,918	\$ 639	\$ 273,907
Additions	-	243	2,980	9,799	496	630	-	601	1,959	16,708
Disposals	-	-	-	(570)	-	-	-	-	-	(570)
Transfers	-	-	-	2,277	-	-	-	321	(2,598)	-
Depreciation charge	-	(3,263)	(112)	(19,607)	(2,291)	(351)	(200)	(843)	-	(26,667)
Closing net book amount as at										
December 31	<u>\$ 140,737</u>	<u>\$ 84,660</u>	<u>\$ 3,273</u>	<u>\$ 27,662</u>	<u>\$ 3,752</u>	<u>\$ 1,043</u>	<u>\$ 254</u>	<u>\$ 1,997</u>	<u>\$ -</u>	<u>\$ 263,378</u>
<u>December 31, 2016</u>										
Cost	\$ 140,737	\$ 126,268	\$ 4,766	\$ 255,702	\$ 15,758	\$ 17,761	\$ 11,823	\$ 12,804	\$ -	\$ 585,619
Accumulated depreciation	-	(41,608)	(1,493)	(228,040)	(12,006)	(16,718)	(11,569)	(10,807)	-	(322,241)
	<u>\$ 140,737</u>	<u>\$ 84,660</u>	<u>\$ 3,273</u>	<u>\$ 27,662</u>	<u>\$ 3,752</u>	<u>\$ 1,043</u>	<u>\$ 254</u>	<u>\$ 1,997</u>	<u>\$ -</u>	<u>\$ 263,378</u>

The significant components of the buildings include buildings and accessory equipment of buildings, which are depreciated over 10~50 years and 10~11 years, respectively.

	Land	Buildings	Machinery and equipment	Mold equipment	Computer communication equipment	Testing equipment	Office equipment	Others	Unfinished construction and equipment under acceptance	Total	Prepayments for business facilities (Note 1)
<u>January 1, 2015</u>											
Cost	\$ 140,737	\$ 125,560	\$ 1,562	\$ 220,744	\$ 14,723	\$ 16,819	\$ 11,823	\$ 11,682	\$ -	\$ 543,650	\$ 106
Accumulated depreciation	-	(35,096)	(1,323)	(194,302)	(7,390)	(15,821)	(11,155)	(9,222)	-	(274,309)	-
	<u>\$ 140,737</u>	<u>\$ 90,464</u>	<u>\$ 239</u>	<u>\$ 26,442</u>	<u>\$ 7,333</u>	<u>\$ 998</u>	<u>\$ 668</u>	<u>\$ 2,460</u>	<u>\$ -</u>	<u>\$ 269,341</u>	<u>\$ 106</u>
<u>2015</u>											
Opening net book amount as at											
January 1	\$ 140,737	\$ 90,464	\$ 239	\$ 26,442	\$ 7,333	\$ 998	\$ 668	\$ 2,460	\$ -	\$ 269,341	\$ 106
Additions	-	465	224	32,828	539	312	-	200	1,700	36,268	-
Disposals	-	-	-	-	-	-	-	-	-	-	-
Transfers (Note 2)	-	-	-	668	-	-	-	-	(1,061)	(393)	(106)
Depreciation charge	-	(3,249)	(58)	(24,175)	(2,325)	(546)	(214)	(742)	-	(31,309)	-
Closing net book amount as at											
December 31	<u>\$ 140,737</u>	<u>\$ 87,680</u>	<u>\$ 405</u>	<u>\$ 35,763</u>	<u>\$ 5,547</u>	<u>\$ 764</u>	<u>\$ 454</u>	<u>\$ 1,918</u>	<u>\$ 639</u>	<u>\$ 273,907</u>	<u>\$ -</u>
<u>December 31, 2015</u>											
Cost	\$ 140,737	\$ 126,025	\$ 1,786	\$ 246,066	\$ 15,262	\$ 17,131	\$ 11,823	\$ 11,882	\$ 639	\$ 571,351	\$ -
Accumulated depreciation	-	(38,345)	(1,381)	(210,303)	(9,715)	(16,367)	(11,369)	(9,964)	-	(297,444)	-
	<u>\$ 140,737</u>	<u>\$ 87,680</u>	<u>\$ 405</u>	<u>\$ 35,763</u>	<u>\$ 5,547</u>	<u>\$ 764</u>	<u>\$ 454</u>	<u>\$ 1,918</u>	<u>\$ 639</u>	<u>\$ 273,907</u>	<u>\$ -</u>

Note 1: Prepayments for business facilities are shown as 'other non-current assets'.

Note 2: The current transfers of \$499 are prepayments for business facilities that were transferred to intangible assets.

The significant components of the buildings include buildings and accessory equipment of buildings, which are depreciated over 10~50 years and 10~11 years, respectively.

(8) Intangible assets

	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>January 1, 2016</u>				
Cost	\$ 502	\$ 22,685	\$ 460	\$ 23,647
Accumulated amortisation	(190)	(13,492)	(259)	(13,941)
	<u>\$ 312</u>	<u>\$ 9,193</u>	<u>\$ 201</u>	<u>\$ 9,706</u>
<u>2016</u>				
At January 1	\$ 312	\$ 9,193	\$ 201	\$ 9,706
Additions	31	2,287	140	2,458
Amortisation charge	(40)	(4,485)	(77)	(4,602)
At December 31	<u>\$ 303</u>	<u>\$ 6,995</u>	<u>\$ 264</u>	<u>\$ 7,562</u>
<u>December 31, 2016</u>				
Cost	\$ 533	\$ 24,972	\$ 600	\$ 26,105
Accumulated amortisation	(230)	(17,977)	(336)	(18,543)
	<u>\$ 303</u>	<u>\$ 6,995</u>	<u>\$ 264</u>	<u>\$ 7,562</u>
	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>January 1, 2015</u>				
Cost	\$ 502	\$ 18,821	\$ 201	\$ 19,524
Accumulated amortisation	(150)	(8,409)	(198)	(8,757)
	<u>\$ 352</u>	<u>\$ 10,412</u>	<u>\$ 3</u>	<u>\$ 10,767</u>
<u>2015</u>				
At January 1	\$ 352	\$ 10,412	\$ 3	\$ 10,767
Additions	-	3,365	259	3,624
Transfers	-	499	-	499
Amortisation charge	(40)	(5,083)	(61)	(5,184)
At December 31	<u>\$ 312</u>	<u>\$ 9,193</u>	<u>\$ 201</u>	<u>\$ 9,706</u>
<u>December 31, 2015</u>				
Cost	\$ 502	\$ 22,685	\$ 460	\$ 23,647
Accumulated amortisation	(190)	(13,492)	(259)	(13,941)
	<u>\$ 312</u>	<u>\$ 9,193</u>	<u>\$ 201</u>	<u>\$ 9,706</u>

Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2016	2015
Selling expenses	\$ 350	\$ 385
Administrative expenses	2,245	3,031
Research and development expenses	2,007	1,768
	<u>\$ 4,602</u>	<u>\$ 5,184</u>

(9) Other non-current assets

	December 31, 2016	December 31, 2015
Guarantee deposits paid	\$ 3,282	\$ 3,204
Others	3,725	3,725
	<u>\$ 7,007</u>	<u>\$ 6,929</u>

(10) Short-term borrowings

Type of borrowings	December 31, 2016	Interest rate range	Collateral
Short-term borrowings	<u>\$ 94,500</u>	0.8%~1.14%	A promissory note of the same amount was issued as collateral.

Type of borrowings	December 31, 2015	Interest rate range	Collateral
Short-term borrowings	<u>\$ 65,690</u>	0.82%~0.90%	A promissory note of the same amount was issued as collateral.

As of December 31, 2015, the joint credit line of the Company and its indirect subsidiary, PROCASE & MOREX Corporation (“Proc case”) was USD 3 million, and as of that date, the Company nor Proc case has not yet made a drawdown.

(11) Other payables

	December 31, 2016	December 31, 2015
Remuneration due to directors and supervisors and employee bonus payable	\$ 67,566	\$ 59,171
Wages and bonus payable	48,826	51,645
Payables for export freight and customs clearance charges	21,979	22,333
Payables for service fees	10,453	7,485
Payables for mold	10,236	6,152
Payables for machinery and equipment	8,431	2,789
Others	25,274	17,558
	<u>\$ 192,765</u>	<u>\$ 167,133</u>

(12) Pensions

A. Defined benefit plan

(a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligation	\$ 49,447	\$ 41,496
Fair value of plan assets	(23,060)	(2,676)
Net liability recognised in the balance sheet (shown as 'other non-current liabilities')	<u>\$ 26,387</u>	<u>\$ 38,820</u>

(c) Movements in present value of defined benefit obligation are as follows:

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2016</u>			
Balance at January 1	\$ 41,496	(\$ 2,676)	\$ 38,820
Current service cost	383	-	383
Interest expense (income)	705	(46)	659
	<u>42,584</u>	<u>(2,722)</u>	<u>39,862</u>
Remeasurements:			
Return on plan assets	-	23	23
Change in financial assumptions	1,348	-	1,348
Experience adjustments	8,525	-	8,525
	<u>9,873</u>	<u>23</u>	<u>9,896</u>
Pension fund contribution	-	(23,371)	(23,371)
Benefits paid	(3,010)	3,010	-
Balance at December 31	<u>\$ 49,447</u>	<u>(\$ 23,060)</u>	<u>\$ 26,387</u>

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2015</u>			
Balance at January 1	\$ 37,132	(\$ 1,994)	\$ 35,138
Current service cost	316	-	316
Interest expense (income)	743	(40)	703
	<u>38,191</u>	<u>(2,034)</u>	<u>36,157</u>
Remeasurements:			
Return on plan assets	-	(90)	(90)
Change in financial assumptions	1,304	-	1,304
Experience adjustments	2,001	-	2,001
	<u>3,305</u>	<u>(90)</u>	<u>3,215</u>
Pension fund contribution	-	(552)	(552)
Balance at December 31	<u>\$ 41,496</u>	<u>(\$ 2,676)</u>	<u>\$ 38,820</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.
- (e) The principal actuarial assumptions used were as follows:

	<u>Years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Discount rate	<u>1.40%</u>	<u>1.70%</u>
Future salary increases	<u>3.00%</u>	<u>3.00%</u>

Assumptions regarding future mortality experience for the years ended December 31, 2016 and 2015 are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 1,127)	\$ 1,168	\$ 1,024	(\$ 995)
<u>December 31, 2015</u>				
Effect on present value of defined benefit obligation	(\$ 1,033)	\$ 1,199	\$ 1,060	(\$ 939)

The sensitivity analysis above was arrived at based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

- (f) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2017 are \$620.

B. Defined contribution plan

Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2016 and 2015 were \$7,582 and \$6,937, respectively.

(13) Ordinary shares

- A. As of December 31, 2016, the Company's authorized capital was \$1,500,000, consisting of 150 million shares of ordinary stock (including 1 million shares reserved for employee stock options), and the paid-in capital was \$1,197,260 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

B. Treasury shares

- (a) Reason for share reacquisition and movements in the number of the Company's treasury shares in 2015 are as follows:

Name of company holding the shares	Reason for reacquisition	December 31, 2015	
		Number of shares (in thousands)	Carrying amount
The Company	To be reissued to employees	400	\$ 12,540

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.
- (e) In 2013, the Company repurchased treasury stock to be reissued to employees for 400 thousand shares of \$12,540 thousand. The registration of retirement of shares has been completed on October 21, 2016.

(14) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(15) Retained earnings

- A. Under the Company's Articles of Incorporation adopted by the shareholders during their meeting on June 23, 2016, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve reaches total capital. The remaining shall be taken into account item D below for the related regulations of setting aside special reserve. The appropriation of the remaining earnings along with the unappropriated earnings of prior years depends on annual financial status and economic development and shall be proposed by the Board of Directors and approved by the shareholders.
- B. The Company's dividend policy is based on the current profit and consideration of the Company's growth in the future, capital budget plan and capital needs as well as consideration of shareholders' interest and long-term financial plan, etc. Earnings can be distributed to shareholders as cash dividends or stock dividends. Cash dividends shall account for at least 10% of the total dividends distributed. If cash dividends are lower than \$0.20 (in dollars) per share, stock dividends will be issued instead.

- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amount of \$65,573 previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- E. (a) On June 23, 2016 and June 11, 2015, the shareholders proposed the appropriations of 2015 and 2014 earnings as follows:

	<u>Year ended December 31, 2015</u>		<u>Year ended December 31, 2014</u>	
	<u>Amount</u>	<u>Dividend per share (in dollars)</u>	<u>Amount</u>	<u>Dividend per share (in dollars)</u>
Legal reserve	\$ 50,483	\$ -	\$ 54,127	\$ -
Cash dividends to shareholders	<u>311,287</u>	<u>2.60</u>	<u>359,178</u>	<u>3.00</u>
	<u>\$ 361,770</u>	<u>\$ 2.60</u>	<u>\$ 413,305</u>	<u>\$ 3.00</u>

- (b) On February 23, 2017, the Board of Directors has proposed the appropriation of 2016 earnings as follows:

	<u>Year ended December 31, 2016</u>	
	<u>Amount</u>	<u>Dividend per share (in dollars)</u>
Legal reserve	\$ 60,019	\$ -
Special reserve	77,051	-
Cash dividends to shareholders	<u>359,178</u>	<u>3.00</u>
	<u>\$ 496,248</u>	<u>\$ 3.00</u>

As of February 23, 2017, the abovementioned appropriation of 2016 earnings has not yet been resolved by the shareholders.

- F. For the information relating to employees' remuneration (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(20).

(16) Other equity items

	Years ended December 31,	
	2016	2015
	<u>Currency translation</u>	<u>Currency translation</u>
At January 1	\$ 54,857	\$ 88,782
Currency translation differences:		
–Group	(157,552)	(41,287)
–Tax on Group	25,644	7,362
At December 31	<u>(\$ 77,051)</u>	<u>\$ 54,857</u>

(17) Operating revenue

	Years ended December 31,	
	2016	2015
Sales revenue	<u>\$ 3,250,976</u>	<u>\$ 3,038,008</u>

(18) Other income

	Years ended December 31,	
	2016	2015
Royalty revenue	\$ 31,578	\$ 11,322
Interest income from bank deposits	423	3,954
Other income	4,590	2,808
	<u>\$ 36,591</u>	<u>\$ 18,084</u>

(19) Other gains and losses

	Years ended December 31,	
	2016	2015
Net currency exchange (loss) gain	(\$ 10,392)	\$ 21,803
Gain on disposal of property, plant and equipment	1,551	420
Other expenses	(1,077)	(6,561)
	<u>(\$ 9,918)</u>	<u>\$ 15,662</u>

(20) Employee benefits, depreciation and amortisation expenses

	Years ended December 31,	
	2016	2015
Wages and salaries	\$ 207,794	\$ 196,457
Labour and health insurance fees	13,227	12,859
Pension costs	8,624	7,956
Other personnel expenses	11,534	9,716
Employee benefits expense	<u>\$ 241,179</u>	<u>\$ 226,988</u>
Depreciation charges on property, plant and equipment	<u>\$ 26,667</u>	<u>\$ 31,309</u>
Amortisation charges on intangible assets	<u>\$ 4,602</u>	<u>\$ 5,184</u>

- A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 6% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration and will be distributed in the form of stock or cash as resolved by the Board of Directors. Employees who are entitled to receive employees' compensation include employees of subsidiaries of the company meeting certain specific requirements. Related regulations were set by the Board of Directors. The distribution of employees' compensation and directors' and supervisors' remuneration should be reported to the stockholders. However, if the Company has accumulated deficit, the Company should cover accumulated losses first, then distribute employees' compensation and directors' and supervisors' remuneration proportionately as described above.
- B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$52,210 and \$45,723, respectively; while directors' and supervisors' remuneration was accrued at \$15,356 and \$13,448, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2015, employees' compensation and directors' and supervisors' remuneration amounted to \$44,231 and \$13,009 as resolved by the Board of Directors on March 22, 2016, respectively, and the differences with the amounts recognized in the current year's financial statements amounted to \$1,492 and \$439, respectively. The differences have been adjusted in the third quarter of 2016.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2016	2015
Current tax:		
Current tax on profits for the year	\$ 75,768	\$ 61,690
Tax on undistributed surplus earnings	14,306	12,797
Prior years income tax over estimate	(225)	(225)
Total current tax	<u>89,849</u>	<u>74,262</u>
Deferred tax:		
Origination and reversal of temporary differences	6,693	12,183
Total deferred tax	<u>6,693</u>	<u>12,183</u>
Income tax expense	<u>\$ 96,542</u>	<u>\$ 86,445</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Years ended December 31,	
	2016	2015
Currency translation differences	(\$ 25,644)	(\$ 7,362)
Remeasurement of defined benefit obligation	(\$ 1,682)	(\$ 547)

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	\$ 118,444	\$ 100,517
10% tax on undistributed earnings	14,306	12,797
Prior year income tax overestimate	(225)	(225)
Effect from expenses disallowed by tax regulation	(35,983)	(26,644)
Income tax expense	<u>\$ 96,542</u>	<u>\$ 86,445</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Allowance for inventory valuation loss and loss on obsolete and slow- moving inventories	\$ 2,875	\$ 2,392	\$ -	\$ 5,267
Unrealised gain on inter-affiliate accounts	18,155	500	-	18,655
Allowance for bad debts that exceed the limit for tax purpose	1,487	126	-	1,613
Unused compensated absences	675	-	-	675
Pension expense payable	3,215	-	1,682	4,897
Pension expense that exceeds the limit for tax purpose	1,405	75	-	1,480
Capitalised repairs and maintenance expense	15	(8)	-	7
Capitalised deed tax	53	(2)	-	51
Unrealised warranty provision	1,020	-	-	1,020
	<u>28,900</u>	<u>3,083</u>	<u>1,682</u>	<u>33,665</u>
-Deferred tax liabilities:				
Investment income	(55,290)	(9,194)	25,644	(38,840)
Unrealised exchange gain	(717)	(581)	-	(1,298)
	<u>(56,007)</u>	<u>(9,775)</u>	<u>25,644</u>	<u>(40,138)</u>
	<u>(\$ 27,107)</u>	<u>(\$ 6,692)</u>	<u>\$ 27,326</u>	<u>(\$ 6,473)</u>

	2015			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
	Temporary differences:			
-Deferred tax assets:				
Allowance for inventory valuation loss and loss on obsolete and slow- moving inventories	\$ 2,353	\$ 522	\$ -	\$ 2,875
Unrealised gain on inter-affiliate accounts	24,611	(6,456)	-	18,155
Allowance for bad debts that exceed the limit for tax purpose	2,399	(912)	-	1,487
Unused compensated absences	675	-	-	675
Pension expense payable	2,668	-	547	3,215
Pension expense that exceeds the limit for tax purpose	1,326	79	-	1,405
Capitalised repairs and maintenance expense	23	(8)	-	15
Capitalised deed tax	54	(1)	-	53
Unrealised warranty provision	-	1,020	-	1,020
	<u>34,109</u>	<u>(5,756)</u>	<u>547</u>	<u>28,900</u>
-Deferred tax liabilities:				
Investment income	(55,009)	(7,643)	7,362	(55,290)
Unrealised exchange gain	(1,933)	1,216	-	(717)
	<u>(56,942)</u>	<u>(6,427)</u>	<u>7,362</u>	<u>(56,007)</u>
	<u>(\$ 22,833)</u>	<u>(\$ 12,183)</u>	<u>\$ 7,909</u>	<u>(\$ 27,107)</u>

D. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2016 and 2015, the amounts of temporary differences unrecognised as deferred tax liabilities were \$246,234 and \$194,090, respectively.

E. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority. However, the income tax return for 2013 is still being assessed.

F. Unappropriated retained earnings:

	December 31, 2016	December 31, 2015
Earnings generated in and before 1997	\$ 12,886	\$ 12,886
Earnings generated in and after 1998	1,151,029	920,826
	<u>\$ 1,163,915</u>	<u>\$ 933,712</u>

G. The balance of the imputation tax credit account and estimated creditable tax rate are as follows:

	December 31, 2016	December 31, 2015
Balance of the imputation tax credit account	\$ 126,116	\$ 156,076
	<u>2016 (estimated)</u>	<u>2015 (actual)</u>
Creditable tax rate	<u>16.81%</u>	<u>16.29%</u>

(23) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31,	
	2016	2015
Purchase of property, plant and equipment	\$ 16,708	\$ 36,268
Add: opening balance of payable on equipment	10,561	3,509
Less: ending balance of payable on equipment	(8,431)	(10,561)
Cash paid during the year	<u>\$ 18,838</u>	<u>\$ 29,216</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Company's shares are held by the public, thus, there is no parent company or ultimate parent.

(2) Names of related parties and relationship with the Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Micom Source Holding Company	First-tier subsidiary
Chenbro Micom (USA) Incorporation	First-tier subsidiary
Chenbro Europe B.V.	First-tier subsidiary
Chenbro GmbH	First-tier subsidiary
CLOUDWELL HOLDINGS, LLC.	First-tier subsidiary
Chenbro UK Limited (UK)	Second-tier subsidiary (Note)
Cloud International Company Limited (Cloud)	Second-tier subsidiary (Note)
Amac International Co. (Amac)	Second-tier subsidiary (Note)
Amber International Co. (Amber)	Second-tier subsidiary (Note)
Adept International Co. (Adept)	Second-tier subsidiary (Note)
ChenPower Information Technology (Shanghai) Co., Ltd.	Third-tier subsidiary (Note)
Chenbro Micom (Shenzhen) Co., Ltd. (CCS)	Third-tier subsidiary (Note)
Chenbro Technology (Kunshan) Co., Ltd. (CSH)	Third-tier subsidiary (Note)
Procasa & Morex Corp. (Procasa)	Third-tier subsidiary (Note)
Dongguan Procasa Electronic Co., Ltd. (DGP)	Fourth-tier subsidiary (Note)
Chenbro Micom (Beijing) Co., Ltd.	Fourth-tier subsidiary (Note)
Chen-Source Inc.	Other related party

Note: Shown as 'subsidiary' in Note 7(3).

(3) Significant related party transactions

A. Operating revenue and other income

	Years ended December 31,	
	2016	2015
Sales of goods:		
– Subsidiaries	\$ 2,011,601	\$ 1,540,302
– Other related parties	-	1,280
Other income:		
– Subsidiaries (royalty revenue)	31,578	11,322
– Subsidiaries (management revenue)	15,390	10,691
– Other related parties (management revenue)	549	80
– Subsidiaries (interest income)	-	106
	<u>\$ 2,059,118</u>	<u>\$ 1,563,781</u>

(a) Sales of goods: Goods are sold based on normal prices and terms. Payment collection is T/T 45~120 days and 60~90 days after monthly billings.

(b) Royalty revenue: Royalties received from subsidiaries for using the Company's resources.

(c) Management revenue: Revenue arises from managing administrative affairs on behalf of subsidiaries and other related parties and is shown as a deduction to 'selling expenses' and 'management fees'. Management revenue is determined based on agreed upon terms and payment collection is T/T 90 days and 30 days after monthly billings.

(d) Interest income: Interest arises from advance payments for inventories.

B. Purchases and other expenses

	Years ended December 31,	
	2016	2015
Purchases of goods:		
– Subsidiaries	\$ 1,759,086	\$ 1,545,897
– Other related parties	52,145	53,215
Other expenses:		
– Subsidiaries (commission expense)	-	4,567
– Subsidiaries (service expense)	17,416	5,157
– Other related parties (management service expense)	1,863	983
	<u>\$ 1,830,510</u>	<u>\$ 1,609,819</u>

(a) Purchases of goods: No similar transaction can be compared with. Prices and terms are determined based on mutual agreements and payment term is 60 days after monthly billings.

(b) Commission expense: Expenses paid by subsidiaries for sales and providing after-sale services on behalf of the Company.

- (c) Service expense: Services expenses paid by the Company to subsidiaries.
- (d) Management service expense: Expense paid to other related parties for managing storages. Prices and terms are determined based on mutual agreements and payment term is 60 days after monthly billings.

C. Receivables from related parties

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable:		
– Subsidiaries	\$ 527,500	\$ 345,293
– Other related parties	-	231
	<u>527,500</u>	<u>345,524</u>
Other receivables – advance payments on behalf of others:		
– Subsidiaries	182,516	114,360
– Other related parties	490	3
	<u>183,006</u>	<u>114,363</u>
	<u>\$ 710,506</u>	<u>\$ 459,887</u>

- (a) The receivables from related parties are unsecured in nature and bear no interest.
- (b) Other receivables are amounts paid for purchase of materials and collection of royalties on behalf of subsidiaries and other related parties.

D. Payables to related parties

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts payable:		
– Subsidiaries	\$ 444,504	\$ 392,030
– Other related parties	6,769	12,877
	<u>451,273</u>	<u>404,907</u>
Other payables:		
– Subsidiaries	6,646	22,222
– Other related parties	545	601
	<u>7,191</u>	<u>22,823</u>
	<u>\$ 458,464</u>	<u>\$ 427,730</u>

- (a) Accounts payable bear no interest.
- (b) Other payables: The payables are expenses and purchase of mold equipment, commission and service expenses paid by subsidiaries and other related parties on behalf of the Company.

E. Property transactions:

The Company purchased mold equipment for manufacturing from subsidiaries and other related parties for the years ended December 31, 2016 and 2015, and the acquisition cost was \$140 and \$21,612, respectively.

F. Endorsements and guarantees provided to related parties

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subsidiaries (Note)	\$ 16,600	\$ 20,100

Note: unit in thousands of USD.

(4) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Salaries and other short-term employee benefits	\$ 41,103	\$ 32,733
Post-employment benefits	345	255
Other long-term benefits	1,287	1,227
	<u>\$ 42,735</u>	<u>\$ 34,215</u>

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>	
Time deposits (shown as 'other current assets')	\$ 1,000	\$ 1,000	Customs duty guarantee

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

The Company entered into equipment agreement and lease agreement. Future lease payments and their present values are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Not later than one year	\$ 1,764	\$ 1,486
Later than one year but not later than three years	945	1,137
Over three years	64	-
	<u>\$ 2,773</u>	<u>\$ 2,623</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) Please refer to Note 6(15)E(b) for the appropriation of earnings.

(2) On January 19, 2017, to adjust the investment structure in China, the Board of Directors has approved to establish subsidiaries in Beijing and Shanghai, through ChenPower Information Technology (Shanghai) Co., Ltd. which was invested by the second-tier subsidiary, Amber International Company, and stop the operations of third-tier subsidiaries, Chenbro Micom

(Shenzhen) Co., Ltd. and Chenbro Micom (Beijing) Co., Ltd.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to maintain an optimal financial structure and capital ratio in order to support operations and to maximize interests for shareholders.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables (including related parties), other financial assets – current, refundable deposits, short-term borrowings, notes payable, accounts payable (including related parties) and other payables (including related parties)) approximate to their fair values.

B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Company treasury, and primarily hedge using natural hedge.

iii. The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2016		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 33,162	32.25	\$ 1,069,475
<u>Non-monetary items</u>			
USD:NTD	\$ 5,567	32.25	\$ 179,545
EUR:NTD	1,941	33.90	65,797
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 21,849	32.25	\$ 704,630
HKD:NTD	510	4.16	2,122
	December 31, 2015		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 27,921	32.83	\$ 916,646
<u>Non-monetary items</u>			
USD:NTD	\$ 3,981	32.83	\$ 130,688
EUR:NTD	1,789	35.88	64,187
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 18,503	32.83	\$ 607,453
HKD:NTD	591	4.24	2,506

iv. Please refer to the following table for the details of unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Company:

		Year ended December 31, 2016		
		Exchange gain (loss)		
		Foreign currency amount (In thousands)	Exchange rate	Book value
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
	USD:NTD	\$ -	32.25	\$ 19,348
<u>Financial liabilities</u>				
<u>Monetary items</u>				
	USD:NTD	\$ -	32.25	(\$ 11,683)
	HKD:NTD	-	4.16	(50)
		Year ended December 31, 2015		
		Exchange gain (loss)		
		Foreign currency amount (In thousands)	Exchange rate	Book value
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
	USD:NTD	\$ -	32.83	\$ 14,268
<u>Financial liabilities</u>				
<u>Monetary items</u>				
	USD:NTD	\$ -	32.83	(\$ 4,251)
	HKD:NTD	-	4.24	(28)

- v. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Year ended December 31, 2016			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 10,695	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	7,046	-
HKD:NTD	1%	21	-
Year ended December 31, 2015			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 9,166	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	6,075	-
HKD:NTD	1%	25	-

Interest rate risk

The Company's interest rate risk arises from short-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's borrowings are primarily at fixed rates. During the years ended December 31, 2016 and 2015, the Company's borrowings at variable rate were denominated in the USD and NTD.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only parties with optimal ratings are accepted.
- ii. For the years ended December 31, 2016 and 2015, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of significant financial assets that are neither past due nor impaired is provided in Note 6(2) B.
- iv. The ageing analysis of financial assets that were past due but not impaired is provided in Note 6(2) C.
- v. Details of the individual analysis of financial assets that had been impaired is provided in Note 6(2) D.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating units of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The analysis is as follows:

Non-derivative financial liabilities:

	<u>Less than 1 year</u>	<u>Between 1 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
<u>December 31, 2016</u>				
Short-term borrowings	\$ 94,552	\$ -	\$ -	\$ -
Accounts payable	309,438	-	-	-
Accounts payable – related party	451,273	-	-	-
Other payables	192,765	-	-	-
Other payables – related party	7,191	-	-	-
Other current liabilities	3,729	-	-	-
	<u>Less than 1 year</u>	<u>Between 1 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
<u>December 31, 2015</u>				
Short-term borrowings	\$ 65,743	\$ -	\$ -	\$ -
Notes payable	18	-	-	-
Accounts payable	254,516	-	-	-
Accounts payable – related party	404,907	-	-	-
Other payables	167,133	-	-	-
Other payables – related party	22,823	-	-	-
Other current liabilities	5,895	-	-	-

- iii. The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

- A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2) A.
- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:
- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in without active market is included in Level 3.

- C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2016 is as follows:

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets measured at cost				
Equity securities	\$ -	\$ -	\$ 31,625	\$ 31,625

There is no financial and non-financial instruments measured at fair value as of December 31, 2015.

- D. Financial segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- E. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	<u>Fair value at December 31, 2016</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 31,625	Net asset value	Not applicable	-	Not applicable

- F. The Company has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

		December 31, 2016				
		Recognised in profit or loss			Recognised in other comprehensive income	
		Favourable	Unfavourable	Favourable	Unfavourable	
		<u>change</u>	<u>change</u>	<u>change</u>	<u>change</u>	<u>change</u>
Financial assets	<u>Input</u>	<u>Change</u>				
Equity instrument	Net asset value	±1%	\$	-	\$	-
					\$	316
					\$	316

G. The following chart is the movement of Level 3 for the years ended December 31, 2016 and 2015:

		Equity securities	
		Years ended December 31,	
		2016	2015
At January 1		\$ -	\$ -
Acquired during the year		31,625	-
At December 31		\$ 31,625	\$ -

H. For the years ended December 31, 2016 and 2015, there was no transfer into or out from Level 3.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: Please refer to table 1.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 3.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

For investees' disclosures, financial statements of Chenbro Europe B.V., Chenbro UK Limited and CLOUDWELL HOLDINGS., LLC. were audited by the investees' appointed independent accountants. Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area:

(a) The Company purchased through the third-tier subsidiary, PROCASE & MOREX Corporation (Procase). For the year ended December 31, 2016, Procase purchased raw materials of iron pieces amounting to \$869,358, for manufacturing computer cases, from the Company's fourth-tier subsidiary in Mainland China, Dongguan Procace Electronic Co., Ltd.. Balance of accounts payable amounted to \$50,050, comprising 20% of the accounts payable of Procace. For the year ended December 31, 2016, Procace sold finished goods of computer cases to the Company, amounting to \$1,002,535, comprising 66% of Procace's sales in 2016. Balance of accounts payable to Dongguan Procace Electronic Co., Ltd. amounted to \$160,666, comprising 21% of the accounts payable of the Company.

For the year ended December 31, 2016, the Company provided research and development technical skills to Dongguan Procace Electronic Co., Ltd. and received royalty of \$31,578. Other receivables from Dongguan Procace Electronic Co., Ltd. amounted to \$31,578, comprising 14% of other receivables of the Company.

(b) For the year ended December 31, 2016, the Company purchased finished goods of computer cases amounting to \$745,259 from the Company's third-tier subsidiary - Chenbro Technology (Kunshan) Co., Ltd. As of December 31, 2016, balance of accounts payable to Chenbro Technology (Kunshan) Co., Ltd. amounted to \$283,838, comprising 37% of the accounts payable of the Company.

14. OPERATING SEGMENT INFORMATION

Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" Article 22, a company is not required to present operating segment information within the scope of IFRS 8, in the parent company only financial statements.

CHENBRO MICOM CO., LTD.
Provision of endorsements and guarantees to others
Year ended December 31, 2016

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 1

Number (Note 1)	Endorser/ guarantor	Company name	<u>Party being endorsed/guaranteed</u>											
			Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2016 (Note 5)	Outstanding endorsement/ guarantee amount at December 31, 2016 (Note 6)	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of endorsements/ guarantees by parent company to subsidiary (Note 4)	Provision of endorsements/ guarantees by subsidiary to parent company (Note 4)	Provision of endorsements/ guarantees to the party in Mainland China (Note 4)	Footnote
0	CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Inc.	1	\$ 571,359	\$ 129,000	\$ 129,000	\$ -	\$ -	5	\$ 1,714,076	Y	N	N	Note 3
0	CHENBRO MICOM CO., LTD.	CLOUDWELL HOLDINGS, LLC.	1	571,359	180,600	180,600	157,208	-	6	1,714,076	Y	N	N	Note 3
0	CHENBRO MICOM CO., LTD.	PROCASE & MOREX Corporation	2	571,359	338,625	225,750	-	-	8	1,714,076	Y	N	N	Note 3

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1) The Company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is as follows:

(1) A subsidiary.

(2) The subsidiary's direct wholly-owned affiliate

Note 3: In accordance with the Company's "Procedures for Provision of Endorsements and Guarantees", ceiling on accumulated endorsements/guarantees to others and limit on endorsements/guarantees to a single party was 60% and 20% of the Company's net assets, respectively.

Note 4: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

Note 5: The maximum endorsement/guarantee provided by Chenbro Micom Co., Ltd. to Chenbro Micom (USA) Inc., CLOUDWELL HOLDINGS, LLC. and PROCASE & MOREX Corporation was US\$4,000 thousand, \$5,600 thousand and \$10,500 thousand for the year ended December 31, 2016, respectively.

Note 6: The outstanding endorsement/guarantee provided by Chenbro Micom Co., Ltd. to Chenbro Micom (USA) Inc., CLOUDWELL HOLDINGS, LLC. and PROCASE & MOREX Corporation was US\$4,000 thousand, \$5,600 thousand and \$7,000 thousand for the year ended December 31, 2016, respectively.

CHENBRO MICOM CO., LTD.
Holding of marketable securities at the end of the period
December 31, 2016
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 2

		As of December 31, 2016						
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
CHENBRO MICOM CO., LTD.	Diamond Creative Holding Limited	None	Financial assets measured at cost- noncurrent	1,000,000	\$31,625	14.29%	\$31,625	

Note: Financial assets measured at cost- noncurrent.

CHENBRO MICOM CO., LTD.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

Year ended December 31, 2016

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 3

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	The Company's subsidiary	Sales	(\$ 1,773,834)	55	T/T 120 days	Note 1	Note 1	\$ 485,386	61	
PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Sales	(1,002,535)	66	60 days after monthly billing	Note 1	Note 1	160,666	52	
PROCASE & MOREX CORPORATION	Dongguan Procace Electronic Co., Ltd.	Parent-subsidiary company	Sales	(474,106)	31	Based on agreement	Note 1	Note 1	146,331	47	
Dongguan Procace Electronic Co., Ltd.	PROCASE & MOREX CORPORATION	Parent-subsidiary company	Sales	(869,358)	52	Based on agreement	Note 1	Note 1	50,050	13	
Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Sales	(745,259)	44	60 days after monthly billing	Note 1	Note 1	283,838	60	
CHENBRO MICOM CO., LTD.	Chenbro Europe B.V.	The Company's subsidiary	Sales	(177,537)	5	T/T 45 days	Note 1	Note 1	17,554	2	

Note: Terms and prices for the abovementioned transactions are the same with third parties.

CHENBRO MICOM CO., LTD.
 Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
 Year ended December 31, 2016
 Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 4

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2016	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 1)	Allowance for doubtful accounts (Note 2)
					Amount	Action taken		
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	Parent-subsidiary company	Accounts receivable \$ 485,386	4.38	\$ -	-	\$ 242,308	\$ -
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	Parent-subsidiary company	Other receivables \$ 5,251	None	-	-	4,508	-
Procasa & Morex Corporation	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Accounts receivable \$ 160,666	4.78	958	Subsequent collection	81,633	-
Procasa & Morex Corporation	Dongguan Procasa Electronic Co., Ltd.	Parent-subsidiary company	Accounts receivable \$ 146,331	2.99	-	-	28,533	-
Chembro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Accounts receivable \$ 283,838	3.59	-	-	128,697	-

Note 1: Subsequent collections as of February 23, 2017.

Note 2: As the related parties have excellent credit condition, no allowance for doubtful accounts was recognized.

CHENBRO MICOM CO., LTD.

Significant inter-company transactions during the reporting periods
Year ended December 31, 2016

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 5

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 5)
				General ledger account	Amount (Notes 3 and 6)	Transaction terms	
0	CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	1	Sales	\$ 1,773,834	Note 4	34
0	CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	1	Accounts receivable	485,386	Note 4	10
0	CHENBRO MICOM CO., LTD.	Chenbro Europe B.V.	1	Sales	177,537	Note 4	3
1	Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	2	Sales	745,259	Note 4	14
1	Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	2	Accounts receivable	283,838	Note 4	6
2	Dongguan Procace Electronic Co., Ltd.	PROCASE & MOREX CORPORATION	3	Sales	869,358	Note 4	17
3	PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	2	Sales	1,002,535	Note 4	19
3	PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	2	Accounts receivable	160,666	Note 4	3
3	PROCASE & MOREX CORPORATION	Dongguan Procace Electronic Co., Ltd.	3	Sales	474,106	Note 4	9
3	PROCASE & MOREX CORPORATION	Dongguan Procace Electronic Co., Ltd.	3	Accounts receivable	146,331	Note 4	3

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: Transaction amounts less than NTS100 million or 20% of paid-in capital are not disclosed.

Note 4: There is no transaction similar to the above purchases and sales, which are determined in accordance with mutual agreement.

Note 5: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 6: Except current profit (loss) for the year ended December 31, 2016 is translated using the yearly average exchange rate in 2016, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at December 31, 2016.

CHENBRO MICOM CO., LTD.

Information on investees (not including investees in Mainland China)

Year ended December 31, 2016

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 6

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2016			Net profit (loss) of the investee for the year ended December 31, 2016 (Note 5)	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 5)	Footnote
				Balance as at December 31, 2016 (Note 5)	Balance as at December 31, 2015 (Note 5)	Number of shares	Ownership (%)	Book value (Note 5)			
CHENBRO MICOM CO., LTD.	Micom Source Holding Company	Cayman Islands	Holding company	\$ 663,518	\$ 663,518	20,449,890	100	\$ 2,116,725	\$ 276,475	\$ 261,615	Notes 1
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	USA	General trading company	32,408	32,408	10,000,000	100	59,585	24,869	27,461	Notes 1
CHENBRO MICOM CO., LTD.	Chenbro Europe B.V.	Netherlands	General trading company	2,837	2,837	20,000	100	57,018	7,716	6,915	Notes 1
CHENBRO MICOM CO., LTD.	Cloudwell Holdings, LLC.	USA	Real estate leasing company	109,365	77,740	3,600,000	100	119,960	1,699	1,699	-
CHENBRO MICOM CO., LTD.	Chenbro GmbH	Germany	Marketing services	9,019	9,019	250,000	100	8,779	71	71	-
Micom Source Holding Company	Cloud International Company Limited	Samoa	Holding company	17,738	17,738	550,000	100	29,531	3,838	-	Notes 3
Micom Source Holding Company	AMAC International Company	Cayman Islands	Holding company	208,109	208,109	6,452,738	100	58,820	9,107	-	Notes 3
Micom Source Holding Company	AMBER International Company	Cayman Islands	Holding company	265,740	265,740	8,239,890	100	1,610,497	226,253	-	Notes 3
Micom Source Holding Company	ADEPT International Company	British Virgin Islands	Holding company	509,550	509,550	31,600	100	462,560	40,772	-	Notes 3
Chenbro Europe B.V.	Chenbro UK Limited	UK	Marketing services	848	848	20,000	100	1,729	144	-	Notes 4
ADEPT International Company	PROCASE & MOREX Corporation	British Virgin Islands	Trading/ order taking company	274,125	274,125	35,502	100	513,902	54,290	-	Notes 2

Note 1: Investment income (loss) recognised for the year ended December 31, 2016 includes recognition and elimination of realised and unrealised gain (loss) on upstream transactions.

Note 2: Investment income / loss recognised by ADEPT International Company.

Note 3: Investment income / loss recognised by Micom Source Holding Company.

Note 4: Investment income / loss recognised by Chenbro Europe B.V..

Note 5: Except for current profit (loss) for the year ended December 31, 2016 which is translated using the yearly average exchange rate in 2016, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at December 31, 2016.

CHENBRO MICOM CO., LTD.
Information on investments in Mainland China
Year ended December 31, 2016

Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 7

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016			Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Net income of investee for the year ended December 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 2)	Book value of investments in Mainland China as of December 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016	Remitted to Mainland China	Remitted back to Taiwan							
CHENBRO MICOM (ShenZhen) Co., Ltd.	Trading and order taking	\$ 16,125	2	\$ 16,125	\$ -	\$ -	\$ 16,125	\$ 3,893	100	\$ 3,893	\$ 28,025	\$ -	Notes 1 and 8
Chenbro Technology (Kunshan) Co., Ltd.	Manufacturing and processing of computer cases	322,500	2	322,500	-	-	322,500	224,328	100	224,328	1,542,752	302,406	Notes 3, 6 and 8
CHENBRO MICOM (BEIJING) CO., LTD	Rendering technical service	27,720	2	-	-	-	(18,093)	(18,093)	100	(18,093)	4,865	-	Notes 5 and 8
Dongguan Procace Electronic Co., Ltd.	Manufacturing and processing of computer cases	404,480	2	96,621	-	-	96,621	75,914	100	75,914	489,125	-	Notes 4 and 8
ChenPower information Technology (Shang Hai) Co., Ltd.	Trading and order taking	67,725	2	-	-	-	-	1,338	100	1,338	68,670	-	Note 3, 7 and 8

Investment method:

1. Directly invest in a company in Mainland China.
2. Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
3. Others.

Note 1: The Company reinvested through Cloud International Company Limited with earnings of Micom Source Holding Company.

Note 2: The investment income/loss of current period were audited by independent accountants of the Company.

Note 3: The Company reinvested through Amber International Company.

Note 4: The Company reinvested through Procace & Morex Corporation and Amac International Company.

Note 5: The investee was established on June 6, 2014 and received RMB 6 million as capital which was remitted from the earnings of Chenbro Technology (Kunshan) Co., Ltd. on August 4, 2014.

Note 6: The Company distributed cash dividends of \$302,406 (net of taxation on earnings remitted from Mainland China) to the Company through the holding companies, Amber International Company and Micom Source Holding Company on October 17, 2014.

Note 7: The Company incorporated on October 8, 2016 and was reinvested by Chenbro Technology (Kunshan) Co., Ltd. through AMBER International Company at amount of US\$ 2.1 million as capital of the Company on December 23, 2016.

Note 8: Except current profit (loss) for the year ended December 31, 2016 translated using the yearly average exchange rate in 2016, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at December 31, 2016.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on
			investments in Mainland China imposed by the Investment Commission of MOEA (Note 9)
CHENBRO MICOM CO., LTD.	\$ 435,246	\$ 384,909	\$ -

Note 9: Pursuant to the Gong-Zhi-Zi Order No. 10320431220, certificate for qualified operational headquarters, issued by Industrial Development Bureau, Ministry of Economic Affairs on December 11, 2014, there is no ceiling on accumulated investments in Mainland China for the period from November 25, 2014 to November 24, 2017.