

CHENBRO MICOM CO., LTD.

PARENT COMPANY ONLY FINANCIAL

STATEMENTS AND REPORT OF INDEPENDENT

ACCOUNTANTS

DECEMBER 31, 2017 AND 2016

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 TRANSLATE FROM CHINESE

(17) PWCR17003323

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, 2017 and 2016, 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation 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.

Key audit matters of the Company's financial statements of the current period are stated as follows:

Valuation of accounts receivable

Description

Refer to Note 4(7) for accounting policy on allowance for uncollectible accounts, Note 5 for key estimates and assumptions, and Note 6(2) for details of allowance for uncollectible accounts. As of December 31, 2017, the balances of accounts receivable and allowance for uncollectible accounts are NT\$303,664 thousand and NT\$15,141 thousand, respectively.

The Company and its subsidiaries assesses bad debts based on historical experience, known reason or existing objective evidences. A provision for impairment is recognised for those accounts which are considered uncollectible. 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:

1. 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.
2. Comparing the provision policy on allowance for uncollectible accounts whether it has been consistently applied in the comparative periods of financial statements.
3. Testing collections after the balance sheet date to check the adequacy of allowance for uncollectible accounts.

Valuation of inventories

Description

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, 2017, the Company's inventory and allowance for market value decline and obsolete and slow-moving inventories amounted to NT\$154,512 thousand and NT\$22,098 thousand, respectively.

The Company and its subsidiaries 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 and its subsidiaries measures inventories at the lower of cost and net realisable value, and assesses whether the value of inventories has declined, 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 judgement, we consider valuation of inventories a key audit matter.

How our audit addressed the matter

Our procedures in relation to valuation of inventories included:

1. 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. Assessed the estimation determined by the management and relevant assumptions of allowance for inventory loss.
2. Matching information obtained in physical counts of disposed and obsolete inventory list prepared by management and interviewing management and employees to examine the obsolete, slow-moving or damaged inventories that were included in the list.
3. Assessing the reasonableness of obsolete loss based on the inventory aging and clearance of inventory individually identified by management, and obtaining evidences.
4. Verifying details of net realisable value of inventory and amount of obsolescence loss, recalculating the accuracy and comparing against historical data.

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\$114,158 thousand and NT\$176,978 thousand as of December 31, 2017 and 2016, respectively, and the related investment income was NT\$1,552 thousand and NT\$8,614 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 Preparation 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, including the supervisors, 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

March 20, 2018

The accompanying parent company only 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 parent company only 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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Assets			2017		2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 173,553	5	\$ 157,009	4
1170	Accounts receivable, net	6(2)	288,523	7	265,590	7
1180	Accounts receivable - related parties	7	290,370	8	527,500	13
1200	Other receivables	6(3)	30,244	1	35,027	1
1210	Other receivables - related parties	7	126,531	3	183,006	4
1220	Current income tax assets		4,851	-	4,851	-
130X	Inventories	6(4)	132,414	3	162,570	4
1410	Prepayments		2,217	-	2,357	-
1470	Other current assets	8	5,079	-	6,420	-
11XX	Total current assets		1,053,782	27	1,344,330	33
Non-current assets						
1543	Non-current financial assets measured at cost	6(5)	31,625	1	31,625	1
1550	Investments accounted for using equity method	6(6)(16)	2,567,334	65	2,362,067	58
1600	Property, plant and equipment	6(7)	245,684	6	263,378	7
1780	Intangible assets	6(8)	5,079	-	7,562	-
1840	Deferred income tax assets	6(21)	24,106	1	33,665	1
1900	Other non-current assets	6(9)	4,508	-	7,007	-
15XX	Total non-current assets		2,878,336	73	2,705,304	67
1XXX	Total assets		\$ 3,932,118	100	\$ 4,049,634	100

(Continued)

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			Notes	2017		2016		
				AMOUNT	%	AMOUNT	%	
Current liabilities								
2100	Short-term borrowings	6(10)	\$	237,363	6	\$	94,500	2
2170	Accounts payable			240,377	6		309,438	8
2180	Accounts payable - related parties	7		253,784	6		451,273	11
2200	Other payables	6(11)		178,508	5		192,765	5
2220	Other payables - related parties	7		1,424	-		7,191	-
2230	Current income tax liabilities			36,350	1		67,419	2
2300	Other current liabilities			2,263	-		3,729	-
21XX	Total current liabilities			950,069	24		1,126,315	28
Non-current liabilities								
2570	Deferred income tax liabilities	6(21)		34,766	1		40,138	1
2600	Other non-current liabilities	6(12)		27,930	1		26,387	-
25XX	Total non-current liabilities			62,696	2		66,525	1
2XXX	Total liabilities			1,012,765	26		1,192,840	29
Equity								
Share capital		6(13)						
3110	Share capital - common stock			1,197,260	30		1,197,260	30
Capital surplus		6(14)						
3200	Capital surplus			48,209	1		48,209	1
Retained earnings		6(15)(21)						
3310	Legal reserve			518,907	13		458,888	11
3320	Special reserve			142,624	4		65,573	2
3350	Unappropriated retained earnings			1,121,934	29		1,163,915	29
Other equity interest		6(16)						
3400	Other equity interest		(109,581)	(3)	(77,051)	(2)
3XXX	Total equity			2,919,353	74		2,856,794	71
Significant contingent liabilities and unrecorded contract commitments		9						
Significant events after the balance sheet date		6(15) and 11						
3X2X	Total liabilities and equity		\$	3,932,118	100	\$	4,049,634	100

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

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except for earning per share amounts)

	Items	Notes	2017		2016	
			AMOUNT	%	AMOUNT	%
4000	Operating revenue	6(17) and 7	\$ 2,888,796	100	\$ 3,250,976	100
5000	Operating costs	6(4)(20) and 7	(2,242,133)	(78)	(2,488,887)	(77)
5900	Net operating margin		646,663	22	762,089	23
5910	Unrealised profit from sales		(32,153)	(1)	(79,583)	(2)
5920	Realised profit on from sales		78,420	3	67,434	2
	Unrealised loss (profit) from sales	6(6)	46,267	2	(12,149)	-
5950	Net operating margin		692,930	24	749,940	23
	Operating expenses	6(20) and 7				
6100	Selling expenses		(106,666)	(4)	(110,559)	(4)
6200	General & administrative expenses		(117,924)	(4)	(125,982)	(4)
6300	Research and development expenses		(128,925)	(4)	(140,189)	(4)
6000	Total operating expenses		(353,515)	(12)	(376,730)	(12)
6900	Operating profit		339,415	12	373,210	11
	Non-operating income and expenses					
7010	Other income	6(18) and 7	32,308	1	36,591	1
7020	Other gains and losses	6(19)	(38,330)	(2)	(9,918)	-
7050	Finance costs		(1,927)	-	(914)	-
7070	Share of profit of subsidiary, associates and joint ventures accounted for using equity method, net	6(6)	193,213	7	297,761	9
7000	Total non-operating income and expenses		185,264	6	323,520	10
7900	Profit before income tax		524,679	18	696,730	21
7950	Income tax expense	6(21)	(69,237)	(2)	(96,542)	(3)
8200	Profit for the year		\$ 455,442	16	\$ 600,188	18
	Other comprehensive income					
	Components of other comprehensive loss that will not be reclassified to profit or loss					
8311	Loss on remeasurement of defined benefit plan		(\$ 1,415)	-	(\$ 9,896)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(21)	240	-	1,682	-
8310	Components of other comprehensive loss that will not be reclassified to profit or loss		(1,175)	-	(8,214)	-
	Components of other comprehensive loss that will be reclassified to profit or loss					
8361	Financial statement translation differences of foreign operations	6(16)	(36,095)	(1)	(157,552)	(5)
8399	Income tax relating to the components of other comprehensive income	6(16)(21)	3,565	-	25,644	1
8360	Components of other comprehensive loss that will be reclassified to profit or loss		(32,530)	(1)	(131,908)	(4)
8300	Other comprehensive loss for the year		(\$ 33,705)	(1)	(\$ 140,122)	(4)
8500	Total comprehensive income for the year		\$ 421,737	15	\$ 460,066	14
	Earnings per share (in dollars)	6(22)				
9750	Basic earnings per share		\$ 3.80		\$ 5.01	
9850	Diluted earnings per share		\$ 3.77		\$ 4.95	

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

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Notes	Share capital - common stock	Capital Reserves		Retained Earnings			Financial statements translation differences of foreign operations	Treasury stocks	Total equity
		Total capital surplus, additional paid-in capital	Treasury stock transactions	Legal reserve	Special reserve	Unappropriated retained earnings			
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 1)	6(15)								
Legal reserve	-	-	-	50,484	-	(50,484)	-	-	-
Cash dividends	-	-	-	-	-	(311,287)	-	-	(311,287)
Retirement of treasury shares	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>
2017									
Balance at January 1, 2017	\$ 1,197,260	\$ 41,987	\$ 6,222	\$ 458,888	\$ 65,573	\$ 1,163,915	(\$ 77,051)	\$ -	\$ 2,856,794
Distribution of 2016 earnings (Note 2)	6(15)								
Legal reserve	-	-	-	60,019	-	(60,019)	-	-	-
Special reserve	-	-	-	-	77,051	(77,051)	-	-	-
Cash dividends	-	-	-	-	-	(359,178)	-	-	(359,178)
Other comprehensive loss for the year	6(16)	-	-	-	-	(1,175)	(32,530)	-	(33,705)
Profit for the year		-	-	-	-	455,442	-	-	455,442
Balance at December 31, 2017	<u>\$ 1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 518,907</u>	<u>\$ 142,624</u>	<u>\$ 1,121,934</u>	<u>(\$ 109,581)</u>	<u>\$ -</u>	<u>\$ 2,919,353</u>

Note 1: 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.

Note 2: The directors' and supervisors' remuneration amounting to \$15,286 and employees' bonuses amounting to \$51,972 had been deducted from comprehensive income for 2016. The amount approved was \$67,566 and the difference of \$308 had been adjusted in the statement of comprehensive income for 2017.

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

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 524,679	\$ 696,730
Adjustments			
Adjustments to reconcile profit (loss)			
(Reversal of allowance) provision for doubtful accounts	6(2)	(2,356)	1,683
Depreciation	6(7)(20)	24,012	26,667
Amortisation	6(8)(20)	3,940	4,602
Interest expense		1,927	914
Interest income	6(18)	(411)	(423)
Gain on disposal of property, plant and equipment	6(19)	(467)	(1,551)
Share of profit of subsidiaries, associates and joint ventures	6(6)	(193,213)	(297,761)
Net unrealised profit from sales	6(6)	(46,267)	12,149
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		-	232
Accounts receivable		(20,577)	83,510
Accounts receivable - related parties		237,130	(181,976)
Other receivables		4,773	(4,185)
Other receivables - related parties		56,475	(68,643)
Inventories		30,156	(16,762)
Prepayments		140	1,183
Other current assets		1,341	(5,222)
Changes in operating liabilities			
Notes payable		-	(18)
Accounts payable		(69,061)	54,922
Accounts payable - related parties		(197,489)	46,366
Others payables (including related parties)		(13,549)	12,346
Other current liabilities		(1,466)	(2,166)
Other non-current liabilities		128	(22,329)
Cash inflow generated from operations		339,845	340,268
Interest received		421	433
Interest paid		(1,889)	(1,130)
Income tax paid		(92,314)	(27,656)
Net cash flows from operating activities		246,063	311,915
<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)	(1,882)	(31,625)
Acquisition of property, plant and equipment	6(23)	(15,004)	(18,838)
Proceeds from disposal of property, plant and equipment		2,640	2,121
Acquisition of intangible assets		(1,457)	(2,458)
Decrease (increase) in other non-current assets		2,499	(78)
Net cash flows used in investing activities		(13,204)	(82,503)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings		142,863	28,810
Payment of cash dividends	6(15)	(359,178)	(311,287)
Net cash flows used in financing activities		(216,315)	(282,477)
Net increase (decrease) in cash and cash equivalents		16,544	(53,065)
Cash and cash equivalents at beginning of year	6(1)	157,009	210,074
Cash and cash equivalents at end of year	6(1)	\$ 173,553	\$ 157,009

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

CHENBRO MICOM CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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

1. HISTORY AND ORGANISATION

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 AUTHORISATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These financial statements were authorised for issuance by the Board of Directors on March 20, 2018.

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”)

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

New Standards, Interpretations and Amendments	International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014

New Standards, Interpretations and Amendments	International Accounting Standards Board
IFRIC 21, 'Levies'	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

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

(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 endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	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
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

When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Company expects to adopt IFRS 9 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

In accordance with IFRS 9, the Company expects to reclassify non-current financial assets

measured at cost in the amounts of \$31,625, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income in the amounts of \$31,625.

Except for the IFRS9, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance 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 are as follows:

New Standards, Interpretations and Amendments	International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for IFRS 16, 'Leases', the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

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.

The Company evaluated its signed contracts as of December 31, 2017 in accordance with the standard, and recognised a right-of-use asset, a lease liability and reduced retained earnings, in the amount of \$3,928, \$3,937 and \$9, respectively.

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 net 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 recognised 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, 2017, the carrying amount of accounts receivable amounted to \$288,523.

(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, 2017, the carrying amount of inventories was \$132,414.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Petty cash and cash on hand	\$ 162	\$ 131
Demand deposits	24,051	38,614
Checking accounts	628	574
Foreign currency deposits	148,712	117,690
	<u>\$ 173,553</u>	<u>\$ 157,009</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, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 303,664	\$ 283,218
Less: Allowance for bad debts	(15,141)	(17,628)
	<u>\$ 288,523</u>	<u>\$ 265,590</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, 2017</u>	<u>December 31, 2016</u>
Level 2	<u>\$ 239,192</u>	<u>\$ 202,238</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, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 24,259	\$ 16,564
31 to 90 days	25,596	33,028
91 to 180 days	290	16,741
Over 181 days	33	130
	<u>\$ 50,178</u>	<u>\$ 66,463</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, 2017 and 2016, all of the Company's accounts receivable that were individually determined to be impaired amounted to \$14,294 and \$14,517, respectively.

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

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 14,517	\$ 3,111	\$ 17,628
Reversal of impairment	(92)	(2,264)	(2,356)
Write-offs during the year	(131)	-	(131)
At December 31	<u>\$ 14,294</u>	<u>\$ 847</u>	<u>\$ 15,141</u>

	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ 14,517	\$ 1,428	\$ 15,945
Provision of impairment	-	1,683	1,683
At December 31	<u>\$ 14,517</u>	<u>\$ 3,111</u>	<u>\$ 17,628</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, 2017 and 2016, the related information is as follows:

December 31, 2017						
<u>Purchaser of accounts receivable</u>	<u>Accounts transferred (Note)</u>	<u>Amount derecognised</u>	<u>Facilities</u>	<u>Amount advanced</u>	<u>Interest rate of amount advanced</u>	<u>Footnote</u>
Chang Hwa Bank	\$ 16,136	\$ 16,136	\$ 30,000	\$ -	\$ -	

December 31, 2016						
<u>Purchaser of accounts receivable</u>	<u>Accounts transferred (Note)</u>	<u>Amount derecognised</u>	<u>Facilities</u>	<u>Amount advanced</u>	<u>Interest rate of amount advanced</u>	<u>Footnote</u>
Chang Hwa Bank	\$ 15,803	\$ 15,803	\$ 30,000	\$ -	\$ -	

Note: Shown as 'other receivables'.

(4) Inventories

December 31, 2017			
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 38,666	(\$ 18,857)	\$ 19,809
Finished goods	115,846	(3,241)	112,605
	<u>\$ 154,512</u>	<u>(\$ 22,098)</u>	<u>\$ 132,414</u>

December 31, 2016			
	<u>Cost</u>	<u>Allowance for valuation loss</u>	<u>Book value</u>
Raw materials	\$ 55,397	(\$ 14,273)	\$ 41,124
Finished goods	135,339	(13,893)	121,446
	<u>\$ 190,736</u>	<u>(\$ 28,166)</u>	<u>\$ 162,570</u>

A. The cost of inventories recognised as expense for the year:

Years ended December 31,		
	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 2,248,142	\$ 2,477,705
(Gain on reversal of) loss on decline in market value	(6,068)	11,251
Loss (gain) on physical inventory	59	(69)
	<u>\$ 2,242,133</u>	<u>\$ 2,488,887</u>

The gain on reversal in 2017 arose from sale of obsolete inventories.

B. The Group has no inventories pledged to others.

(5) Financial assets measured at cost

Items	December 31, 2017	December 31, 2016
Non-current items:		
Unlisted stocks	\$ 31,625	\$ 31,625

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'.

B. As of December 31, 2017 and 2016, no financial assets measured at cost held by the Company were pledged to others.

(6) Investments accounted for using equity method

	2017	2016
At January 1	\$ 2,362,067	\$ 2,202,382
Addition of investments accounted for using equity method	1,882	31,625
Share of profit or loss of investments accounted for using equity method	193,213	297,761
Unrealised profit of inter-company transactions	46,267	(12,149)
Changes in other equity items (Note 6(16))	(36,095)	(157,552)
At December 31	\$ 2,567,334	\$ 2,362,067

	December 31, 2017	December 31, 2016
Micom Source Holding Company	\$ 2,264,700	\$ 2,116,725
CLOUDWELL HOLDINGS, LLC.	112,196	119,960
Chenbro Europe B.V.	65,553	57,018
Chenbro GmbH	9,760	8,779
Chenbro Micom (USA) Incorporation	113,163	59,585
Chenbro UK Limited	1,962	-
	\$ 2,567,334	\$ 2,362,067

A. The financial statements of investees accounted for using equity method, CLOUDWELL HOLDINGS, LLC., and Chenbro UK Limited were audited by their appointed independent accountants. The Company recognised income of \$1,552 on investees accounted for using equity method based on such financial statements for the year ended December 31, 2017. As of December 31, 2017, the balance of the related investments accounted for using equity method was \$114,158.

- B. The financial statements of investees accounted for using equity method, CLOUDWELL HOLDINGS, LLC. and Chenbro Europe B.V., were audited by their appointed independent accountants. The Company recognised income of \$8,614 on investees accounted for using equity method based on such financial statements for the year ended December 31, 2016. As of December 31, 2016, the balance of the related investments accounted for using equity method was \$176,978.
- C. On May 9, 2017, the Board of Directors of Chenbro UK Limited resolved that the Company directly held its equity share, the transfer of equity and the registration was completed in August 2017.
- D. 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, 2017.

(7) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Mold equipment	Computer communication equipment	Testing equipment	Transportation equipment	Office equipment	Others	Total
<u>January 1, 2017</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>\$ -</u>	<u>\$ 254</u>	<u>\$ 1,997</u>	<u>\$ 263,378</u>
<u>2017</u>										
Opening net book amount as at January 1	\$ 140,737	\$ 84,660	\$ 3,273	\$ 27,662	\$ 3,752	\$ 1,043	\$ -	\$ 254	\$ 1,997	\$ 263,378
Additions	-	360	-	1,905	1,376	1,702	3,148	-	-	8,491
Disposals	-	-	-	(2,173)	-	-	-	-	-	(2,173)
Depreciation charge	-	(3,314)	(503)	(15,940)	(2,361)	(648)	(196)	(190)	(860)	(24,012)
Closing net book amount as at December 31	<u>\$ 140,737</u>	<u>\$ 81,706</u>	<u>\$ 2,770</u>	<u>\$ 11,454</u>	<u>\$ 2,767</u>	<u>\$ 2,097</u>	<u>\$ 2,952</u>	<u>\$ 64</u>	<u>\$ 1,137</u>	<u>\$ 245,684</u>
<u>December 31, 2017</u>										
Cost	\$ 140,737	\$ 126,628	\$ 4,766	\$ 253,745	\$ 13,427	\$ 14,006	\$ 3,148	\$ 11,754	\$ 7,535	\$ 575,746
Accumulated depreciation	-	(44,922)	(1,996)	(242,291)	(10,660)	(11,909)	(196)	(11,690)	(6,398)	(330,062)
	<u>\$ 140,737</u>	<u>\$ 81,706</u>	<u>\$ 2,770</u>	<u>\$ 11,454</u>	<u>\$ 2,767</u>	<u>\$ 2,097</u>	<u>\$ 2,952</u>	<u>\$ 64</u>	<u>\$ 1,137</u>	<u>\$ 245,684</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
<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.

(8) Intangible assets

	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>January 1, 2017</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>2017</u>				
At January 1	\$ 303	\$ 6,995	\$ 264	\$ 7,562
Additions	29	1,428	-	1,457
Amortisation charge	(55)	(3,809)	(76)	(3,940)
At December 31	<u>\$ 277</u>	<u>\$ 4,614</u>	<u>\$ 188</u>	<u>\$ 5,079</u>
<u>December 31, 2017</u>				
Cost	\$ 562	\$ 26,400	\$ 600	\$ 27,562
Accumulated amortisation	(285)	(21,786)	(412)	(22,483)
	<u>\$ 277</u>	<u>\$ 4,614</u>	<u>\$ 188</u>	<u>\$ 5,079</u>
	<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>

Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2017	2016
Selling expenses	\$ 350	\$ 350
Administrative expenses	1,752	2,245
Research and development expenses	1,838	2,007
	<u>\$ 3,940</u>	<u>\$ 4,602</u>

(9) Other non-current assets

	December 31, 2017	December 31, 2016
Guarantee deposits paid	\$ 783	\$ 3,282
Others	3,725	3,725
	<u>\$ 4,508</u>	<u>\$ 7,007</u>

(10) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Short-term borrowings	<u>\$ 237,363</u>	0.83%~1.90%	A promissory note of the same amount was issued as collateral.

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.

(11) Other payables

	December 31, 2017	December 31, 2016
Remuneration due to directors and supervisors and employee bonus payable	\$ 52,378	\$ 67,566
Wages and bonus payable	54,668	48,826
Payables for export freight and customs clearance charges	17,081	21,979
Payables for service fees	13,833	10,453
Payables for mold	10,909	10,236
Payables for machinery and equipment	1,918	8,431
Others	27,721	25,274
	<u>\$ 178,508</u>	<u>\$ 192,765</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, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligation	\$ 49,425	\$ 49,447
Fair value of plan assets	(21,495)	(23,060)
Net liability recognised in the balance sheet (shown as 'other non-current liabilities')	<u>\$ 27,930</u>	<u>\$ 26,387</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, 2017</u>			
Balance at January 1	\$ 49,447	(\$ 23,060)	\$ 26,387
Current service cost	362	-	362
Interest expense (income)	692	(323)	369
	<u>50,501</u>	<u>(23,383)</u>	<u>27,118</u>
Remeasurements:			
Return on plan assets	-	112	112
Change in financial assumptions	1,637	-	1,637
Experience adjustments	(334)	-	(334)
	<u>1,303</u>	<u>112</u>	<u>1,415</u>
Pension fund contribution	-	(603)	(603)
Benefits paid	(2,379)	2,379	-
Balance at December 31	<u>\$ 49,425</u>	<u>(\$ 21,495)</u>	<u>\$ 27,930</u>

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
<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>

- (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 authorised 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, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

- (e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2017	2016
Discount rate	1.00%	1.40%
Future salary increases	3.00%	3.00%

Assumptions regarding future mortality experience for the years ended December 31, 2017 and 2016 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, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 1,034)	\$ 1,069	\$ 923	(\$ 898)
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 1,127)	\$ 1,168	\$ 1,024	(\$ 995)

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, 2018 are \$577.

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, 2017 and 2016 were \$8,405 and \$7,582, respectively.

(13) Ordinary shares

- A. As of December 31, 2017, the Company's authorised 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

In 2013, the Company repurchased treasury stock to be reissued to employees for 400 thousand shares totaling \$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, 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 take 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 20, 2017 and June 23, 2016, the shareholders resolved the appropriations of 2016 and 2015 earnings as follows:

	<u>Year ended December 31, 2016</u>		<u>Year ended December 31, 2015</u>	
	<u>Amount</u>	<u>Dividend per share (in dollars)</u>	<u>Amount</u>	<u>Dividend per share (in dollars)</u>
Legal reserve	\$ 60,019	\$ -	\$ 50,483	\$ -
Special reserve	77,051	-	-	-
Cash dividends to shareholders	<u>359,178</u>	<u>3.00</u>	<u>311,287</u>	<u>2.60</u>
	<u>\$ 496,248</u>	<u>\$ 3.00</u>	<u>\$ 361,770</u>	<u>\$ 2.60</u>

(b) On March 20, 2018, the Board of Directors has proposed the appropriation of 2017 earnings as follows:

	<u>Year ended December 31, 2017</u>	
	<u>Amount</u>	<u>Dividend per share (in dollars)</u>
Legal reserve	\$ 45,544	\$ -
Special reserve	32,530	-
Cash dividends to shareholders	<u>359,178</u>	<u>3.00</u>
	<u>\$ 437,252</u>	<u>\$ 3.00</u>

As of March 20, 2018, the abovementioned appropriation of 2017 earnings has not yet been resolved by the shareholders.

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

(16) Other equity items

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>Currency translation</u>	<u>Currency translation</u>
At January 1	(\$ 77,051)	\$ 54,857
Currency translation differences:		
–Group	(36,095)	(157,552)
–Tax on Group	<u>3,565</u>	<u>25,644</u>
At December 31	<u>(\$ 109,581)</u>	<u>(\$ 77,051)</u>

(17) Operating revenue

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Sales revenue	<u>\$ 2,888,796</u>	<u>\$ 3,250,976</u>

(18) Other income

	Years ended December 31,	
	2017	2016
Royalty revenue	\$ 29,531	\$ 31,578
Interest income from bank deposits	411	423
Other income	2,366	4,590
	<u>\$ 32,308</u>	<u>\$ 36,591</u>

(19) Other gains and losses

	Years ended December 31,	
	2017	2016
Net currency exchange loss	(\$ 38,457)	(\$ 10,392)
Gain on disposal of property, plant and equipment	467	1,551
Other expenses	(340)	(1,077)
	<u>(\$ 38,330)</u>	<u>(\$ 9,918)</u>

(20) Employee benefits, depreciation and amortisation expenses

	Years ended December 31,	
	2017	2016
Wages and salaries	\$ 210,152	\$ 207,794
Labour and health insurance fees	14,611	13,227
Pension costs	9,136	8,624
Other personnel expenses	11,125	11,534
Employee benefits expense	<u>\$ 245,024</u>	<u>\$ 241,179</u>
Depreciation charges on property, plant and equipment	<u>\$ 24,012</u>	<u>\$ 26,667</u>
Amortisation charges on intangible assets	<u>\$ 3,940</u>	<u>\$ 4,602</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, 2017 and 2016, employees' compensation was accrued at \$40,474 and \$52,210, respectively; while directors' and supervisors' remuneration was accrued at \$11,904 and \$15,356, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2016, employees' compensation and directors' and supervisors' remuneration amounted to \$51,972 and \$15,286 as resolved by the Board of Directors on February 23, 2107, respectively, and the differences with the amounts recognised in the current year's financial statements amounted to \$238 and \$70, respectively. The differences have been adjusted for the year ended December 31, 2017. 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,	
	2017	2016
Current tax:		
Current tax on profits for the year	\$ 50,790	\$ 75,769
Tax on undistributed surplus earnings	9,573	14,306
Prior year income tax under (overestimation)	882	(225)
Total current tax	61,245	89,850
Deferred tax:		
Origination and reversal of temporary differences	7,992	6,692
Total deferred tax	7,992	6,692
Income tax expense	\$ 69,237	\$ 96,542

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

	Years ended December 31,	
	2017	2016
Currency translation differences	(\$ 3,565)	(\$ 25,644)
Remeasurement of defined benefit obligation	(\$ 240)	(\$ 1,682)

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate	\$ 89,195	\$ 118,444
10% tax on undistributed earnings	9,573	14,306
Prior year income tax under (overestimation)	882 (225)
Effect from expenses disallowed by tax regulation under regulations	(30,413)	(35,983)
Income tax expense	<u>\$ 69,237</u>	<u>\$ 96,542</u>

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

	2017			
	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	\$ 5,267	(\$ 628)	\$ -	\$ 4,639
Unrealised gain on inter-affiliate accounts	18,655	(9,773)	-	8,882
Allowance for bad debts that exceed the limit for tax purpose	1,613	(70)	-	1,543
Unused compensated absences	675	-	-	675
Pension expense payable	4,897	-	240	5,137
Pension expense that exceeds the limit for tax purpose	1,480	19	-	1,499
Unrealised warranty provision	1,020	-	-	1,020
Unrealised exchange loss	-	661	-	661
Others	58	(8)	-	50
	<u>33,665</u>	<u>(9,799)</u>	<u>240</u>	<u>24,106</u>
-Deferred tax liabilities:				
Investment income	(38,840)	509	3,565	(34,766)
Unrealised exchange gain	(1,298)	1,298	-	-
	<u>(40,138)</u>	<u>1,807</u>	<u>3,565</u>	<u>(34,766)</u>
	<u>(\$ 6,473)</u>	<u>(\$ 7,992)</u>	<u>\$ 3,805</u>	<u>(\$ 10,660)</u>

	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
Unrealised warranty provision	1,020	-	-	1,020
Others	68	(10)	-	58
	<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>

D. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2017 and 2016, the amounts of temporary differences unrecognised as deferred tax liabilities were \$277,150 and \$246,234, respectively.

E. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

F. Unappropriated retained earnings:

	December 31, 2017	December 31, 2016
Earnings generated in and before 1997	\$ 12,886	\$ 12,886
Earnings generated in and after 1998	<u>1,109,048</u>	<u>1,151,029</u>
	<u>\$ 1,121,934</u>	<u>\$ 1,163,915</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Balance of the imputation tax credit account	<u>\$ 134,664</u>	<u>\$ 118,674</u>
	<u>2017 (note)</u>	<u>2016 (actual)</u>
Creditable tax rate	<u>-</u>	<u>15.38%</u>

Note: Under the amendments to the Income Tax Act promulgated by the President of the Republic of China on February 7, 2018, the imputation tax system will be abolished and the imputation credit account will be eliminated, along with the recordkeeping, calculations, and penalties associated with such accounts. The amendments are effective January 1, 2018, therefore the creditable tax rate no longer applies to earnings for the year ended December 31, 2017.

(22) Earnings per share

	<u>Year ended December 31, 2017</u>		
		Weighted average ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
	<u>Amount after tax</u>		
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	<u>\$ 455,442</u>	119,726	<u>\$ 3.80</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	455,442		
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>1,156</u>	
Profit attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 455,442</u>	<u>120,882</u>	<u>\$ 3.77</u>

Year ended December 31, 2016			
		Weighted average ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
	Amount after tax		
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	<u>\$ 600,188</u>	119,726	<u>\$ 5.01</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the Company	\$ 600,188		
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,423	
Profit attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 600,188</u>	<u>121,149</u>	<u>\$ 4.95</u>

(23) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31,	
	2017	2016
Purchase of property, plant and equipment	\$ 8,491	\$ 16,708
Add: Opening balance of payable on equipment	8,431	10,561
Less: Ending balance of payable on equipment	(1,918)	(8,431)
Cash paid during the year	<u>\$ 15,004</u>	<u>\$ 18,838</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 (MICOM)	First-tier subsidiary
CLOUDWELL HOLDINGS, LLC. (CLOUDWELL)	First-tier subsidiary
Chenbro Europe B.V.	First-tier subsidiary (Note 1)
Chenbro GmbH (GmbH)	First-tier subsidiary
Chenbro Micom (USA) Incorporation (CMI)	First-tier subsidiary
Chenbro UK Limited (UK)	First-tier subsidiary (Note 2)
ChenPower Information Technology (Shanghai) Co., Ltd. (CPT)	Third-tier subsidiary (Note 3)
Chenbro Micom (Shenzhen) Co., Ltd. (CCS)	Third-tier subsidiary (Note 3)
Chenbro Technology (Kunshan) Co., Ltd. (CSH)	Third-tier subsidiary (Note 3)
Procace & Morex Corp. (PROCASE)	Third-tier subsidiary (Note 3)
Dongguan Procace Electronic Co., Ltd. (DGP)	Fourth-tier subsidiary (Note 3)
Chen-Source Inc.	Other related party

Note 1: On May 9, 2017, Chenbro Europe B.V. was dissolved under the resolution of Board of Directors.

Note 2: In accordance with the resolution made by the Board of Directors on May 9, 2017, the Company directly held the shares of Chenbro UK Limited. The registration of such share transfer was completed in August 2017.

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

(3) Significant related party transactions

A. Operating revenue and other income

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Sales of goods:		
Subsidiaries		
— CMI	\$ 1,590,598	\$ 1,773,834
— Other subsidiaries	114,293	237,767
Other income – royalty revenue:		
— DGP	29,531	31,578
Other income – management revenue:		
Subsidiaries	17,033	15,390
Other related parties	805	549
	<u>\$ 1,752,260</u>	<u>\$ 2,059,118</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 60~90 days after monthly billings.

B. Purchases and other expenses

	Years ended December 31,	
	2017	2016
Purchases of goods:		
Subsidiaries		
— CSH	\$ 1,111,269	\$ 745,259
— PROCASE	667,130	1,002,535
— Other subsidiaries	-	11,292
Other related parties	25,918	52,145
Other expenses:		
Subsidiaries (service expense)		
— GmbH	6,969	13,432
— Other subsidiaries	3,313	3,984
Other related parties (management service expense)	1,860	1,863
	<u>\$ 1,816,459</u>	<u>\$ 1,830,510</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) Service expense: Service expenses paid by the Company to subsidiaries.
- (c) Management service expense: Expenses 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, 2017</u>	<u>December 31, 2016</u>
Accounts receivable:		
Subsidiaries		
— CMI	\$ 242,239	\$ 485,364
— Other subsidiaries	<u>48,131</u>	<u>42,136</u>
	<u>290,370</u>	<u>527,500</u>
Other receivables – advance payments on behalf of others:		
Subsidiaries		
— PROCASE	43,909	20,697
— CSH	41,121	119,875
— DGP	29,531	31,578
— Other subsidiaries	11,788	10,366
Other related parties	<u>182</u>	<u>490</u>
	<u>126,531</u>	<u>183,006</u>
	<u>\$ 416,901</u>	<u>\$ 710,506</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, 2017</u>	<u>December 31, 2016</u>
Accounts payable:		
Subsidiaries		
— PROCASE	\$ 139,701	\$ 160,666
— CSH	105,305	283,838
Other related parties	<u>8,778</u>	<u>6,769</u>
	<u>253,784</u>	<u>451,273</u>
Other payables:		
Subsidiaries	854	6,646
Other related parties	<u>570</u>	<u>545</u>
	<u>1,424</u>	<u>7,191</u>
	<u>\$ 255,208</u>	<u>\$ 458,464</u>

(a) Accounts payable bear no interest.

(b) Other payables: The payables are service expenses paid by subsidiaries and other related parties on behalf of the Company.

E. Endorsements and guarantees provided to related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries (Note)		
— PROCASE	\$ 7,000	\$ 7,000
— CLOUDWELL	5,600	5,600
— CMI	4,000	4,000
	<u>\$ 16,600</u>	<u>\$ 16,600</u>

Note: unit in thousands of USD.

(4) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits	\$ 40,203	\$ 41,103
Post-employment benefits	345	345
Other long-term benefits	888	1,287
	<u>\$ 41,436</u>	<u>\$ 42,735</u>

8. PLEDGED ASSETS

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

	<u>Book value</u>		
<u>Pledged asset</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Purpose</u>
Time deposits (shown as 'other current assets')	<u>\$ 1,000</u>	<u>\$ 1,000</u>	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, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 1,164	\$ 1,764
Later than one year but not later than three years	753	945
Over three years	-	64
	<u>\$ 1,917</u>	<u>\$ 2,773</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) Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$4,254 and \$6,135, respectively, which will be adjusted in the first quarter of 2018.

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, accounts receivable (including related parties), other receivables (including related parties), other financial assets – current, refundable deposits, short-term borrowings, 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, 2017		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 29,319	29.76	\$ 872,533
<u>Non-monetary items</u>			
USD:NTD	\$ 7,573	29.76	\$ 225,359
EUR:NTD	2,117	35.57	75,313
GBP:NTD	49	40.11	1,962
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 15,295	29.76	\$ 455,179
HKD:NTD	535	3.81	2,038
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

- 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, 2017			
Exchange gain (loss)			
(Foreign currency: functional currency)	Foreign currency amount	Exchange rate	Book value
	(In thousands)		
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	29.76	(\$ 8,138)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	29.76	\$ 4,194
HKD:NTD	-	3.81	7
Year ended December 31, 2016			
Exchange gain (loss)			
(Foreign currency: functional currency)	Foreign currency amount	Exchange rate	Book value
	(In thousands)		
<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)

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

Year ended December 31, 2017			
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%	\$ 8,725	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	4,552	-
HKD:NTD	1%	20	-
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	-

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, 2017 and 2016, 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, 2017 and 2016, 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:

	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
<u>December 31, 2017</u>				
Short-term borrowings	\$ 237,619	\$ -	\$ -	\$ -
Accounts payable	240,377	-	-	-
Accounts payable – related party	253,784	-	-	-
Other payables	178,508	-	-	-
Other payables – related party	1,424	-	-	-
Other current liabilities	2,263	-	-	-

<u>December 31, 2016</u>	<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>
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	-	-	-

- 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

As of December 31, 2017 and 2016, the Group did not hold any financial assets that requires valuation technique to measure its fair value.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- 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 4.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

For investees' disclosures, financial statements of 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 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

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

<u>Company name</u>	<u>Counterparty</u>	<u>General ledger account</u>	<u>Amount for 2017</u>	<u>Percentage of total transaction amount</u>	<u>Footnote</u>
PROCASE & MOREX Corporation	Dongguan Procace Electronic Co., Ltd.	Purchases	\$ 545,714	60	Note 1
PROCASE & MOREX Corporation	Dongguan Procace Electronic Co., Ltd.	Accounts payable	86,611	46	Note 1
CHENBRO MICOM CO., LTD.	PROCASE & MOREX Corporation	Purchases	667,130	32	
CHENBRO MICOM CO., LTD.	PROCASE & MOREX Corporation	Accounts payable	139,701	28	
CHENBRO MICOM CO., LTD.	Dongguan Procace Electronic Co., Ltd.	Royalty revenue	29,531	100	Note 2
CHENBRO MICOM CO., LTD.	Dongguan Procace Electronic Co., Ltd.	Other receivables	29,531	19	Note 2
CHENBRO MICOM CO., LTD.	Chenbro Technology (Kunshan) Co., Ltd.	Purchases	1,111,269	53	
CHENBRO MICOM CO., LTD.	Chenbro Technology (Kunshan) Co., Ltd.	Accounts payable	105,305	21	

Note 1: The Company purchased through the third-tier subsidiary, PROCASE & MOREX Corporation (Procace). Procace purchased raw materials of iron pieces for manufacturing computer cases, from the Company's fourth-tier subsidiary in Mainland China, Dongguan Procace Electronic Co., Ltd..

Note 2: The Company provided research and development technical skills to Dongguan Procace Electronic Co., Ltd. and received royalty.

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.

Loans to others

Loans to others

Year ended December 31, 2017

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

Table 1

Note 1: The numbers filled in for the loans 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: The maximum balance of Chenbro Micom Co., Ltd.'s loan to Chenbro GmbH and ADEPT International Company during the year ended December 31, 2017 was EUR 1 million and USD 3 million, respectively.

Note 3: The ending balance of Chenbro Micom Co., Ltd. loan to Chenbro GmbH and ADEPT International Company during the year December 31, 2017 was EUR 1 million and USD 3 million , respectively.

Note 4: Ceiling on total loans to others is 20% of the Company's net worth and limit on loans to a single party is 10% of the Company's net worth based on the Company's "Procedures for Provision of Loans".

CHENBRO MICOM CO., LTD.
Provision of endorsements and guarantees to others
Year ended December 31, 2017

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

Table 2

Party being endorsed/guaranteed															
Number (Note 1)	Endorser/ guarantor	Company name	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, 2017 (Note 5)	Outstanding endorsement/ guarantee amount at December 31, 2017 (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	\$ 583,871	\$ 119,040	\$ 119,040	\$ 59,520	\$ -	4	\$ 1,751,612	Y	N	N	Note 3	
0	CHENBRO MICOM CO., LTD.	CLOUDWELL HOLDINGS, LLC.	1	583,871	166,656	166,656	138,788	-	6	1,751,612	Y	N	N	Note 3	
0	CHENBRO MICOM CO., LTD.	PROCASE & MOREX Corporation	2	583,871	208,320	208,320	-	-	7	1,751,612	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 \$7,000 thousand for the year ended December 31, 2017, 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, 2017, respectively.

CHENBRO MICOM CO., LTD.
Holding of marketable securities at the end of the period
December 31, 2017
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 3

		As of December 31, 2017						Footnote
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	
CHENBRO MICOM CO., LTD.	Diamond Creative Holding Limited	None	Financial assets measured at cost- noncurrent	1,000,000	\$31,625	14.29%	\$31,625	

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, 2017

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

Table 4

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	(\$ 1,590,598)	55	T/T 120 days	Note 1	Note 1	\$ 242,239	42	
PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Sales	(667,130)	70	60 days after monthly billing	Note 1	Note 1	139,701	55	
PROCASE & MOREX CORPORATION	Dongguan Procace Electronic Co., Ltd.	Parent-subsidiary company	Sales	(262,445)	28	Based on agreement	Note 1	Note 1	111,684	44	
Dongguan Procace Electronic Co., Ltd.	PROCASE & MOREX CORPORATION	Parent-subsidiary company	Sales	(545,714)	31	Based on agreement	Note 1	Note 1	86,611	13	
Dongguan Procace Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	Affiliate	Sales	(469,839)	27	Based on agreement	Note 1	Note 1	433,754	63	
Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Sales	(1,111,269)	54	60 days after monthly billing	Note 1	Note 1	105,305	24	

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, 2017
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 5

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017	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-subsiary company	Accounts receivable \$ 242, 239	4.37	\$ -	-	\$ 220,871	\$ -
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	Parent-subsiary company	Other receivables \$ 9, 107	None	-	-	7,044	-
Procasa & Morex Corporation	CHENBRO MICOM CO., LTD.	Parent-subsiary company	Accounts receivable \$ 139, 701	4.44	-	-	76,745	-
Procasa & Morex Corporation	Dongguan Procasa Electronic Co., Ltd.	Parent-subsiary company	Accounts receivable \$ 111, 684	2.03	22,786	Be offset by accounts payable subsequently	55,066	-
Dongguan Procasa Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	Affiliate	Accounts receivable \$ 433, 754	2.14	83,739	Subsequent collection	130,751	-
Chembro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	Parent-subsiary company	Accounts receivable \$ 105, 305	5.71	-	-	82,608	-

Note 1: Subsequent collections as of March 20, 2018.

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

CHENBRO MICOM CO., LTD.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2017

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

Table 6

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	\$ 1,590,598	Note 4	29
0	CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	1	Accounts receivable	242,239	Note 4	5
1	Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	2	Sales	1,111,269	Note 4	20
1	Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	2	Accounts receivable	105,305	Note 4	2
2	Dongguan Procace Electronic Co., Ltd.	PROCASE & MOREX CORPORATION	3	Sales	545,714	Note 4	10
2	Dongguan Procace Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	3	Sales	469,839	Note 4	9
2	Dongguan Procace Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	3	Accounts receivable	433,754	Note 4	8
3	PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	2	Sales	667,130	Note 4	12
3	PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	2	Accounts receivable	139,701	Note 4	3
3	PROCASE & MOREX CORPORATION	Dongguan Procace Electronic Co., Ltd.	3	Sales	262,445	Note 4	5
3	PROCASE & MOREX CORPORATION	Dongguan Procace Electronic Co., Ltd.	3	Accounts receivable	111,684	Note 4	2

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 NT\$100 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, 2017 is translated using the yearly average exchange rate in 2017, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at December 31, 2017.

CHENBRO MICOM CO., LTD.

Information on investees (not including investees in Mainland China)

Year ended December 31, 2017

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

Table 7

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017 (Note 5)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 5 and 6)	Footnote
				Balance as at December 31, 2017 (Note 5)	Balance as at December 31, 2016 (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	\$ 2,264,700	\$ 141,648	\$ 168,557	Notes 1 and 5
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	USA	General trading company	32,408	32,408	10,000,000	100	113,163	32,667	19,171	Notes 1 and 5
CHENBRO MICOM CO., LTD.	Chenbro Europe B.V.	Netherlands	General trading company	2,837	2,837	20,000	100	65,553	2,429	2,156	Note 5
CHENBRO MICOM CO., LTD.	Cloudwell Holdings, LLC.	USA	Real estate leasing company	109,365	109,365	3,600,000	100	112,196	1,531	1,531	Note 5
CHENBRO MICOM CO., LTD.	Chenbro GmbH	Germany	General trading company	9,019	9,019	250,000	100	9,760	1,675	1,777	Notes 1 and 5
CHENBRO MICOM CO., LTD.	Chenbro UK Limited	UK	Marketing services	1,882	-	20,000	100	1,962	21	21	Notes 5 and 7
Micom Source Holding Company	Cloud International Company Limited	Samoa	Holding company	16,368	16,368	550,000	100	23,762	(5,395)	-	Notes 3 and 5
Micom Source Holding Company	AMAC International Company	Cayman Islands	Holding company	192,041	192,041	6,452,738	100	62,124	3,888	-	Notes 3 and 5
Micom Source Holding Company	AMBER International Company	Cayman Islands	Holding company	245,222	245,222	8,239,890	100	1,704,530	124,047	-	Notes 3 and 5
Micom Source Holding Company	ADEPT International Company	British Virgin Islands	Holding company	470,208	470,208	31,600	100	493,479	25,674	-	Notes 3 and 5
Chenbro Europe B.V.	Chenbro UK Limited	UK	Marketing services	-	889	-	0	-	108	-	Notes 4, 5 and 7
ADEPT International Company	PROCASE & MOREX Corporation	British Virgin Islands	Trading/ order taking company	252,960	252,960	35,502	100	528,914	19,289	-	Notes 2 and 5

Note 1: Investment income (loss) recognised for the year ended December 31, 2017 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, 2017 which is translated using the yearly average exchange rate in 2017, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at December 31, 2017.

Note 6: Investment income / loss recognised by the Company includes only that of the subsidiaries in which the Company directly invested and that of investees accounted for using equity method.

Note 7: Beginning in August 2017, the Company directly held Chenbro UK Limited, in which was transferred from Chenbro Europe B.V..

CHENBRO MICOM CO., LTD.
Information on investments in Mainland China
Year ended December 31, 2017

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

Table 8

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, 2017			Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of investee for the year ended December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Remitted to Mainland China	Remitted back to Taiwan							
CHENBRO MICOM (ShenZhen) Co., Ltd.	Trading and order taking	\$ 14,880	2	\$ 14,880	\$ -	\$ -	\$ 14,880	(\$ 5,247)	100	(\$ 5,247)	\$ 22,405	\$ -	Notes 1 and 8
Chenbro Technology (Kunshan) Co., Ltd.	Manufacturing and processing of computer cases	297,600	2	297,600	-	-	297,600	120,113	100	120,113	1,647,767	302,406	Notes 3, 6 and 8
CHENBRO MICOM (BEIJING) CO., LTD	Rendering technical service	27,420	2	-	-	-	-	(4,233)	100	(4,233)	524	-	Notes 5 and 8
Dongguan Procace Electronic Co., Ltd.	Manufacturing and processing of computer cases	373,250	2	89,161	-	-	89,161	32,480	100	32,480	516,743	-	Notes 4 and 8
ChenPower information Technology (Shang Hai) Co., Ltd.	Trading and order taking	62,496	2	-	-	-	-	8,006	100	8,006	76,040	-	Notes 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, 2017 translated using the yearly average exchange rate in 2017, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at December 31, 2017.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	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.	\$ 401,641	\$ 355,190	\$ -

Note 9: Pursuant to the Gong-Zhi-Zi Order No. 10620430600, certificate for qualified operational headquarters, issued by Industrial Development Bureau, Ministry of Economic Affairs on November 20, 2017, there is no ceiling on accumulated investments in Mainland China for the period from November 15, 2017 to November 14, 2020.