

**CHENBRO MICOM CO., LTD. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
JUNE 30, 2019 AND 2018**

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.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

(19) PWCR19001129

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Chenbro Micom Co., Ltd. and subsidiaries (the “Group”) as at June 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and six months then ended, as well as the related consolidated statements of changes in equity and of cash flows for the six months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As explained in Note 4(3), we did not review the financial statements of certain insignificant consolidated subsidiaries, which statements reflect total assets of NT\$360,020 thousand and NT\$408,336 thousand, constituting 6% and 7% of the consolidated total assets, and total liabilities of NT\$143,015 thousand and NT\$150,257 thousand, constituting 5% and 6% of the consolidated total liabilities as at June 30, 2019 and 2018, respectively, and total comprehensive (loss) income of (NT\$2,696) thousand, NT\$3,841 thousand, (NT\$2,888) thousand and NT\$1,294 thousand, constituting (2%), 3%, (1%) and 1% of the consolidated total comprehensive (loss) income for the three months and six months then ended, respectively.

Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2019 and 2018, and of its consolidated financial performance for the three months and six months then ended and its consolidated cash flows for the six months then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Penny Pan

Audrey Tseng

For and on behalf of PricewaterhouseCoopers, Taiwan

August 13, 2019

The accompanying consolidated 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 review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and review 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. As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

YEARS ENDED JUNE 30

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

(The balance sheets as of June 30, 2019 and 2018 are reviewed, not audited)

Assets		Notes	June 30, 2019		December 31, 2018		June 30, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 1,293,450	21	\$ 1,261,727	22	\$ 1,332,833	25
1136	Current financial assets at	6(3)						
	amortised cost, net		692,500	12	156,450	3	-	
1150	Notes receivable, net	6(4)	471	-	-	-	11	-
1170	Accounts receivable, net	6(4)	1,234,305	20	1,649,113	28	1,439,007	26
1180	Accounts receivable - related	7						
	parties, net		413	-	622	-	622	-
1200	Other receivables	6(5) and 7	44,741	1	47,187	1	47,456	1
1220	Current income tax assets		681	-	5,116	-	9,594	-
130X	Inventories	6(6)	677,207	11	568,435	10	557,464	10
1410	Prepayments		25,926	1	25,785	-	37,788	1
1470	Other current assets	8	3,500	-	2,876	-	7,316	-
11XX	Total current assets		3,973,194	66	3,717,311	64	3,432,091	63
Non-current assets								
1517	Non-current financial assets at fair	6(2)						
	value through other comprehensive							
	income		28,458	-	25,389	-	31,625	1
1535	Non-current financial assets at	6(3)						
	amortised cost		226,000	4	223,500	4	-	-
1600	Property, plant and equipment	6(7) and 8	1,665,477	27	1,721,274	30	1,847,525	34
1755	Right-of-use assets	6(8)	63,101	1	-	-	-	-
1780	Intangible assets	6(9)	9,421	-	11,700	-	12,145	-
1840	Deferred income tax assets		47,422	1	38,548	1	40,371	1
1900	Other non-current assets	6(7)(10)						
		and 8	33,167	1	88,197	1	82,614	1
15XX	Total non-current assets		2,073,046	34	2,108,608	36	2,014,280	37
1XXX	Total assets		\$ 6,046,240	100	\$ 5,825,919	100	\$ 5,446,371	100

(Continued)

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

YEARS ENDED JUNE 30

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

(The balance sheets as of June 30, 2019 and 2018 are reviewed, not audited)

Liabilities and Equity		Notes	June 30, 2019		December 31, 2018		June 30, 2018	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities								
2100	Short-term borrowings	6(11)	\$ 243,687	4	\$ 276,102	5	\$ 92,425	2
2130	Current contract liabilities	6(19)	7,315	-	7,379	-	8,621	-
2170	Accounts payable		1,232,454	21	1,412,759	24	1,300,218	24
2180	Accounts payable - related parties	7	4,258	-	6,008	-	5,459	-
2200	Other payables	6(13) and 7	1,100,520	18	639,544	11	988,321	18
2230	Current income tax liabilities		134,804	2	105,678	2	66,117	1
2280	Current lease liabilities		4,494	-	-	-	-	-
2300	Other current liabilities	6(12)	10,527	-	11,252	-	10,835	-
21XX	Total current liabilities		<u>2,738,059</u>	<u>45</u>	<u>2,458,722</u>	<u>42</u>	<u>2,471,996</u>	<u>45</u>
Non-current liabilities								
2540	Long-term borrowings	6(12)	127,234	2	129,460	2	131,842	2
2570	Deferred income tax liabilities		53,699	1	45,232	1	51,367	1
2580	Non-current lease liabilities		2,588	-	-	-	-	-
2600	Other non-current liabilities		27,445	1	27,525	1	28,098	1
25XX	Total non-current liabilities		<u>210,966</u>	<u>4</u>	<u>202,217</u>	<u>4</u>	<u>211,307</u>	<u>4</u>
2XXX	Total liabilities		<u>2,949,025</u>	<u>49</u>	<u>2,660,939</u>	<u>46</u>	<u>2,683,303</u>	<u>49</u>
Equity								
Share capital		6(15)						
3110	Share capital - common stock		1,197,260	20	1,197,260	20	1,197,260	22
Capital surplus		6(16)						
3200	Capital surplus		48,209	1	48,209	1	48,209	1
Retained earnings		6(17)						
3310	Legal reserve		628,686	10	564,451	10	564,451	11
3320	Special reserve		213,156	3	175,154	3	175,154	3
3350	Unappropriated retained earnings		1,128,077	19	1,327,489	23	870,932	16
Other equity interest		6(18)						
3400	Other equity interest		(118,173)	(2)	(147,583)	(3)	(92,938)	(2)
3XXX	Total equity		<u>3,097,215</u>	<u>51</u>	<u>3,164,980</u>	<u>54</u>	<u>2,763,068</u>	<u>51</u>
Significant contingent liabilities and unrecorded contract commitments								
Significant events after the balance sheet date								
3X2X	Total liabilities and equity		<u>\$ 6,046,240</u>	<u>100</u>	<u>\$ 5,825,919</u>	<u>100</u>	<u>\$ 5,446,371</u>	<u>100</u>

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

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

Items	Notes	Three months ended June 30				Six months ended June 30			
		2019		2018		2019		2018	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(19) and 7	\$ 1,502,902	100	\$ 1,498,382	100	\$ 3,063,350	100	\$ 2,887,789	100
5000 Operating costs	6(6)(22) and 7	(1,052,169)	(70)	(1,153,478)	(77)	(2,137,080)	(70)	(2,221,075)	(77)
5950 Net operating margin		<u>450,733</u>	<u>30</u>	<u>344,904</u>	<u>23</u>	<u>926,270</u>	<u>30</u>	<u>666,714</u>	<u>23</u>
Operating expenses	6(22) and 7								
6100 Selling expenses		(82,085)	(5)	(84,616)	(6)	(158,916)	(5)	(157,476)	(5)
6200 General and administrative expenses		(89,991)	(6)	(82,210)	(5)	(178,645)	(6)	(161,155)	(6)
6300 Research and development expenses		(52,520)	(4)	(50,605)	(3)	(102,179)	(3)	(96,788)	(3)
6450 Expected credit impairment gain	12(2)	307	-	781	-	225	-	4,919	-
6000 Total operating expenses		(224,289)	(15)	(216,650)	(14)	(439,515)	(14)	(410,500)	(14)
6900 Operating profit		<u>226,444</u>	<u>15</u>	<u>128,254</u>	<u>9</u>	<u>486,755</u>	<u>16</u>	<u>256,214</u>	<u>9</u>
Non-operating income and expenses									
7010 Other income	6(3)(20)	12,576	1	6,646	-	20,141	-	11,623	-
7020 Other gains and losses	6(21)	19,515	1	39,201	3	1,029	-	4,595	-
7050 Finance costs		(1,981)	-	(2,033)	-	(4,435)	-	(4,271)	-
7000 Total non-operating income and expenses		<u>30,110</u>	<u>2</u>	<u>43,814</u>	<u>3</u>	<u>16,735</u>	<u>-</u>	<u>11,947</u>	<u>-</u>
7900 Profit before income tax		<u>256,554</u>	<u>17</u>	<u>172,068</u>	<u>12</u>	<u>503,490</u>	<u>16</u>	<u>268,161</u>	<u>9</u>
7950 Income tax expense	6(23)	(61,099)	(4)	(39,895)	(3)	(121,761)	(4)	(81,911)	(3)
8200 Profit for the period		<u>\$ 195,455</u>	<u>13</u>	<u>\$ 132,173</u>	<u>9</u>	<u>\$ 381,729</u>	<u>12</u>	<u>\$ 186,250</u>	<u>6</u>
Other comprehensive income (loss)									
Components of other comprehensive income that will be reclassified to profit or loss									
8361 Financial statements translation differences of foreign operations	6(18)	(\$ 30,562)	(2)	(\$ 20,105)	(1)	\$ 34,290	1	\$ 14,975	1
8399 Income tax relating to the components of other comprehensive income	6(18)(23)	<u>6,615</u>	<u>-</u>	<u>6,130</u>	<u>-</u>	<u>(4,880)</u>	<u>-</u>	<u>1,668</u>	<u>-</u>
8360 Other comprehensive income (loss) that will be reclassified to profit or loss		<u>(23,947)</u>	<u>(2)</u>	<u>(13,975)</u>	<u>(1)</u>	<u>29,410</u>	<u>1</u>	<u>16,643</u>	<u>1</u>
8300 Other comprehensive (loss) income for the period		<u>(\$ 23,947)</u>	<u>(2)</u>	<u>(\$ 13,975)</u>	<u>(1)</u>	<u>\$ 29,410</u>	<u>1</u>	<u>\$ 16,643</u>	<u>1</u>
8500 Total comprehensive income for the period		<u>\$ 171,508</u>	<u>11</u>	<u>\$ 118,198</u>	<u>8</u>	<u>\$ 411,139</u>	<u>13</u>	<u>\$ 202,893</u>	<u>7</u>
Profit attributable to:									
8610 Owners of the parent		<u>\$ 195,455</u>	<u>13</u>	<u>\$ 132,173</u>	<u>9</u>	<u>\$ 381,729</u>	<u>12</u>	<u>\$ 186,250</u>	<u>6</u>
Comprehensive income attributable to:									
8710 Owners of the parent		<u>\$ 171,508</u>	<u>11</u>	<u>\$ 118,198</u>	<u>8</u>	<u>\$ 411,139</u>	<u>13</u>	<u>\$ 202,893</u>	<u>7</u>
Earnings per share (in dollars)	6(24)								
9750 Basic earnings per share		<u>\$ 1.63</u>		<u>\$ 1.10</u>		<u>\$ 3.19</u>		<u>\$ 1.56</u>	
9850 Diluted earnings per share		<u>\$ 1.63</u>		<u>\$ 1.10</u>		<u>\$ 3.16</u>		<u>\$ 1.55</u>	

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

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

Notes	Equity attributable to owners of the parent								
	Capital Reserves			Retained Earnings			Other equity interest		
	Share capital - common stock	Total capital surplus, additional paid-in capital	Treasury stock transactions	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised losses from financial assets measured at fair value through other comprehensive income	Total equity
2018									
Balance at January 1, 2018	\$1,197,260	\$ 41,987	\$ 6,222	\$ 518,907	\$ 142,624	\$1,121,934	(\$ 109,581)	\$ -	\$2,919,353
Profit for the period	-	-	-	-	-	186,250	-	-	186,250
Other comprehensive income for the period	6(18)	-	-	-	-	-	16,643	-	16,643
Total comprehensive income		-	-	-	-	186,250	16,643	-	202,893
Distribution of 2017 earnings	6(17)								
Legal reserve		-	-	-	45,544	(45,544)	-	-	-
Special reserve		-	-	-	-	32,530	(32,530)	-	-
Cash dividends	6(18)	-	-	-	-	(359,178)	-	-	(359,178)
Balance at June 30, 2018	<u>\$1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 564,451</u>	<u>\$ 175,154</u>	<u>\$ 870,932</u>	<u>(\$ 92,938)</u>	<u>\$ -</u>	<u>\$2,763,068</u>
2019									
Balance at January 1, 2019	\$1,197,260	\$ 41,987	\$ 6,222	\$ 564,451	\$ 175,154	\$1,327,489	(\$ 141,347)	(\$ 6,236)	\$3,164,980
Profit for the period	-	-	-	-	-	381,729	-	-	381,729
Other comprehensive income for the period	6(18)	-	-	-	-	-	29,410	-	29,410
Total comprehensive income		-	-	-	-	381,729	29,410	-	411,139
Distribution of 2018 earnings	6(17)								
Legal reserve		-	-	-	64,235	(64,235)	-	-	-
Special reserve		-	-	-	-	38,002	(38,002)	-	-
Cash dividends		-	-	-	-	(478,904)	-	-	(478,904)
Balance at June 30, 2019	<u>\$1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 628,686</u>	<u>\$ 213,156</u>	<u>\$1,128,077</u>	<u>(\$ 111,937)</u>	<u>(\$ 6,236)</u>	<u>\$3,097,215</u>

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

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30

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

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 503,490	\$ 268,161
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit impairment gain	12(2)	(225)	(4,919)
Depreciation	6(7)(8)(22)	96,119	90,934
Amortization	6(9)(22)	2,631	2,919
Interest expense		4,435	4,271
Interest income	6(20)	(15,409)	(6,084)
Loss (gain) on disposal of property, plant and equipment	6(21)	105	(95)
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		(471)	(11)
Accounts receivable		415,005	37,265
Accounts receivable - related parties, net		209	472
Other receivables		9,086	4,432
Inventories		(74,082)	63,775
Prepayments		(10,672)	31,284
Other current assets		(624)	4,235
Changes in operating liabilities			
Current contract liabilities		(64)	(1,189)
Accounts payable		(180,305)	57,987
Accounts payable - related parties		(1,750)	(3,320)
Other payables		(14,931)	23,616
Other current liabilities		(937)	(1,986)
Other non-current liabilities		(80)	(14)
Cash inflow generated from operations		731,530	571,733
Interest received		10,398	7,192
Interest paid		(4,560)	(4,285)
Income tax paid		(93,487)	(81,490)
Net cash flows from operating activities		<u>643,881</u>	<u>493,150</u>

(Continued)

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30

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

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of non-current financial assets at fair value through other comprehensive income	12(3)	(\$ 3,069)	\$ -
Acquisition of property, plant and equipment	6(7)(26)	(45,281)	(228,718)
Proceeds from disposal of property, plant and equipment		323	1,067
Acquisition of intangible assets	6(9)	(242)	(6,135)
Acquisition of financial assets at amortised cost		(538,550)	-
Proceeds from disposal of financial assets at amortised cost		-	144,097
(Increase) decrease in other non-current assets		(14)	1,162
Net cash flows used in investing activities		(586,833)	(88,527)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term borrowings	6(27)	(31,538)	(205,639)
Repayment of long-term borrowings (including current portion)	6(27)	(3,169)	(3,231)
Payment of the principal of lease liabilities	6(8)	(2,053)	-
Net cash flows used in financing activities		(36,760)	(208,870)
Effect on foreign exchange difference		11,435	9,727
Net increase in cash and cash equivalents		31,723	205,480
Cash and cash equivalents at beginning of period	6(1)	1,261,727	1,127,353
Cash and cash equivalents at end of period	6(1)	<u>\$ 1,293,450</u>	<u>\$ 1,332,833</u>

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

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2019 AND 2018

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

(REVIEWED, NOT AUDITED)

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 and its subsidiaries (collectively referred herein as the “Group”) are 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 CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were reported to the Board of Directors on August 13, 2019.

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 the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
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 Group’s financial condition and financial performance based on the Group’s assessment.

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

- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Group increased ‘right-of-use asset’ and ‘lease liability’ by \$65,033 and \$8,413, respectively, and decreased other non-current assets by \$56,620 with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - (c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of \$843 was recognised in the second quarter of 2019.
- D. The Group calculated the present value of lease liabilities by using incremental borrowing interest rate ranging from 2.62% to 6.00%.
- E. The Group recognised lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$	11,320
Less: Short-term leases	(	2,488)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019		8,832
Incremental borrowing interest rate at the date of initial application		2.62%~6.00%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	\$	8,413

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

New standards, interpretations and amendments issued by IASB and included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020

The above standards and interpretations have no significant impact to the Group's financial condition and operating results based on the Group'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	Effective date by International Accounting Standards Board
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 17, 'Insurance contracts'	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, 'Interim financial reporting' as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets at fair value through other comprehensive income.
- (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group 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. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			
			June 30, 2019	December 31, 2018	June 30, 2018	
Chenbro Micom Co., Ltd.	Micom Source Holding	Holding company	100	100	100	
Chenbro Micom Co., Ltd.	Chenbro Micom (USA) Incorporation	General trading company	100	100	100	
Chenbro Micom Co., Ltd.	Chenbro Europe B.V.	General trading company	-	100	100	Notes 1, 2 and 4
Chenbro Micom Co., Ltd.	CLOUDWELL HOLDINGS, LLC.	Real estate leasing company	100	100	100	Notes 1 and 2
Chenbro Micom Co., Ltd.	Chenbro GmbH	General trading company	100	100	100	Notes 1 and 2
Chenbro Micom Co., Ltd.	Chenbro UK Limited	Marketing services	100	100	100	Notes 1, 2 and 5
Micom Source Holding Company	Cloud International Company Limited	Holding company	100	100	100	Notes 1, 2 and 6
Micom Source Holding Company	AMAC International Company	Holding company	100	100	100	Notes 1 and 2
Micom Source Holding Company	AMBER International Company	Holding company	100	100	100	
Micom Source Holding Company	ADEPT International Company	Holding company	100	100	100	

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			
			June 30, 2019	December 31, 2018	June 30, 2018	
Cloud International Company	Chenbro Micom (Shenzhen) Co., Ltd.	General trading company	100	100	100	Notes 1, 2 and 3
AMBER International Company	Chenbro Technology (Kunshan) Co., Ltd.	Manufacturing of computer cases	100	100	100	
AMBER International Company	ChenPower Information Technology (Shanghai) Co., Ltd.	General trading company	100	100	100	
Chenbro Technology (Kunshan) Co., Ltd.	Chenbro Micom (Beijing) Co., Ltd.	Research and development of technical skills	100	100	100	Notes 1, 2 and 3
ADEPT International Company	PROCASE & MOREX Corporation	Trading / Order taking company	100	100	100	
PROCASE & MOREX Corporation	Dongguan Procace Ltd.	Manufacturing of computer cases	88	88	88	
AMAC International Company	Dongguan Electronic Co., Ltd.	Manufacturing of computer cases	12	12	12	

Note 1: The financial statements of the entity as of and for the six months ended June 30, 2019 and 2018 were not reviewed by the independent accountants as the entity did not meet the definition of a significant subsidiary.

Note 2: Certain insignificant subsidiaries were consolidated in the statements based on the subsidiaries' unreviewed financial statements. On June 30, 2019 and 2018, the insignificant subsidiaries have total assets in the amounts of \$360,020 and \$408,336, and total liabilities in the amounts of \$143,015 and \$150,257, respectively. For the three months ended June 30, 2019 and 2018, and six months ended June 30, 2019 and 2018, the comprehensive (loss) income were (\$2,696), \$3,841, (\$2,888) and \$1,294, respectively.

Note 3: As resolved by the Board of Directors on January 19, 2017, Chenbro Micom (Shenzhen) Co., Ltd. and Chenbro Micom (Beijing) Co., Ltd. are under liquidation.

Note 4: On May 9, 2017, Chenbro Europe B. V. was dissolved under the resolution of the Board of Directors, and the liquidation was completed in March 2019.

Note 5: On May 9, 2017, the Board of Directors of Chenbro UK Limited resolved to be directly held by the Company. The equity transfer was completed and registered in August 2017. In addition, the Board of Directors resolved to reduce the capital in the amount of GBP

19,999 on August 7, 2018, and Chenbro UK Limited will be dissolved thereafter. The aforementioned reduction in capital was registered in October, 2018.

Note 6: On June 25, 2019, Cloud International Company Limited was dissolved under the resolution of the Board of Directors.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars., which is the Company's functional and the Group's presentation currency.

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 other foreign exchange gains and losses based on the nature of those transactions 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 joint arrangements 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 Group still 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.

(5) 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.

(6) 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.

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

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.

- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value. The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

For financial assets at amortised cost including accounts receivable or contract assets that have a significant financing component, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Group 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.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are recorded at standard cost and variances are allocated to inventories and cost of goods sold at the balance sheet date. 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.

(13) 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 Group 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 and structures	5～50 years
Machinery and equipment	3～12 years
Mold equipment	2～11 years
Computer communication equipment	3～10 years
Testing equipment	2～10 years
Transportation equipment	5 years
Office equipment	1～13 years
Other equipment	3～12 years

(14) Leasing arrangements (lessee) - right-of-use assets / lease liabilities

Effective 2019

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:
- (a) Fixed payments, less any lease incentives receivable; and
 - (b) Variable lease payments that depend on an index or a rate.

The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
- (a) The amount of the initial measurement of lease liability;
 - (b) Any lease payments made at or before the commencement date; and
 - (c) Any initial direct costs incurred by the lessee.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(15) Operating leases

Prior to 2019

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(16) 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 5 years.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets in which 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.

(18) Borrowings

Borrowings comprise long-term and short-term bank 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.

(19) Accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services.

B. The short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) 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.

(21) 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.

(22) 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 plans

For defined contribution plans, 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 plans

- 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 Group 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 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 plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

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

Employees' compensation 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.

(23) 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 in the countries where the Company and its subsidiaries operate and generate taxable income. 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 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 consolidated 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 Group 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 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.
- E. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- F. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(24) 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.

(25) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved 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.

(26) Revenue recognition

- A. The Group manufactures and sells computer cases and related products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- B. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated sales discounts and allowances. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. No element of financing is deemed present as the sales are made with a credit term after the transfer of controls in 45 to 60 days, which is consistent with market practice.
- C. A receivable is recognised when the control of products is transferred as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

The preparation of these consolidated financial statements does not require management to make critical judgements in applying the Group'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:

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group 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 June 30, 2019, the carrying amount of inventories was \$677,207.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Petty cash and cash on hand	\$ 726	\$ 398	\$ 382
Demand deposits	78,051	112,672	48,412
Checking account deposits	125,032	189,884	73,213
Time deposits (including foreign currencies)	405,960	90,351	522,915
Foreign currency deposits	683,681	868,422	687,911
	<u>\$ 1,293,450</u>	<u>\$ 1,261,727</u>	<u>\$ 1,332,833</u>

A. The Group 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 Group has reclassified cash and cash equivalents pledged to 'other current assets' and 'other non-current assets'. Details are provided in Note 8.

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

<u>Items</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Non-current items:			
Equity instruments			
Unlisted stocks	<u>\$ 28,458</u>	<u>\$ 25,389</u>	<u>\$ 31,625</u>

A. The Group has elected to classify stock investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$28,458, \$25,389 and \$31,625 as at June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

B. For the three months ended June 30, 2019 and 2018, and six months ended June 30, 2019 and 2018, no amount was recognised in other comprehensive income in relation to the financial assets at fair value through other comprehensive income.

(3) Financial assets at amortised cost

Items	June 30, 2019	December 31, 2018	June 30, 2018
Current items:			
Capital guaranteed financial products	\$ 402,280	\$ 156,450	\$ -
Time deposits	290,220	-	-
	<u>\$ 692,500</u>	<u>\$ 156,450</u>	<u>\$ -</u>
Non-current items:			
Time deposits	<u>\$ 226,000</u>	<u>\$ 223,500</u>	<u>\$ -</u>

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	Three months ended June 30,	
	2019	2018
Interest income	<u>\$ 6,667</u>	<u>\$ 346</u>
	Six months ended June 30,	
	2019	2018
Interest income	<u>\$ 9,561</u>	<u>\$ 1,170</u>

B. As at June 30, 2019, December 31, 2018 and June 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$918,500, \$379,950 and \$0, respectively.

C. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(4) Notes and accounts receivable

	June 30, 2019	December 31, 2018	June 30, 2018
Notes receivable	<u>\$ 471</u>	<u>\$ -</u>	<u>\$ 11</u>
Accounts receivable	\$ 1,236,324	\$ 1,651,329	\$ 1,443,640
Less: Allowance for uncollectible accounts	(2,019)	(2,216)	(4,633)
	<u>\$ 1,234,305</u>	<u>\$ 1,649,113</u>	<u>\$ 1,439,007</u>

A. The ageing analysis of notes and accounts receivable is as follows:

	June 30, 2019		December 31, 2018	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 1,076,645	\$ 471	\$ 1,335,491	\$ -
Up to 30 days	108,345	-	236,572	-
31 to 90 days	45,067	-	78,968	-
91 to 180 days	5,225	-	226	-
Over 180 days	1,042	-	72	-
	<u>\$ 1,236,324</u>	<u>\$ 471</u>	<u>\$ 1,651,329</u>	<u>\$ -</u>

	June 30, 2018	
	Accounts receivable	Notes receivable
Not past due	\$ 1,227,380	\$ 11
Up to 30 days	172,360	-
31 to 90 days	28,020	-
91 to 180 days	11,854	-
Over 180 days	4,026	-
	<u>\$ 1,443,640</u>	<u>\$ 11</u>

The above ageing analysis was based on past due date.

B. As of June 30, 2019, December 31, 2018, June 30, 2018 and January 1, 2018, the balances of receivables (including notes receivable) from contracts with customers amounted to \$1,236,795, \$1,651,329, \$1,443,651 and \$1,495,199, respectively.

C. The Group does not hold any collateral as security.

D. As at June 30, 2019, December 31, 2018 and June 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$471, \$0 and \$11, and \$1,234,305, \$1,649,113 and \$1,439,007, respectively.

E. Information relating to credit risk is provided in Note 12(2).

(5) Transfer of financial assets

The Group entered into a factoring agreement with banks to sell its accounts receivable. Under the agreement, the Group 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 Group does not have any continuing involvement in the transferred accounts receivable. The financial assets meet the condition of derecognition. The Group decreased the estimated amount of business dispute and derecognised the transferred accounts receivable. As of June 30, 2019, December 31, 2018 and June 30, 2018, the related information is as follows:

June 30, 2019

<u>Purchaser of accounts receivable</u>	<u>Accounts receivable 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	\$ 18,925	\$ 18,925	\$ 20,000	\$ -	\$ -	-

December 31, 2018

<u>Purchaser of accounts receivable</u>	<u>Accounts receivable 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	\$ 15,880	\$ 15,880	\$ 20,000	\$ -	\$ -	-

June 30, 2018

<u>Purchaser of accounts receivable</u>	<u>Accounts receivable 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	\$ 23,898	\$ 23,898	\$ 30,000	\$ -	\$ -	-

Note: Shown as 'other receivables'.

(6) Inventories

June 30, 2019			
	Cost	Allowance for valuation loss and obsolete and slow- moving inventories	Book value
Raw materials	\$ 201,489	(\$ 59,378)	\$ 142,111
Semi-finished goods	70,904	(21,365)	49,539
Work in process	74,055	(430)	73,625
Finished goods	462,813	(50,881)	411,932
	<u>\$ 809,261</u>	<u>(\$ 132,054)</u>	<u>\$ 677,207</u>
December 31, 2018			
	Cost	Allowance for valuation loss and obsolete and slow- moving inventories	Book value
Raw materials	\$ 151,050	(\$ 27,406)	\$ 123,644
Semi-finished goods	110,309	(13,836)	96,473
Work in process	47,659	(25)	47,634
Finished goods	347,669	(46,985)	300,684
	<u>\$ 656,687</u>	<u>(\$ 88,252)</u>	<u>\$ 568,435</u>
June 30, 2018			
	Cost	Allowance for valuation loss and obsolete and slow- moving inventories	Book value
Raw materials	\$ 191,587	(\$ 16,974)	\$ 174,613
Semi-finished goods	91,967	(12,240)	79,727
Work in process	50,454	(1,426)	49,028
Finished goods	316,147	(62,051)	254,096
	<u>\$ 650,155</u>	<u>(\$ 92,691)</u>	<u>\$ 557,464</u>

The cost of inventories recognised as expense for the period:

	Three months ended June 30,	
	2019	2018
Cost of goods sold	\$ 1,065,040	\$ 1,161,605
Sale of scraps	(1,098)	(3,018)
Gain on reversal of decline in market value	(11,774)	(5,143)
Loss on physical inventory	1	34
	<u>\$ 1,052,169</u>	<u>\$ 1,153,478</u>

	Six months ended June 30,	
	2019	2018
Cost of goods sold	\$ 2,099,893	\$ 2,251,009
Sale of scraps	(2,284)	(6,817)
Loss on decline in market value (gain on reversal of decline in market value)	39,475	(23,151)
(Gain) loss on physical inventory	(4)	34
	<u>\$ 2,137,080</u>	<u>\$ 2,221,075</u>

For the three months ended June 30, 2019 and 2018, and six months ended June 30, 2018, the amounts that the Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because of sale of inventory were \$11,774, \$5,143 and \$23,151, respectively.

(7) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Mold equipment	Computer communication equipment	Testing equipment	Transportation equipment	Office equipment	Others	Unfinished construction and equipment under acceptance	Total	Prepayments for business facilities (Note)
<u>At January 1, 2019</u>												
Cost	\$ 212,401	\$ 1,590,398	\$ 599,216	\$ 446,988	\$ 27,731	\$ 28,517	\$ 27,003	\$ 62,341	\$ 44,433	\$ 49,186	\$ 3,088,214	\$ 18,474
Accumulated depreciation and impairment	-	(563,388)	(367,886)	(308,033)	(23,914)	(17,572)	(15,208)	(42,686)	(28,253)	-	(1,366,940)	-
	<u>\$ 212,401</u>	<u>\$ 1,027,010</u>	<u>\$ 231,330</u>	<u>\$ 138,955</u>	<u>\$ 3,817</u>	<u>\$ 10,945</u>	<u>\$ 11,795</u>	<u>\$ 19,655</u>	<u>\$ 16,180</u>	<u>\$ 49,186</u>	<u>\$ 1,721,274</u>	<u>\$ 18,474</u>
<u>2019</u>												
Opening net book amount	\$ 212,401	\$ 1,027,010	\$ 231,330	\$ 138,955	\$ 3,817	\$ 10,945	\$ 11,795	\$ 19,655	\$ 16,180	\$ 49,186	\$ 1,721,274	\$ 18,474
Additions	-	3,688	5,386	3,001	436	1,730	365	1,803	943	11,357	28,709	19,444
Disposals	-	-	(371)	-	-	(4)	-	(29)	(24)	-	(428)	-
Transfers (Note)	-	31,160	7,547	-	-	596	-	114	-	(45,526)	(6,109)	(18,050)
Effects of foreign exchange	793	10,488	2,595	213	30	57	96	225	183	850	15,530	182
Depreciation charges	-	(43,578)	(17,032)	(24,071)	(1,046)	(1,468)	(1,145)	(3,224)	(1,935)	-	(93,499)	-
Closing net book amount	<u>\$ 213,194</u>	<u>\$ 1,028,768</u>	<u>\$ 229,455</u>	<u>\$ 118,098</u>	<u>\$ 3,237</u>	<u>\$ 11,856</u>	<u>\$ 11,111</u>	<u>\$ 18,544</u>	<u>\$ 15,347</u>	<u>\$ 15,867</u>	<u>\$ 1,665,477</u>	<u>\$ 20,050</u>
<u>At June 30, 2019</u>												
Cost	\$ 213,194	\$ 1,635,693	\$ 617,473	\$ 426,558	\$ 28,327	\$ 30,864	\$ 27,620	\$ 64,555	\$ 45,672	\$ 15,867	\$ 3,105,823	\$ 20,050
Accumulated depreciation and impairment	-	(606,925)	(388,018)	(308,460)	(25,090)	(19,008)	(16,509)	(46,011)	(30,325)	-	(1,440,346)	-
	<u>\$ 213,194</u>	<u>\$ 1,028,768</u>	<u>\$ 229,455</u>	<u>\$ 118,098</u>	<u>\$ 3,237</u>	<u>\$ 11,856</u>	<u>\$ 11,111</u>	<u>\$ 18,544</u>	<u>\$ 15,347</u>	<u>\$ 15,867</u>	<u>\$ 1,665,477</u>	<u>\$ 20,050</u>

Note: Prepayments for business facilities are shown as 'other non-current assets'. Details are provided in Note 6(10).

- A. The significant components of the buildings include buildings and accessory equipment of buildings, which are depreciated over 10~50 years and 5~11 years, respectively.
- B. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.
- C. The net difference of the transfers for this period resulted from transferring mold equipment made for customers to inventories.

	Land	Buildings	Machinery and equipment	Mold equipment	Computer communication equipment	Testing equipment	Transportation equipment	Office equipment	Others	Unfinished construction and equipment under acceptance	Total	Prepayments for business facilities (Note)
<u>At January 1, 2018</u>												
Cost	\$ 210,161	\$ 1,549,720	\$ 597,673	\$ 309,436	\$ 26,943	\$ 23,799	\$ 22,064	\$ 55,015	\$ 41,631	\$ 51,431	\$ 2,887,873	\$ 30,162
Accumulated depreciation and impairment	-	(486,138)	(353,814)	(259,333)	(20,234)	(15,415)	(13,695)	(38,109)	(25,444)	-	(1,212,182)	-
	<u>\$ 210,161</u>	<u>\$ 1,063,582</u>	<u>\$ 243,859</u>	<u>\$ 50,103</u>	<u>\$ 6,709</u>	<u>\$ 8,384</u>	<u>\$ 8,369</u>	<u>\$ 16,906</u>	<u>\$ 16,187</u>	<u>\$ 51,431</u>	<u>\$ 1,675,691</u>	<u>\$ 30,162</u>
<u>2018</u>												
Opening net book amount	\$ 210,161	\$ 1,063,582	\$ 243,859	\$ 50,103	\$ 6,709	\$ 8,384	\$ 8,369	\$ 16,906	\$ 16,187	\$ 51,431	\$ 1,675,691	\$ 30,162
Additions	-	12,252	7,823	145,977	37	176	66	4,775	2,322	29,332	202,760	36,759
Disposals	-	-	(936)	-	-	-	-	(35)	(1)	-	(972)	-
Transfers	-	37,475	5,052	22,570	-	-	596	3,058	-	(16,804)	51,947	(53,194)
Effects of foreign exchange	1,633	7,369	1,118	(1,472)	65	34	22	91	58	115	9,033	308
Depreciation charges	-	(43,003)	(16,943)	(22,664)	(1,861)	(923)	(773)	(2,726)	(2,041)	-	(90,934)	-
Closing net book amount	<u>\$ 211,794</u>	<u>\$ 1,077,675</u>	<u>\$ 239,973</u>	<u>\$ 194,514</u>	<u>\$ 4,950</u>	<u>\$ 7,671</u>	<u>\$ 8,280</u>	<u>\$ 22,069</u>	<u>\$ 16,525</u>	<u>\$ 64,074</u>	<u>\$ 1,847,525</u>	<u>\$ 14,035</u>
<u>At June 30, 2018</u>												
Cost	\$ 211,794	\$ 1,608,638	\$ 611,363	\$ 476,402	\$ 27,265	\$ 24,003	\$ 22,818	\$ 62,891	\$ 44,064	\$ 64,074	\$ 3,153,312	\$ 14,035
Accumulated depreciation and impairment	-	(530,963)	(371,390)	(281,888)	(22,315)	(16,332)	(14,538)	(40,822)	(27,539)	-	(1,305,787)	-
	<u>\$ 211,794</u>	<u>\$ 1,077,675</u>	<u>\$ 239,973</u>	<u>\$ 194,514</u>	<u>\$ 4,950</u>	<u>\$ 7,671</u>	<u>\$ 8,280</u>	<u>\$ 22,069</u>	<u>\$ 16,525</u>	<u>\$ 64,074</u>	<u>\$ 1,847,525</u>	<u>\$ 14,035</u>

Note: Prepayments for business facilities are shown as 'other non-current assets'. Details are provided in Note 6(10)

- A. The significant components of the buildings include buildings and accessory equipment of buildings, which are depreciated over 10~50 years and 5~11 years, respectively.
- B. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.
- C. The net difference from the transfers for this period resulted from the intangible assets of \$1,247.

(8) Leasing arrangements - lessee

Effective 2019

- A. The Group leases various assets including land, office, warehouse, business vehicles, parking spaces, printers and landscaping, etc. Rental contracts are typically made for periods of 3 months to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.
- B. Short-term leases with a lease term of 12 months or less pertain to parking spaces. Low-value assets pertain to printers and landscaping.

- C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	June 30, 2019	Three months ended June 30, 2019	Six months ended June 30, 2019
	Carrying amount	Depreciation charge	Depreciation charge
Land	\$ 56,019	\$ 250	\$ 499
Buildings	3,339	625	1,234
Transportation equipment	3,743	479	887
	<u>\$ 63,101</u>	<u>\$ 1,354</u>	<u>\$ 2,620</u>

- D. For the three months ended June 30, 2019, and six months ended June 30, 2019, the additions to right-of-use assets were both \$722.

- E. Information on profit or loss in relation to lease contracts is as follows:

	Three months ended June 30, 2019	Six months ended June 30, 2019
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 87	\$ 169
Expense on short-term lease contracts	1,347	2,695
Expense on leases of low-value assets	96	216
Expense on variable lease payments	732	1,503

- F. For the six months ended June 30, 2019, the Group's total cash outflow for leases was \$6,636 (of which \$2,053 represents payments of the principal of lease liabilities).

- G. Variable lease payments

Some of the Group's lease contracts contain variable lease payment terms that are determined and recognised as expense based on the actual usage during the period.

- H. Extension and termination options

In determining the lease term, the Group takes into consideration all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. The assessment of lease period is reviewed if a significant event occurs which affects the assessment.

(9) Intangible assets

	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2019</u>				
Cost	\$ 576	\$ 39,673	\$ 600	\$ 40,849
Accumulated amortisation	(331)	(28,331)	(487)	(29,149)
	<u>\$ 245</u>	<u>\$ 11,342</u>	<u>\$ 113</u>	<u>\$ 11,700</u>
<u>2019</u>				
At January 1	\$ 245	\$ 11,342	\$ 113	\$ 11,700
Additions	-	11	231	242
Amortisation charge	(23)	(2,576)	(32)	(2,631)
Effects of foreign exchange	-	110	-	110
At June 30	<u>\$ 222</u>	<u>\$ 8,887</u>	<u>\$ 312</u>	<u>\$ 9,421</u>
<u>At June 30, 2019</u>				
Cost	\$ 576	\$ 38,928	\$ 831	\$ 40,335
Accumulated amortisation	(354)	(30,041)	(519)	(30,914)
	<u>\$ 222</u>	<u>\$ 8,887</u>	<u>\$ 312</u>	<u>\$ 9,421</u>
	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2018</u>				
Cost	\$ 561	\$ 37,254	\$ 600	\$ 38,415
Accumulated amortisation	(284)	(29,987)	(412)	(30,683)
	<u>\$ 277</u>	<u>\$ 7,267</u>	<u>\$ 188</u>	<u>\$ 7,732</u>
<u>2018</u>				
At January 1	\$ 277	\$ 7,267	\$ 188	\$ 7,732
Additions	15	6,120	-	6,135
Transfer (Note)	-	1,247	-	1,247
Amortisation charge	(23)	(2,858)	(38)	(2,919)
Effects of foreign exchange	-	(50)	-	(50)
At June 30	<u>\$ 269</u>	<u>\$ 11,726</u>	<u>\$ 150</u>	<u>\$ 12,145</u>
<u>At June 30, 2018</u>				
Cost	\$ 576	\$ 37,350	\$ 600	\$ 38,526
Accumulated amortisation	(307)	(25,624)	(450)	(26,381)
	<u>\$ 269</u>	<u>\$ 11,726</u>	<u>\$ 150</u>	<u>\$ 12,145</u>

Note: It is transferred from prepayments for business facilities which is shown as ‘other non-current assets’.

Details of amortisation on intangible assets are as follows:

	Three months ended June 30,	
	2019	2018
Manufacturing cost	\$ 608	\$ 573
Selling expenses	1	25
Administrative expenses	247	259
Research and development expenses	397	544
	<u>\$ 1,253</u>	<u>\$ 1,401</u>
	Six months ended June 30,	
	2019	2018
Manufacturing cost	\$ 1,214	\$ 981
Selling expenses	2	138
Administrative expenses	552	557
Research and development expenses	863	1,243
	<u>\$ 2,631</u>	<u>\$ 2,919</u>

(10) Other non-current assets

	June 30, 2019	December 31, 2018	June 30, 2018
Long-term prepaid rent - land use right (Note)	\$ -	\$ 56,620	\$ 58,410
Prepayments for business facilities	20,050	18,474	14,035
Others	13,117	13,103	10,169
	<u>\$ 33,167</u>	<u>\$ 88,197</u>	<u>\$ 82,614</u>

Note: On December 23, 1997, the Group's subsidiary, Dongguan Procace Electronic Co., Ltd., signed a land use right contract with the People's Republic of China for industrial use of the land in Hungyeh Industrial Zone, Tanghsia Town, Dongguan City, Guangdong Province with a term of 50 years; and in June 2004 and November 2006, the subsidiary, Chenbro Technology (Kunshan) Co., Ltd., signed a land use right contract with the People's Republic of China for use of the land in Yushan Town, Kunshan City with a term of 50 years for both contracts. The Group has elected to apply IFRS 16 using modified retrospective approach. Accordingly, the contracts were recognised as right-of-use assets on January 1, 2019. Details are provided in Note 6(8).

(11) Short-term borrowings

Type of borrowings	June 30, 2019	Interest rate range	Collateral
Short-term borrowings	<u>\$ 243,687</u>	3.10%~3.34%	A promissory note of the same amount was issued as collateral.
Type of borrowings	December 31, 2018	Interest rate range	Collateral
Short-term borrowings	<u>\$ 276,102</u>	3.00%~4.38%	A promissory note of the same amount was issued as collateral.
Type of borrowings	June 30, 2018	Interest rate range	Collateral
Short-term borrowings	<u>\$ 92,425</u>	0.84%~2.6%	A promissory note of the same amount was issued as collateral.

(12) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	June 30, 2019
Installment payment for secured foreign currency borrowings	USD 5,530 thousand; borrowing period is from September 2013 to August 2033; principal and interest are repayable monthly from October 2013	Fixed rate 3.75%	Bank deposits and real estate in the USA	\$ 134,514
Less: Current portion (shown as 'other current liabilities')				(7,280)
				<u>\$ 127,234</u>

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2018
Installment payment for secured foreign currency borrowings	USD 5,530 thousand; borrowing period is from September 2013 to August 2033; principal and interest are repayable monthly from October 2013	Fixed rate 3.75%	Bank deposits and real estate in the USA	\$ 136,528
Less: Current portion (shown as 'other current liabilities')				(7,068)
				<u>\$ 129,460</u>

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	June 30, 2018
Installment payment for secured foreign currency borrowings	USD 5,530 thousand; borrowing period is from September 2013 to August 2033; principal and interest are repayable monthly from October 2013	Fixed rate 3.75%	Bank deposits and real estate in the USA	\$ 138,722
Less: Current portion (shown as 'other current liabilities')				(6,880)
				<u>\$ 131,842</u>

The secured borrowing contract of the subsidiary, CLOUDWELL HOLDINGS, LLC., requires that the interest coverage ratio for each year should not be lower than 1.2. If the requirement is not met, the subsidiary shall repay the outstanding borrowing or provide bank deposits as collateral. As of June 30, 2019, the subsidiary, CLOUDWELL HOLDINGS, LLC., has not violated the requirements of the abovementioned secured borrowing contract.

(13) Other payables

	June 30, 2019	December 31, 2018	June 30, 2018
Dividends payable	\$ 478,904	\$ -	\$ 359,178
Wages and bonus payable	205,111	218,434	162,922
Remuneration due to supervisors and employee compensation	117,226	74,557	74,362
Payables for investment	81,533	80,640	79,958
Payables for mold	46,522	65,297	93,290
Payables for export freight and customs clearance charges	24,720	34,693	21,541
Payables for service fees	19,437	20,472	15,386
Payables for consumable goods	5,637	16,609	17,551
Payables for machinery and equipment	4,970	2,098	17,535
Others	116,460	126,744	146,598
	<u>\$ 1,100,520</u>	<u>\$ 639,544</u>	<u>\$ 988,321</u>

(14) 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 insufficient 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 contributions for the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$91, \$140, \$181 and \$280 for the three months ended June 30, 2019 and 2018, and six months ended June 30, 2019 and 2018, respectively.
- (c) Expected contributions to the defined benefit pension plan of the Group for the year ending December 31, 2020 amount to \$519.

B. Defined contribution plan

- (a) 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.
- (b) Other overseas companies have a defined contribution plan in accordance with the local regulations, and contributions to endowment insurance and pension reserve are based on employees’ salaries and wages. Other than the periodic contribution, the overseas companies have no further obligations.
- (c) The pension costs under the defined contribution pension plan of the Company for the three months ended June 30, 2019 and 2018, and six months ended June 30, 2019 and 2018, were \$2,181, \$2,151, \$4,342 and \$4,317, respectively.
- (d) The pension costs under the defined contribution pension plans of CHENBRO MICOM (USA) INCORPORATION, CHENBRO EUROPE B.V., Chenbro GmbH, Chenbro UK Limited, Chenbro Technology (Kunshan) Co., Ltd., ChenPower Information Technology (Shanghai) Co., Ltd., Dongguan Procace Electronic Co., Ltd. and CHENBRO MICOM (ShenZhen) Co., Ltd. for the three months ended June 30, 2019 and 2018, and six months ended June 30, 2019 and 2018 were \$10,257, \$9,527, \$20,898 and \$18,396, respectively.

(15) Ordinary shares

As of June 30, 2019, 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.

(16) 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.

(17) 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. On June 25, 2019 and June 20, 2018, the shareholders resolved the appropriation of 2018 and 2017 earnings as follows:

	<u>Year ended December 31, 2018</u>		<u>Year ended December 31, 2017</u>	
	<u>Amount</u>	<u>Dividend per share (in dollars)</u>	<u>Amount</u>	<u>Dividend per share (in dollars)</u>
Legal reserve	\$ 64,235	\$ -	\$ 45,544	\$ -
Special reserve	38,002	-	32,530	-
Cash dividends to shareholders	478,904	4.00	359,178	3.00
	<u>\$ 581,141</u>	<u>\$ 4.00</u>	<u>\$ 437,252</u>	<u>\$ 3.00</u>

- F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(22).

(18) Other equity items

	2019			2018
	Currency translation	Unrealised losses on valuation	Total	Currency translation
At January 1	(\$ 141,347)	(\$ 6,236)	(\$ 147,583)	(\$ 109,581)
Currency translation differences:				
- Group	34,290	-	34,290	14,975
- Tax on Group	(4,880)	-	(4,880)	1,668
At June 30	(\$ 111,937)	(\$ 6,236)	(\$ 118,173)	(\$ 92,938)

(19) Operating revenue:

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of control of goods to customers in the following major product types and geographical regions:

(a) Information on products

	Three months ended June 30,	
	2019	2018
Server cases	\$ 818,097	\$ 911,726
Peripheral products and components	617,158	531,215
Personal computer cases	67,647	55,441
	<u>\$ 1,502,902</u>	<u>\$ 1,498,382</u>

	Six months ended June 30,	
	2019	2018
Server cases	\$ 1,696,343	\$ 1,782,035
Peripheral products and components	1,238,461	992,013
Personal computer cases	128,546	113,741
	<u>\$ 3,063,350</u>	<u>\$ 2,887,789</u>

(b) Geographical information

		Three months ended June 30,	
		2019	2018
US	\$	577,604	\$ 359,380
China		561,902	703,897
Taiwan		241,772	138,078
Others		121,624	297,027
	\$	<u>1,502,902</u>	<u>\$ 1,498,382</u>

		Six months ended June 30,	
		2019	2018
US	\$	1,373,491	\$ 852,951
China		1,007,108	1,413,612
Taiwan		429,106	208,513
Others		253,645	412,713
	\$	<u>3,063,350</u>	<u>\$ 2,887,789</u>

B. Contract assets and liabilities

(a) The Group has recognised the following revenue-related contract assets and liabilities:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>	<u>January 1, 2018</u>
Contract liabilities-sale of products	\$ <u>7,315</u>	\$ <u>7,379</u>	\$ <u>8,621</u>	\$ <u>9,810</u>

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period:

		Three months ended June 30,	
		2019	2018
Contract liabilities-sale of products	\$	<u>817</u>	<u>\$ -</u>

		Six months ended June 30,	
		2019	2018
Contract liabilities-sale of products	\$	<u>1,248</u>	<u>\$ 596</u>

(20) Other income

	Three months ended June 30,	
	2019	2018
Interest income		
Interest income from bank deposits	\$ 2,473	\$ 3,690
Interest income from financial assets measured at amortised cost	6,667	346
Total interest income	9,140	4,036
Other income	3,436	2,610
	<u>\$ 12,576</u>	<u>\$ 6,646</u>

	Six months ended June 30,	
	2019	2018
Interest income		
Interest income from bank deposits	\$ 5,848	\$ 4,914
Interest income from financial assets measured at amortised cost	9,561	1,170
Total interest income	15,409	6,084
Other income	4,732	5,539
	<u>\$ 20,141</u>	<u>\$ 11,623</u>

(21) Other gains and losses

	Three months ended June 30,	
	2019	2018
Gain on disposal of property, plant and equipment	\$ 305	\$ 672
Net currency exchange gain	19,648	38,810
Miscellaneous disbursements	(438)	(281)
	<u>\$ 19,515</u>	<u>\$ 39,201</u>

	Six months ended June 30,	
	2019	2018
(Loss) gain on disposal of property, plant and equipment	(\$ 105)	\$ 95
Loss on disposal of investment	(6,396)	-
Net currency exchange gain	8,245	4,941
Miscellaneous disbursements	(715)	(441)
	<u>\$ 1,029</u>	<u>\$ 4,595</u>

(22) Employee benefit, depreciation and amortisation expenses

	Three months ended June 30,	
	2019	2018
Wages and salaries	\$ 229,987	\$ 229,514
Labour and health insurance fees	9,902	9,637
Pension costs	12,529	11,818
Other personnel expenses	18,218	17,213
Employee benefit expense	<u>\$ 270,636</u>	<u>\$ 268,182</u>
Depreciation charges	<u>\$ 46,893</u>	<u>\$ 46,373</u>
Amortisation charges	<u>\$ 1,253</u>	<u>\$ 1,401</u>
	Six months ended June 30,	
	2019	2018
Wages and salaries	\$ 455,007	\$ 428,983
Labour and health insurance fees	19,729	19,416
Pension costs	25,421	22,993
Other personnel expenses	35,461	30,577
Employee benefit expense	<u>\$ 535,618</u>	<u>\$ 501,969</u>
Depreciation charges	<u>\$ 96,119</u>	<u>\$ 90,934</u>
Amortisation charges	<u>\$ 2,631</u>	<u>\$ 2,919</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 three months ended June 30, 2019 and 2018 and six months ended June 30, 2019 and 2018, employees' compensation was accrued at \$17,298, \$11,762, \$34,310 and \$17,111, respectively; while directors' and supervisors' remuneration was accrued at \$5,087 and \$3,459, \$10,091 and \$5,032, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2018, employees' compensation and directors' and supervisors' remuneration amounted to \$56,274 and \$16,551 as resolved by the Board of Directors on March 19, 2019, respectively, and the differences with the amounts recognised in the current year's financial statements amounted to \$1,338 and \$394, respectively. The differences had been

accounted for as changes in estimates in profit or loss for 2019.

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.

(23) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Three months ended June 30,	
	2019	2018
Current tax:		
Current tax on profits for the period	\$ 56,080	\$ 36,775
Tax on undistributed surplus earnings	3,083	1,701
Prior year income tax (over) underestimation	(2,758)	5,446
Total current tax	56,405	43,922
Deferred tax:		
Origination and reversal of temporary differences	4,694	(4,027)
Income tax expense	\$ 61,099	\$ 39,895
	Six months ended June 30,	
	2019	2018
Current tax:		
Current tax on profits for the period	\$ 126,723	\$ 64,174
Tax on undistributed surplus earnings	3,083	1,701
Prior year income tax (over) underestimation	(2,758)	5,446
Total current tax	127,048	71,321
Deferred tax:		
Origination and reversal of temporary differences	(5,287)	12,195
Impact of change in tax rate	-	(1,605)
Total deferred tax	(5,287)	10,590
Income tax expense	\$ 121,761	\$ 81,911

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

	Three months ended June 30,	
	2019	2018
Currency translation differences	(\$ 6,615)	(\$ 6,130)
	Six months ended June 30,	
	2019	2018
Currency translation differences	\$ 4,880	\$ 1,818
Impact of change in tax rate	-	(3,486)
	\$ 4,880	(\$ 1,668)

B. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

(24) Earnings per share

Three months ended June 30, 2019			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 195,455	119,726	\$ 1.63
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 195,455		
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	531	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 195,455	120,257	\$ 1.63
Three months ended June 30, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 132,173	119,726	\$ 1.10
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 132,173		
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	300	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 132,173	120,026	\$ 1.10

Six months ended June 30, 2019			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 381,729	119,726	\$ 3.19
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 381,729		
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	965	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 381,729	120,691	\$ 3.16
Six months ended June 30, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 186,250	119,726	\$ 1.56
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 186,250		
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	822	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 186,250	120,548	\$ 1.55

(25) Operating leases

Prior to 2019

The Group leases office, warehouse and business vehicles under operating lease agreements. The lease terms are between 2 and 5 years. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Not later than one year	\$ 6,902	\$ 2,600
Later than one year but not later than five years	4,206	1,782
Later than five years	212	-
	<u>\$ 11,320</u>	<u>\$ 4,382</u>

(26) Supplemental cash flow information

A. Investing activities with partial cash payments:

	<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Purchase of property, plant and equipment	\$ 48,153	\$ 239,519
Add: Opening balance of payable on equipment	2,098	6,734
Less: Ending balance of payable on equipment	(4,970)	(17,535)
Cash paid during the period	<u>\$ 45,281</u>	<u>\$ 228,718</u>

B. Financing activities with no cash flow effects

	<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Stock dividends declared	<u>\$ 478,904</u>	<u>\$ 359,178</u>

C. The subsidiary-Chenbro Europe B.V. was liquidated in March 2019 and accordingly, the Group lost control over the subsidiary. The information on cash returned and relevant assets and liabilities is as follows:

	<u>Six months ended June 30, 2019</u>
Cash returned	<u>\$ 65,130</u>
Carrying amounts of the assets and liabilities of Chenbro Europe B.V.	
Cash	\$ 65,130
Other receivables	1,629
Other payables	(2,830)
Total net assets	<u>\$ 63,929</u>

(27) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings	Liabilities from financing activities-gross
At January 1, 2019	\$ 276,102	\$ 136,528	\$ 412,630
Changes in cash flow from financing activities	(31,538)	(3,169)	(34,707)
Impact of changes in foreign exchange rate	(877)	1,155	278
At June 30, 2019	<u>\$ 243,687</u>	<u>\$ 134,514</u>	<u>\$ 378,201</u>

	Short-term borrowings	Long-term borrowings	Liabilities from financing activities-gross
At January 1, 2018	\$ 296,883	\$ 138,788	\$ 435,671
Changes in cash flow from financing activities	(205,639)	(3,231)	(208,870)
Impact of changes in foreign exchange rate	1,181	3,165	4,346
At June 30, 2018	<u>\$ 92,425</u>	<u>\$ 138,722</u>	<u>\$ 231,147</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) Name of related party and relationship

Name of related party	Relationship with the Group
Chen-Source Inc.	Other related party

(3) Significant related party transactions

A. Operating revenue

	Three months ended June 30,	
	2019	2018
Sales of goods:		
Other related parties	<u>\$ 84</u>	<u>\$ 350</u>

	Six months ended June 30,	
	2019	2018
Sales of goods:		
Other related parties	<u>\$ 629</u>	<u>\$ 647</u>

Goods are sold based on normal prices and terms. Payment term is 60 days after monthly billings.

B. Purchases and other expenses

	Three months ended June 30,	
	2019	2018
Purchase of goods:		
Other related parties	\$ 3,073	\$ 5,006
Other expenses:		
Other related parties	368	492
	<u>\$ 3,441</u>	<u>\$ 5,498</u>

	Six months ended June 30,	
	2019	2018
Purchase of goods:		
Other related parties	\$ 8,036	\$ 9,950
Other expenses:		
Other related parties	919	955
	<u>\$ 8,955</u>	<u>\$ 10,905</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) Other expenses: It arises from short-term leases of warehouse and management of warehouse by other related parties on behalf of the Company. Prices and terms are determined based on mutual agreements, and the collection term is 60 days after monthly billings.

C. Receivables from related parties

	June 30, 2019	December 31, 2018	June 30, 2018
Accounts receivable:			
Other related parties	\$ 413	\$ 622	\$ 622
Other receivables-payment on behalf of others:			
(shown as 'other receivables')			
Other related parties	19	234	138
	<u>\$ 432</u>	<u>\$ 856</u>	<u>\$ 760</u>

The receivables from related parties are unsecured in nature and bear no interest.

D. Payables to related parties

	June 30, 2019	December 31, 2018	June 30, 2018
Accounts payable:			
Other related parties	\$ 4,258	\$ 6,008	\$ 5,459
Other payables- other expenses: (shown as 'other payables')			
Other related parties	691	669	572
	<u>\$ 4,949</u>	<u>\$ 6,677</u>	<u>\$ 6,031</u>

Accounts payable bear no interest.

(4) Key management compensation

	Three months ended June 30,	
	2019	2018
Short-term employee benefits	\$ 14,903	\$ 8,856
Post-employment benefits	80	66
Total amount	<u>\$ 14,983</u>	<u>\$ 8,922</u>

	Six months ended June 30,	
	2019	2018
Short-term employee benefits	\$ 33,379	\$ 17,315
Post-employment benefits	160	132
Total amount	<u>\$ 33,539</u>	<u>\$ 17,447</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value			Purpose
	June 30, 2019	December 31, 2018	June 30, 2018	
Time deposits (shown as 'other current assets')	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 1,336</u>	Customs duty guarantee
Cash in banks (shown as 'other non-current assets')	<u>\$ 3,185</u>	<u>\$ 3,134</u>	<u>\$ 3,098</u>	Long-term borrowings (Note)
Land and buildings	<u>\$ 221,263</u>	<u>\$ 220,994</u>	<u>\$ 221,259</u>	Long-term borrowings (Note)

Note: In August, 2013, the subsidiary, CLOUDWELL HOLDINGS, LLC., signed a long-term borrowing contract for a credit line of USD 5.53 million with banks. The contract requires the subsidiary to pledge land and buildings as mortgage and USD 100 thousand as collateral.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

The Group entered into equipment agreements. Estimated future payments are as follows:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
Property, plant and equipment	\$ <u>9,936</u>	\$ <u>10,338</u>	\$ <u>6,679</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In response to the long-term development and planning of the Company, the Board of Directors has authorized the chairman to process the acquisition of XinZhuang real estate in the amount of \$500,000 during its meeting on August 13, 2019.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Financial instruments by category

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
<u>Financial assets</u>			
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	\$ 28,458	\$ 25,389	\$ 31,625
Financial assets at amortised cost			
Cash and cash equivalents	1,293,450	1,261,727	1,332,832
Financial assets at amortised cost	918,500	379,950	-
Notes receivable	471	-	11
Accounts receivable (including related parties)	1,234,718	1,649,735	1,439,629
Other receivables	44,741	47,187	47,456
Guarantee deposits paid	2,620	2,613	2,365
	<u>\$ 3,522,958</u>	<u>\$ 3,366,601</u>	<u>\$ 2,853,918</u>

	<u>June 30, 2019</u>	<u>December 31, 2018</u>	<u>June 30, 2018</u>
<u>Financial liabilities</u>			
Financial liabilities at amortised cost			
Short-term borrowings	\$ 243,687	\$ 276,102	\$ 92,425
Accounts payable (including related parties)	1,236,712	1,418,767	1,305,677
Other payables	1,100,520	639,544	988,321
Other current liabilities	2,813	3,756	-
Long-term borrowings (including current portion)	134,514	136,528	138,722
Guarantee deposits received	615	608	625
	<u>\$ 2,718,861</u>	<u>\$ 2,475,305</u>	<u>\$ 2,525,770</u>
Lease liabilities	<u>\$ 7,082</u>	<u>\$ -</u>	<u>\$ -</u>

B. Financial risk management policies

- (a) The Group'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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group'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 Group 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 Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

June 30, 2019			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 39,860	31.06	\$ 1,238,052
USD:RMB	18,808	6.87	584,035
<u>Non-monetary items</u>			
USD:NTD	10,329	31.06	320,807
EUR:NTD	53	35.38	1,879
GBP:NTD	31	39.39	1,212
RMB:NTD	554,348	4.52	2,505,651
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 25,914	31.06	\$ 804,889
USD:RMB	6,945	6.87	215,659

December 31, 2018			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 51,235	30.72	\$ 1,573,939
USD:RMB	22,774	6.87	699,364
<u>Non-monetary items</u>			
USD:NTD	8,936	30.72	274,515
EUR:NTD	2,034	35.20	71,598
GBP:NTD	32	38.88	1,242
RMB:NTD	544,511	4.47	2,433,965
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 37,898	30.72	\$ 1,164,227
USD:RMB	10,512	6.87	322,812
June 30, 2018			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 38,982	30.46	\$ 1,187,392
USD:RMB	15,191	6.63	462,288
<u>Non-monetary items</u>			
USD:NTD	7,108	30.46	216,511
EUR:NTD	1,966	35.40	69,586
GBP:NTD	51	39.96	2,022
RMB:NTD	511,362	4.59	2,347,150
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 26,982	30.46	\$ 821,872
USD:RMB	10,588	6.63	322,211

- 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 Group:

Three months ended June 30, 2019				
Exchange gain (loss)				
Foreign				
currency amount				
	(in thousands)	Exchange rate		Book value
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	31.06	(\$	8,113)
USD:RMB	962	6.87		6,563
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	31.06	\$	4,773
USD:RMB	(241)	6.87	(	1,660)
Three months ended June 30, 2018				
Exchange gain (loss)				
Foreign				
currency amount				
	(in thousands)	Exchange rate		Book value
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	30.46	\$	37,669
USD:RMB	4,661	6.63		21,475
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	30.46	(\$	15,390)
USD:RMB	(2,557)	6.63	(	11,849)

Six months ended June 30, 2019				
Exchange gain (loss)				
Foreign currency amount				
	(in thousands)	Exchange rate	Book value	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	31.06	(\$	5,517)
USD:RMB	648	6.87		4,453
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	31.06	\$	3,194
USD:RMB	(288)	6.87	(	1,977)
Six months ended June 30, 2018				
Exchange gain (loss)				
Foreign currency amount				
	(in thousands)	Exchange rate	Book value	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	30.46	\$	28,375
USD:RMB	3,342	6.63		15,342
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	30.46	(\$	14,723)
USD:RMB	(674)	6.63	(	3,093)

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

Six months ended June 30, 2019				
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%	\$ 12,381	\$	-
USD:RMB	1%	5,840		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	8,049		-
USD:RMB	1%	2,157		-
Six months ended June 30, 2018				
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%	\$ 11,874	\$	-
USD:RMB	1%	4,623		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	8,219		-
USD:RMB	1%	3,222		-

Price risk

- The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through other comprehensive income.
- Shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other comprehensive income for the six months ended June 30, 2019 and 2018 would have increased/decreased by \$285 and \$316 as a result of gains or losses on equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term borrowings and long-term borrowings (including current portion). Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings are issued at fixed rates. During the six months ended June 30, 2019 and 2018, the Group's borrowings were denominated in the USD and NTD.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows stated financial assets at amortised cost.
- ii. According to the Group's credit policy, each local entity in the Group 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.
- iii. Individual risk limits are set based on internal or external factors in accordance with limits set by the supervisors of credit control. The utilisation of credit limits is regularly monitored.
- iv. If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 360 days.
- vi. The Group classifies customer's accounts receivable in accordance with credit risk on trade. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- vii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable (including notes receivable). As of June 30, 2019, December 31, 2018 and June 30, 2018, the loss allowance is as follows:

	Not past due	Up to 90 days past due	91 to 180 days past due	181 to 270 days past due
<u>June 30, 2019</u>				
Expected loss rate	0.00%-0.08%	0.00%-0.32%	0.00%-3.70%	0.00%-24.24%
Total book value	\$ 1,077,116	\$ 153,412	\$ 5,225	\$ 1,042
Loss allowance	\$ -	\$ 1,428	\$ 528	\$ 63
	271 to 360 days past due	Over 360 days past due	Total	
<u>June 30, 2019</u>				
Expected loss rate	37.25%-99.99%	100.00%		
Total book value	\$ -	\$ -	\$ 1,236,795	
Loss allowance	\$ -	\$ -	\$ 2,019	
	Not past due	Up to 90 days past due	91 to 180 days past due	181 to 270 days past due
<u>December 31, 2018</u>				
Expected loss rate	0.00%-0.13%	0.00%-0.56%	0.00%-6.31%	0.05%-23.98%
Total book value	\$ 1,335,491	\$ 315,540	\$ 226	\$ -
Loss allowance	\$ -	\$ 2,172	\$ 36	\$ -
	271 to 360 days past due	Over 360 days past due	Total	
<u>December 31, 2018</u>				
Expected loss rate	74.51%-100%	100.00%		
Total book value	\$ 72	\$ -	\$ 1,651,329	
Loss allowance	\$ 8	\$ -	\$ 2,216	
	Not past due	Up to 90 days past due	91 to 180 days past due	181 to 270 days past due
<u>June 30, 2018</u>				
Expected loss rate	0.00%-0.21%	0.00%-1.00%	0.00%-10.66%	0.04%-39.69%
Total book value	\$ 1,227,391	\$ 200,380	\$ 11,854	\$ 774
Loss allowance	\$ -	\$ 1,119	\$ 1,228	\$ 75
	271 to 360 days past due	Over 360 days past due	Total	
<u>June 30, 2018</u>				
Expected loss rate	21.24%-74.51%	100.00%		
Total book value	\$ -	\$ 3,252	\$ 1,443,651	
Loss allowance	\$ -	\$ 2,211	\$ 4,633	

- viii. Movements in relation to the Group applying the simplified approach to provide loss allowance for notes receivable and accounts receivable are as follows:

	2019	
	Accounts receivable	Notes receivable
At January 1	\$ 2,216	\$ -
Reversal of impairment loss	(225)	-
Effect of exchange rate changes	28	-
At June 30	<u>\$ 2,019</u>	<u>\$ -</u>

	2018	
	Accounts receivable	Notes receivable
At January 1	\$ 23,751	\$ -
Reversal of impairment loss	(4,919)	-
Write-offs	(14,294)	-
Effect of exchange rate changes	95	-
At June 30	<u>\$ 4,633</u>	<u>\$ -</u>

For the six months ended June 30, 2019 and 2018, reversal of impairment of accounts receivable that arise from customer contracts is \$225 and \$4,919, respectively.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Group'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>June 30, 2019</u>				
Short-term borrowings	\$ 243,848	\$ -	\$ -	\$ -
Accounts payable	1,232,454	-	-	-
Accounts payable - related party	4,258	-	-	-
Other payables	1,100,520	-	-	-
Lease liabilities	4,494	2,527	392	-
Other current liabilities	2,813	-	-	-
Long-term borrowings				
(including current portion)	12,200	24,400	24,400	112,851
Guarantee deposits received	434	181	-	-

Non-derivative financial liabilities:

	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
<u>December 31, 2018</u>				
Short-term borrowings	\$ 277,238	\$ -	\$ -	\$ -
Accounts payable	1,412,759	-	-	-
Accounts payable - related party	6,008	-	-	-
Other payables	639,544	-	-	-
Other current liabilities	3,756	-	-	-
Long-term borrowings	12,067	24,133	24,133	117,649
(including current portion)				
Guarantee deposits received	429	179	-	-
<u>June 30, 2018</u>				
Short-term borrowings	\$ 92,566	\$ -	\$ -	\$ -
Accounts payable	1,300,218	-	-	-
Accounts payable - related party	5,459	-	-	-
Other payables	988,321	-	-	-
Other current liabilities	3,513	-	-	-
Long-term borrowings	11,964	23,929	23,929	122,635
(including current portion)				
Guarantee deposits received	441	184	-	-

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

(3) Fair value information

- A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

- B. The carrying amounts of the Group's financial assets not measured at fair value, including cash and cash equivalents, current financial assets at amortised cost, accounts receivable (including related parties), other receivables, guarantee deposits paid, short-term borrowings, accounts payable (including related parties), other payables, lease liabilities, long-term borrowings (including current portion) and guarantee deposits received, are approximate to their fair values.

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

(a) The related information of the nature of the assets and liabilities is as follows:

June 30, 2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 28,458</u>	\$ <u> 28,458</u>
December 31, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 25,389</u>	\$ <u> 25,389</u>
June 30, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 31,625</u>	\$ <u> 31,625</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. The fair value of the Group's financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.
- ii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

D. The following chart is the movement of Level 3 in the second quarter of 2019 and 2018:

	2019
	Equity securities
January 1	\$ 25,389
Acquired in the period	3,069
At June 30	<u>\$ 28,458</u>
	2018
	Equity securities
January 1	\$ -
IFRS 9 transfer adjustments	31,625
At June 30	<u>\$ 31,625</u>

- E. For the six months ended June 30, 2019 and 2018, there was no transfer into or out from Level 3.
- F. Treasury segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at June 30, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 28,458	Market comparable companies	Price to book ratio multiple	0.16-4.81 (1.42)	The higher the multiple, the higher the fair value
			Discount for lack of marketability	20% (20%)	The higher the discount for lack of marketability, the lower the fair value

	<u>Fair value at December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 25,389	Market comparable companies	Price to book ratio multiple	1.34-3.33 (1.50)	The higher the multiple, the higher the fair value
			Discount for lack of marketability	20% (20%)	The higher the discount for lack of marketability, the lower the fair value
	<u>Fair value at June 30, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity instrument:					
Unlisted shares	\$ 31,625	Market comparable companies	Price to book ratio multiple	1.48-7.00 (1.75)	The higher the multiple, the higher the fair value
			Discount for lack of marketability	20% (20%)	The higher the discount for lack of marketability, the lower the fair value

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

			June 30, 2019			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 285	\$ 285
	Discount for lack of marketability	±1%	-	-	(71)	(71)
			December 31, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 254	\$ 254
	Discount for lack of marketability	±1%	-	-	(64)	(64)
			June 30, 2018			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Price to book ratio multiple	±1%	\$ -	\$ -	\$ 316	\$ 316
	Discount for lack of marketability	±1%	-	-	(79)	(79)

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

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

(2) Information on investees

Counterparties' information are disclosed based on the financial statements that are not reviewed by the independent accountants. However, the information on investments between companies was eliminated when preparing the consolidated financial statements. The following disclosures are for reference only.

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 6.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 7.

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

Name of company	Counterparty	Accounts	Amount in the second quarter of 2019	Percentage representing the account of the company (%)	Note
PROCASE & MOREX Corporation	Dongguan Procace Electronic Co., Ltd.	Purchases	\$ 211,398	61	Note
PROCASE & MOREX Corporation	Dongguan Procace Electronic Co., Ltd.	Accounts payable	31,629	28	Note
Chenbro Micom Co., Ltd.	PROCASE & MOREX Corporation	Purchases	295,513	21	
Chenbro Micom Co., Ltd.	PROCASE & MOREX Corporation	Accounts payable	106,202	17	
Chenbro Micom Co., Ltd.	PROCASE & MOREX Corporation	Other receivables	23,653	32	
Chenbro Micom Co., Ltd.	Chenbro Technology (Kunshan) Co., Ltd.	Purchases	1,006,684	70	
Chenbro Micom Co., Ltd.	Chenbro Technology (Kunshan) Co., Ltd.	Accounts payable	297,246	48	

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

14. OPERATING SEGMENT INFORMATION

(1) General information

Because each plant possesses similar economic characteristics, produces similar products under similar production process, uses the same machinery equipment, as well as the selling methods and customer categories are alike, the Company's and subsidiaries' chief operating decision-maker has assessed that the Company and its subsidiaries only has one reportable operating segment. Furthermore, the measurement basis for the Company is in agreement with the basis stated in the reports reviewed by the chief operating decision-maker.

(2) Information about segment profit or loss, assets and liabilities

The accounting policies of the operating segments are in agreement with the significant accounting policies summarised in Note 4. The Group's segment profit (loss) is measured with the operating income (loss), which is used as a basis for the Group in assessing the performance of the operating segments, the Company and subsidiaries have only one reportable operating segment, thus, the reportable information is in agreement with those in the consolidated financial statements.

(3) Reconciliation for segment income (loss)

The segment operating profit provided to the chief operating decision-maker is measured in a manner consistent with that used for the statement of comprehensive income. Amounts of total assets and total liabilities of segments are not provided to the chief operating decision-maker to make strategic decisions. There is no difference between the presentation of segment report and income statement and accordingly, no reconciliation is required to be disclosed.

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others

Six months ended June 30, 2019

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

Table 1

Number (Note 1)	Endorser/ guarantor	Company name	<u>Party being endorsed/guaranteed</u>		Maximum outstanding endorsement/ guarantee amount as of June 30, 2019 (Note 4)	Outstanding endorsement/ guarantee amount at June 30, 2019 (Note 5)	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 6)	Provision of endorsements/ guarantees by subsidiary to parent company (Note 6)	Provision of endorsements/ guarantees to the party in Mainland China (Note 6)	Footnote
			Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party										
0	CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Inc.	2	\$ 619,443	\$ 123,600	\$ 62,120	\$ -	\$ -	2	\$ 1,858,329	Y	N	N	Note 3
0	CHENBRO MICOM CO., LTD.	CLOUDWELL HOLDINGS, LLC.	2	619,443	176,960	173,936	134,514	-	6	1,858,329	Y	N	N	Note 3
0	CHENBRO MICOM CO., LTD.	PROCASE & MOREX Corporation	3	619,443	216,300	124,240	-	-	4	1,858,329	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 company with which the Company does business
- (2) A company in which the Company directly and indirectly holds more than 50 percent of the voting shares
- (3) A company that directly and indirectly holds more than 50 percent of the voting shares in the Company
- (4) Companies in which the Company holds, directly or indirectly, 90% or more of the voting shares
- (5) Where the Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project
- (6) Where all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages
- (7) Where companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other

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: 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, \$5,600 and \$7,000 thousand for the six months ended June 30, 2019, respectively.

Note 5: The outstanding endorsement/guarantee provided by Chenbro Micom Co., Ltd. to Chenbro Micom (USA) Inc., CLOUDWELL HOLDINGS, LLC. and PROCASE & MOREX Corporation was US\$2,000 thousand, \$5,600 thousand and \$4,000 thousand for the six months ended June 30, 2019, respectively.

Note 6: 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.

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period

June 30, 2019

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

Table 2

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of June 30, 2019				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
CHENBRO MICOM CO., LTD.	Diamond Creative Holding Limited	None	Non-current financial assets at fair value through other comprehensive income	1,100,000	\$28,458	14.29%	\$28,458	

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES

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

Six months ended June 30, 2019

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

Table 3

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	The Company's subsidiary	Sales	\$ 1,257,695	61	T/T 120 days	Note 1	Note 1	\$ 339,931	47	Note 2
PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	Parent-subsiary company	Sales	295,513	78	60 days after monthly billing	Note 1	Note 1	106,202	64	Note 2
Dongguan Procace Electronic Co., Ltd.	PROCASE & MOREX CORPORATION	Parent-subsiary company	Sales	211,398	28	Based on agreement	Note 1	Note 1	31,629	7	Note 2
Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	Parent-subsiary company	Sales	1,006,684	80	60 days after monthly billing	Note 1	Note 1	297,246	62	Note 2
Dongguan Procace Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	Affiliate	Sales	545,288	72	Based on agreement	Note 1	Note 1	446,314	93	Note 2

Note 1: Terms and prices for the abovementioned transactions are the same with third parties.

Note 2: The transactions were eliminated when preparing the consolidated financial statements.

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more

June 30, 2019

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

Table 4

Creditor	Counterparty	Relationship with the counterparty	Balance as at June 30, 2019 (Note 3)	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 1)	Allowance for doubtful accounts (Note 2)
					Amount	Action taken		
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	Parent-subsidiary company	Accounts receivable \$ 339, 931	4.59	\$ -		\$ 175,567	\$ -
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	Parent-subsidiary company	Other receivables \$ 705	None	-		263	-
Procace & Morex Corporation	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Accounts receivable \$ 106, 202	5.22	8	Subsequent collection	41,496	-
Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	Parent-subsidiary company	Accounts receivable \$ 297, 246	5.47	-		169,002	-
Dongguan Procace Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	Affiliate	Accounts receivable \$ 446, 314	2.10	-		103,736	-

Note 1: Subsequent collections as of August 13, 2019.

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

Note 3: The transactions were eliminated when preparing the consolidated financial statements.

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
Significant inter-company transactions during the reporting period
Six months ended June 30, 2019
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 5

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 5)
				General ledger account	Amount (Notes 3, 6 and 7)	Transaction terms	
0	CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	1	Sales	\$ 1,257,695	Note 4	41
0	CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	1	Accounts receivable	339,931	Note 4	6
1	Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	2	Sales	1,006,684	Note 4	33
1	Chenbro Technology (Kunshan) Co., Ltd.	CHENBRO MICOM CO., LTD.	2	Accounts receivable	297,246	Note 4	5
2	Dongguan Procace Electronic Co., Ltd.	PROCASE & MOREX CORPORATION	3	Sales	211,398	Note 4	7
2	Dongguan Procace Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	3	Sales	545,288	Note 4	18
2	Dongguan Procace Electronic Co., Ltd.	ChenPower Information Technology (Shanghai) Co., Ltd.	3	Accounts receivable	446,314	Note 4	7
3	PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	2	Sales	295,513	Note 4	10
3	PROCASE & MOREX CORPORATION	CHENBRO MICOM CO., LTD.	2	Accounts receivable	106,202	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: The transactions were eliminated when preparing the consolidated financial statements.

Note 7: Except for current profit (loss) for the six months ended June 30, 2019 is translated using the quarterly average exchange rate in 2019, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at June 30, 2019.

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
Information on investees (not including investees in Mainland China)
Six months ended June 30, 2019
Expressed in thousands of New Taiwan dollars, except as otherwise indicated

Table 6

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at June 30, 2019			Net profit (loss) of the investee for the six months ended June 30, 2019 (Note 5)	Investment income (loss) recognised by the Company for the six months ended June 30, 2019 (Notes 5 and 6)	Footnote
				Balance as at June 30, 2019 (Note 5)	Balance as at December 31, 2018 (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	\$ 2,490,033	\$ 47,794	\$ 42,252	Notes 1, 4 and 5
CHENBRO MICOM CO., LTD.	Chenbro Micom (USA) Incorporation	USA	General trading company	32,408	32,408	10,000,000	100	201,067	65,667	66,804	Notes 1, 4 and 5
CHENBRO MICOM CO., LTD.	Chenbro Europe B.V.	Netherlands	General trading company	-	2,837	-	100	-	-	-	Notes 4 and 5
CHENBRO MICOM CO., LTD.	Cloudwell Holdings, LLC.	USA	Real estate leasing company	109,365	109,365	3,600,000	100	119,740	947	947	Notes 4 and 5
CHENBRO MICOM CO., LTD.	Chenbro GmbH	Germany	General trading company	9,019	9,019	250,000	100	1,879 (	4,935) (	4,935)	Notes 1, 4 and 5
CHENBRO MICOM CO., LTD.	Chenbro UK Limited	UK	Marketing services	-	-	1	100	1,212 (	48) (	48)	Notes 4 and 5
Micom Source Holding Company	Cloud International Company Limited	Samoa	Holding company	17,083	17,083	550,000	100	24,731 (	1,208)	-	Notes 3, 4 and 5
Micom Source Holding Company	AMAC International Company	Cayman Islands	Holding company	200,430	200,430	6,452,738	100	73,376	2,339	-	Notes 3, 4 and 5
Micom Source Holding Company	AMBER International Company	Cayman Islands	Holding company	255,934	255,934	8,239,890	100	1,847,220	28,220	-	Notes 3, 4 and 5
Micom Source Holding Company	ADEPT International Company	British Virgin Islands	Holding company	490,748	490,748	31,600	100	569,777	21,859	-	Notes 3, 4 and 5
ADEPT International Company	PROCASE & MOREX Corporation	British Virgin Islands	Trading/ order taking company	264,010	264,010	35,502	100	616,766	22,755	-	Notes 2, 4 and 5

Note 1: Investment income (loss) recognised for the six months ended June 30, 2019 includes recognition and elimination of realised and unrealised gain (loss) on upstream transactions.

Note 2: The third-tier subsidiary of the Company and it's investment income / loss recognised by ADEPT International Company.

Note 3: The second-tier subsidiary of the Company and it's investment income / loss recognised by Micom Source Holding Company.

Note 4: The transactions were eliminated when preparing the consolidated financial statements.

Note 5: Except for current profit (loss) for the six months ended June 30, 2019 which is translated using the quarterly average exchange rate in 2019, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at June 30, 2019.

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.

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

Six months ended June 30, 2019

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

Table 7

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the six months ended June 30, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2019	Net income of investee for the six months ended June 30, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the six months ended June 30, 2019 (Note 2)	Book value of investments in Mainland China as of June 30, 2019	Accumulated amount of investment income remitted back to Taiwan as of June 30, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
CHENBRO MICOM (ShenZhen) Co., Ltd.	Trading and order taking	\$ 15,530	\$ 2	\$ 15,530	\$ -	\$ -	\$ 15,530	(\$ 1,227)	\$ 100	(\$ 1,227)	\$ 23,343	\$ -	Notes 1, 8 and 9
Chenbro Technology (Kunshan) Co., Ltd.	Manufacturing and processing of computer cases	310,600	2	310,600	-	-	310,600	25,027	100	25,027	1,753,684	302,406	Notes 3, 6, 8 and 9
CHENBRO MICOM (BEIJING) CO., LTD.	Rendering technical service	27,120	2	-	-	-	-	(1)	100	(1)	238	-	Notes 5, 8 and 9
Dongguan Procace Electronic Co., Ltd.	Manufacturing and processing of computer cases	389,555	2	93,056	-	-	93,056	19,475	100	19,475	610,458	-	Notes 4, 8 and 9
ChenPower information Technology (Shang Hai) Co., Ltd.	Trading and order taking	65,226	2	-	-	-	-	4,009	100	4,009	118,166	-	Notes 3, 7, 8 and 9

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: Investment income (loss) of Chenbro Technology (Kunshan) Co., Ltd., Dongguan Procace Electronic Co., Ltd. and ChenPower Information Technology (Shanghai) Co., Ltd. was recognised based on the financial statements reviewed by the Company's independent accountants.

The amounts of remaining companies were filled in based on the financial statements of each company which were not reviewed by independent accountants.

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 USD\$ 2.1 million as capital of the Company on December 23, 2016.

Note 8: The transactions were eliminated when preparing the consolidated financial statements.

Note 9: Except for current profit (loss) for the six months ended June 30, 2019 translated using the quarterly average exchange rate in 2019, amounts in currencies other than NTD disclosed by investees are translated using the spot rate at June 30, 2019.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2019	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
CHENBRO MICOM CO., LTD.	\$ 419,186	\$ 370,706	\$ -

Note 10: 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.