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Report to Shareholders

I.2017 Business Report

II.The 2018 business plan outline

III.Future development strategies

**IV.Impacts of the external competitive
environment, regulatory environment,
and the overall business environment**

One. Report to Shareholders

The 2017 operating results and 2018 operating outlook are reported as follows:

We had good news and bad news at Chenbro in 2017. We achieved record high revenue of NT\$5500 million. This is the first time that the performance of the operation in China surpassed the operation of the USA. Lean management was introduced to Kunshan (China) and Dongguan (China), which helped to drive these two plants to perform splendidly in every single month. The Company was also challenged by internal and external risks at the same time. The exchange loss caused by the frailty of the USD and the rising cost of raw materials, and the high speed and flexibility of the operation under IoT gave rise to the risk of high inventory.

According to the economic forecast of the IMF for 2018, stable economic growth will take place in the USA (significant tax cuts, and bracing for 3% growth), economic slowdown (but healthy) in China will be perpetual, and the general elections of many countries in Europe came to and end so the economic performance will be stable, particularly under the leadership of Germany and France. India will emerge as the leader in ASEAN and will achieve a growth rate higher than 7% which will drive global economic performance forwards. This is an era of digital data in the industry where AI, unmanned driving, robots, AR/VR, smart production, Industry 4.0 and other applications of new technologies are prevalent. Yet, big data will be an indispensable element for the emergence of these new technologies, new services, and new modes of business operation. What Chenbro has been doing and will do is to fully link the trend and the tide and gear up with the world economy and popular industries.

In the future, the Company will continue to expand its existing product lines and develop new products that meet the market's needs by fully utilizing its core technology. The Company continues to adopt a "concise management approach" as a means to raise productivity, reduce inventory, and improve overall competitiveness. Maximize the scope of mass production to achieve market share, and enhance business performance in ways that maximize profits for the Company.

I. 2017 business report

1. Business plan execution and achievement

Consolidated revenues totaled NT\$5,513,754 thousand in 2017, increased NT\$303,787 thousand or 5.83% from NT\$5,209,967 thousand in 2016. Net income amounted to NT\$455,442 thousand, decreased NT\$144,746 thousand or 24.12% from NT\$600,188 thousand in 2016.

2. Budget implementation

The Company has not prepared the 2017 financial forecast according to the current law and regulations.

3. Financial income and expense and profitability analysis

(1) Financial income and expense

Unit: NT\$1,000

Item	2017	2016	Increase (decrease) amount	increase (decrease) %
Operating revenues	5,513,754	5,209,967	303,787	5.83
Operating gross profit	1,469,319	1,550,182	(80,863)	(5.22)
Operating profit	683,190	778,456	(95,266)	(12.24)
Profit before income tax	615,237	816,275	(201,038)	(24.63)
Net income	455,442	600,188	(144,746)	(24.12)

Consolidated operating revenues in 2017 grew by 5.83% compared to 2016, while operating income and net income had also decreased by 12.24% and 24.12%, respectively, as compared to 2016.

(2) Profitability analysis

Item	2017	2016
Ratio of return on total assets (%)	8.92	12.62
Ratio of return on shareholders' equity (%)	15.77	21.57
Operating income to paid-up capital (%)	57.06	65.02
Pre-tax income to paid-up capital (%)	51.39	68.18
Profit ratio (%)	8.26	11.52
Earnings per share (NT\$) – after tax	3.80	5.01

As indicated by the profitability indicator, the results of the indicators in 2017 showed a marginal decline from the same period of 2016.

4. R&D status

(1) Major R&D achievements in 2017:

New products

Product Model No.	Produce description
OEM Server	OEM products
RM14608/10	1U modularized rackmount server chassis
RM14604 L6	1U modular storage quasi system server rackmount
RM14500	1U modularized high-density server chassis
RM23708/24	2U large form factor modularized rackmount server chassis
RM23708/12/24 L6	2U large form factor modularized storage quasi system server rackmount
RM23808/12/24	2U Modular storage server rackmount chassis
RM43596	4U ultra high dense modularized JBOD chassis
Friction RAIL	Development of easy sliding rail
New-generation server panel	Development of 1U/2U/4U new-generation panel

New patents

Applying date	Nation	Type of patent	Patent name	Product scope
2017/8/14	Taiwan	Utility model	Accommodating cabinet and anti-stop safety device	Rack
2017/8/16	Taiwan	Utility model	Unit storage device	Rack
2017/8/17	Taiwan	Invention	Fixed device	HDD module
2017/8/22	Taiwan	Utility model	Access device tray structure	HDD module
2017/8/22	Taiwan	Utility model	Storage unit positioning device	HDD module
2017/8/22	Taiwan	Utility model	Open type screw-free access device positioning module	HDD module
2017/8/22	Taiwan	Utility model	Shock-absorption structure for the access device that is mounted on the rack	HDD module
2017/9/22	Taiwan	Utility model	Spring reed fixing structure for the access device tray	HDD module
2017/9/25	Taiwan	Utility model	Server cabinet and sliding rail assembly	Rack
2017/10/6	Taiwan	Utility model	Edge support fixing structure for the circuit board in the cabinet	PCB Holder
2017/10/6	Taiwan	Utility model	Disk bearing device and multi-unit accommodating mechanism	HDD module
2017/10/10	China	Invention	Holding device	HDD module
2017/11/22	Taiwan	Utility model	Hard disk module, hard disk loading device and hard disk conglomerating system	HDD TRAY
2017/11/23	China	Utility model	Positioning device of the storage unit.	HDD module
2017/11/23	China	Utility model	Positioning module for open-type screw-free access device	HDD module
2017/11/27	China	Utility model	Accommodating cabinet and anti-stop safety device	Rack
2017/11/27	China	Utility model	Server cabinet and sliding rail assembly	Rack
2017/11/27	China	Utility model	Unit stowage device	Rack
2017/11/27	China	Utility model	Hard disk support frame	HDD module
2017/11/29	China	Utility model	Hard disk module, hard disk loading device and hard disk conglomerating system	HDD TRAY
2017/11/30	China	Utility model	Spring reed fixing structure for the access device tray	HDD module
2017/11/30	China	Utility model	Shock-absorption structure for the access device that is mounted on the rack	HDD module
2017/11/30	China	Utility model	Edge support fixing structure for the circuit board in the cabinet	PCB Holder
2017/12/7	Taiwan	Invention	Server cabinet and unit rack	Rack
2017/12/8	Taiwan	Utility model	Cabinet structure	Rack

(2) Future R&D direction

Chenbro will continue to develop new products on the basis of modularized system architecture and further extend into 4U servers and the casing of storage devices. The modularized system architecture of Chenbro allows for flexible support of a diversity of systems and modules and customization needs. We will continue to closely collaborate with mainstream motherboard business partners like Intel, ASRock, Tyan Computer, MSI, and Gigabyte, and OEM/ODM customers to develop products compatible with the latest generation of motherboards. At the same time, the Intel System Test accreditation process will effectively help us to eliminate the hidden problems inherent to computer cases and quasi system servers, and will continue to upgrade product quality. Chenbro will launch more products as solutions for supporting NVMe and GPGPU to satisfy market needs. Chenbro will also launch more concept products as solutions for the needs of data centers in further developments for the future. The engineering capacity of Chenbro has extended to rack solutions – similar to the OCP of Facebook or RSD of Intel. We are capable of providing a wide array of products from conventional data centers (19" cabinet) to the installation of big data centers. Chenbro will commit further efforts in new materials and research and development to make our products oriented to higher economic efficiency.

II. Summary of 2018 business plan

1. Operation strategies

In the future, the Company will continue to expand its existing product lines and develop new products that meet the market's needs by fully utilizing its core technology. The "Lean Management" adopted in the past has effectively helped to upgrade the productivity and lower the inventory level of the Company. "Lean Management" will be continued in the future with the advocacy of management-by-responsibility. This will help to fortify the thinking of the employees in the upgrading of operation performance and maximization of the profit for the Company.

- (1) Improvement of the quality of human resources through lean management and management-by-responsibility, with vitalization of the organization and financial management for stable operation in Taiwan and by extension worldwide.
- (2) Continue the process of business operation simplification and e-commerce in order to improve internal and external feedback and response speed and efficiency, and to robust corporate operation.
- (3) Strengthen corporate governance, the board of directors and auditors shall actively perform supervision and management in order to actively maximize shareholders' interests and actively feedback to the community.
- (4) Creation of corporate value - diligence, pragmatism, specialization, integrity, and heartfelt service.

2. Expected sales volume and the related reference

The Company's 2018 expected sales is as follows:

Main products	Sales volume (thousand units)
PC chassis	285
Server Chassis	1,800
Components and others	10,000

The expected sales volume in the preceding paragraph, according to the industrial environment and market demand and supply, is estimated by the salespersons in accordance with the actual business contact with the customers, the industrial environment, and market supply and demand; also, it is estimated by the sales manager by taking into account the overall industrial economy and regional differences.

3. Important production and sales policies

(1) Sales strategies:

The Group is mainly engaged in export business. In order to establish overseas marketing offices and construct a globalized sale network with comprehensive and prompt service provided to the customers in Europe, the US, and Asia, the Group has subsidiaries setup by way of reinvestment in Europe and the United States in order to enhance market competitiveness.

- (1) Focus on managing network operation and system integration for customers, establish a long-term cooperation model and actively participate in the exhibitions worldwide to build up “Chenbro” brand image in market and increase international visibility.
- (2) Extend the “network is everything, partner is everything” sales strategy for a strategic alliance and to establish the Ecosystem for product application in order to deepen product marketing strength.
- (3) Integrate the sales strategies for European and USA market, simplify the configuration of products, adjust dealer management mode, and cooperate with the marketing strategy to enhance the market awareness of the Company and products.
- (4) Focus on the business operation and develop storage server and industrial PC market, and provide customized services - Actively integrate and provide customers with a Total Solution in order to expand the market vertical penetration.
- (5) Integrate sales, R&D, production, and logistical support capabilities, and establish a long-term cooperation relationship with the suppliers in order to create value with customers.
- (6) Substantiate the coordination of production and sales, the check mechanism of inventory management, reduce inventory risk, and prudently practice good credit management.

(2) Production strategies:

In response to the intensive competition of the global market, the Company will be offering flexible services combined with high quality production procedures to meet customer demands and improve satisfaction. The group adopts a work specialization strategy and has deployed its production lines in Dongguan and Kunshan, China. Positive prospects of the cloud industry have led the group towards phase 3 construction of the Kunshan Plant, which had completed by 2017. Once completed, the additional capacity will be used to produce cloud-related servers and chassis to meet the market's future demands.

- (1) Coordinate the engineering team to streamline the production cycle from R&D, trial run to mass production, and thereby satisfy customer demands in a faster and more responsive manner.
- (2) Establish a mold production center where the Company is able to develop and enhance its molding capability for greater competitiveness.
- (3) Adopt a flexible manufacturing model that enhances the timeliness and versatility of customized productions. Doing so would enable the Company to satisfy customers' diverse needs to the broadest extent possible.
- (4) By investing in phase 3 expansion of the existing plan, the Company will be able to achieve vertical integration of production and logistics, and shorten transportation routes for effective cost reduction.
- (5) Improve and integrate existing procedures and operations by introducing automation at key junctures/processes. In doing so, the Company hopes to standardize and rationalize production activities, and ultimately enhance efficiency, quality and competitiveness of its products.
- (6) Launch the CPS (Chenbro Production System) program; optimize process from customer request to product sales, and thereby achieve optimal inventory, delivery and costs.

(3) R&D strategies:

- (1) Over the years, the Chenbro Group has successfully registered a variety of patents for our products worldwide. With ceaseless efforts in the research and development of essential casing structures while seeking a breakthrough, and attention to the protection of patents and research and development of new products, Chenbro will continue to commit resources to the validation of mechanical-electrical integration and the system of products to enhance the additional value of products for stronger competitive power.
- (2) The rise in the demand for Data Centers and the increasing density of casing structures in design compelled Chenbro to seek proper materials to reduce weight with a higher cooling effect and attune ourselves to the research and development of high tenacity for the casing of the future.

- (3) Continue the modularization at higher levels by the specifications of products and tool-free design, condense the lead-time in design, and reduce the cost of tooling to enhance the competitive position of the products.
- (4) The design of the new product series of standard items extended to different customer groups of application and market needs. With the higher flexibility in manufacturing and design capacity for optimizing the shared use of the products, and meeting the needs of the customers in customized design, we could condense the lead-time for product development and validation, and help to reduce the cost of tooling development and the price of finished items in favor of the customers.

III. Future development strategies

In the prospect of 2018, Chenbro will continue upholding the business philosophy of “diligence, simplicity, and sincerity” and basing on the benevolent spirit inwardly and strategic alliances outwardly to integrate the resources of industrial partners and to jointly develop the market. Provide customers with simpler and better integrated products and services, and work with customers to create a win-win future. In the wake of the decline of the PC industry and the mushrooming of the server industry, the Company maintains a conservative posture in its operation with the launch of an innovative business mode and competitive products focusing on data centers, enterprises and AI, and IoT for market development in further depth. In addition, Chenbro is also tightening its control over outsourcing with lean manufacturing to reduce costs so as to gain a larger share of the markets for servers, storage servers, industrial PCs, PC casing products, and the hopes that all of Chenbro, at home and abroad, will spare no effort to achieve the goal.

IV. Impacts of the external competitive environment, regulatory environment, and the overall business environment

The Company has faced external competition all the time since its incorporation; therefore, the key is to upgrade R&D competition competence in order to minimize the influence from the external competitive environment. The Company has responded to the impact of laws and regulations and the revised government decree by adopting appropriate measures and having the Company’s design specifications and related law and regulations amended and enacted. In terms of the macro-business environment, due to the cost structure affected by the increasing international raw materials cost and labor cost in Mainland China and energy price in recent years, the key is to establish the Company’s goodwill and strictly control cost in order to obtain the best competition advantage in market with a reasonable price. Therefore, it is important for the Company to adjust production and sales structure flexibly, to control cost strictly, and to control accounts receivable accordingly. The Company’s sales are affected by external market price pressure, the new regulations promulgated by the securities authorities, the foreign environmental law and regulations, and the constantly changing global business environment. In response to the environmental changes referred to above, the Company, in addition to preparing financial reports in conformity with the new law and regulations published by the securities competent authorities and requesting the suppliers and products to comply with foreign environmental law and regulation, improving manufacturing process, and expanding production capacity to reduce production cost, has immediately grasped the customer order demand to plan raw materials procurement in order to improve the Company’s overall competitiveness.

Today, I am very pleased to have this opportunity to report our 2017 business operation and 2018 operating prospect of the Company to our shareholders. I would like to thank every shareholder of the Company for your support and attention. My colleagues and I will work even harder to create greater achievements to share with all of our shareholders.

Sincerely yours,

Chairman: CHEN MEI CHI

President: CHEN MEI CHI

Chief Accountant: CHIH CHIA LIN



Company Profile

- I. Date of establishment**
- II. Corporate history**

Two. Company Profile

Chenbro Micom Co., Ltd. (referred to as “the Company” hereinafter) was incorporated in the Republic of China in December 1983 with the approval of the Ministry of Economic Affairs. The main business operation of the Company and its subsidiaries (hereinafter referred to as “the Group”) includes computer application software design engineering, import/export trading of computer instruments and peripheral equipment, and R&D, production, processing, and trade of computer peripheral equipment, supplies, and consumable goods of the main system.

I. Date of establishment

December 5, 1983

II. Corporate history

- | | |
|------|--|
| 1983 | The Company was established in Taipei City with a capital stock of NT\$500,000. |
| 1984 | A cash capitalization for NT\$1.5 million was arranged to reach a grand total stock capital of NT\$2 million.
Started the sale of Disk Puncher (the Company's first product).
Completed the sliding XT computer chassis R&D and advertised in the exports magazine (first computer chassis manufacturer to advertise). |
| 1985 | Full AT chassis (the first PC Tower chassis in the world) market launched. |
| 1986 | A cash capitalization for NT\$5 million was arranged to reach a grand total stock capital of NT\$7 million.
Invested NT\$16 million to purchase the office on Hangzhou N. Road. |
| 1987 | Completed Middle Tower and Slim All-in-One PC chassis R&D and market launched. |
| 1989 | A cash capitalization for NT\$18 million was arranged to reach a grand total stock capital of NT\$25 million.
Invested NT\$20 million to purchase the office in Chunghe. |
| 1990 | A cash capitalization for NT\$50 million was arranged to reach a grand total stock capital of NT\$75 million.
Invested NT\$40 million to purchase the factories in Chunghe with the computer chassis assembly and production lines setup.
Market launched the first generation Server and Lan Station chassis. |
| 1994 | Invested NT\$60 million to purchase plastic injection factory in Taoyuan and plastic panels and computer peripheral equipment for production.
Market launched AT case with Slide in-Out Mechanism. |
| 1996 | Obtained ISO 9002 certification for Taoyuan factory.
Market launched a full range of ATX and Server chassis. |
| 1997 | Market launched Net PC and NLX chassis. |
| 1998 | Established Chenbro Europe as the marketing center in Europe.
Arranged capitalization from earnings and cash for an amount of NT\$30 million, respectively, to reach a total capital stock of NT\$135 million. |
| 1999 | Arranged cash capitalization for NT\$25 million and capitalization from earnings for NT\$142.3 million with a public offering arranged afterwards to reach a total capital stock of NT\$302.3 million.
Invested NT\$160 million to purchase the new office in Chunghe.
Awarded with the Top-38 Best Business Performance of the year in 1998 by the Commonwealth Magazine. |
| 2000 | Arranged capitalization from earnings for an amount of NT\$161 million to reach a total capital stock of NT\$463.3 million.
Established Cayman Chenbro Holdings to invest in offshore companies and individual |

	enterprises in Mainland China as the Company's manufacturing center. Established Chenbro USA as the American Marketing Center.
2001	Arranged capitalization from additional paid-in capital for an amount of NT\$37.06 million to reach a total capital stock of NT\$500.37 million. Taoyuan Plant operation did not have sufficient economic synergy; therefore, the production was ceased and the idling plant and equipment was leased.
2002	Arranged capitalization from earnings for an amount of NT\$40.03 million to reach a total capital stock of NT\$540.4 million.
2003	Invested in Chenbro Technology (Kunshan) Co., Ltd. through the Offshore Holdings as the manufacturing center in East China. Applied for OTC listing.
2004	Arranged capitalization from earnings and additional paid-in capital for an amount of NT\$63.19 million to reach a total capital stock of NT\$603.59 million.
2005	Stock listed and traded at Gre Tai Securities Market. Arranged capitalization from earnings and employee bonus for an amount of NT\$100.66 million to reach a total capital stock of NT\$704.25 million.
2006	Arranged capitalization from earnings and employee bonus for an amount of NT\$115.46 million to reach a total capital stock of NT\$819.71 million.
2007	Arranged capitalization from earnings and employee bonus for an amount of NT\$135.66 million to reach a total capital stock of NT\$955.37 million. Invested in Dongguan Procace Electronic Co., Ltd. through the Offshore Holdings as the manufacturing center in South China.
2008	Arranged capitalization from earnings and employee bonus for an amount of NT\$159.74 million to reach a total capital stock of NT\$1.11511 billion.
2011	Arranged capitalization from earnings for an amount of NT\$39.95 million to reach a total capital stock of NT\$1.15506 billion. OTC listing transferred to stock listing on December 1.
2012	Arranged capitalization from earnings for an amount of NT\$46.2 million to reach a total capital stock of NT\$1.20126 billion. Invested in Chenbro Micom (Shenzhen) Co., LTD. through the Offshore Holdings to be responsible for the marketing and sales in China.
2013	Invested NT\$82.09 million to purchase the new office in Chunghe. US subsidiary invested US\$7.94 million to purchase new plant and office for the expansion of offshore business. Invested RMB 18.73 million to purchase the office in Beijing for providing services to customers in a timely manner.
2014	Invested in Chenbro Micom (Beijing) Co., LTD. through Chenbro Technology (Kunshan) Co., Ltd. as the Technology R&D Center.
2015	Invested in the subsidiary, Chenbro GmbH, in Germany. Awarded with the 24 th National Award of Outstanding SMEs.
2016	Invested in ChenPower information Technology (ShangHai) Co., Ltd. through the Offshore Holdings to be responsible for the marketing and sales in China.

Corporate Governance

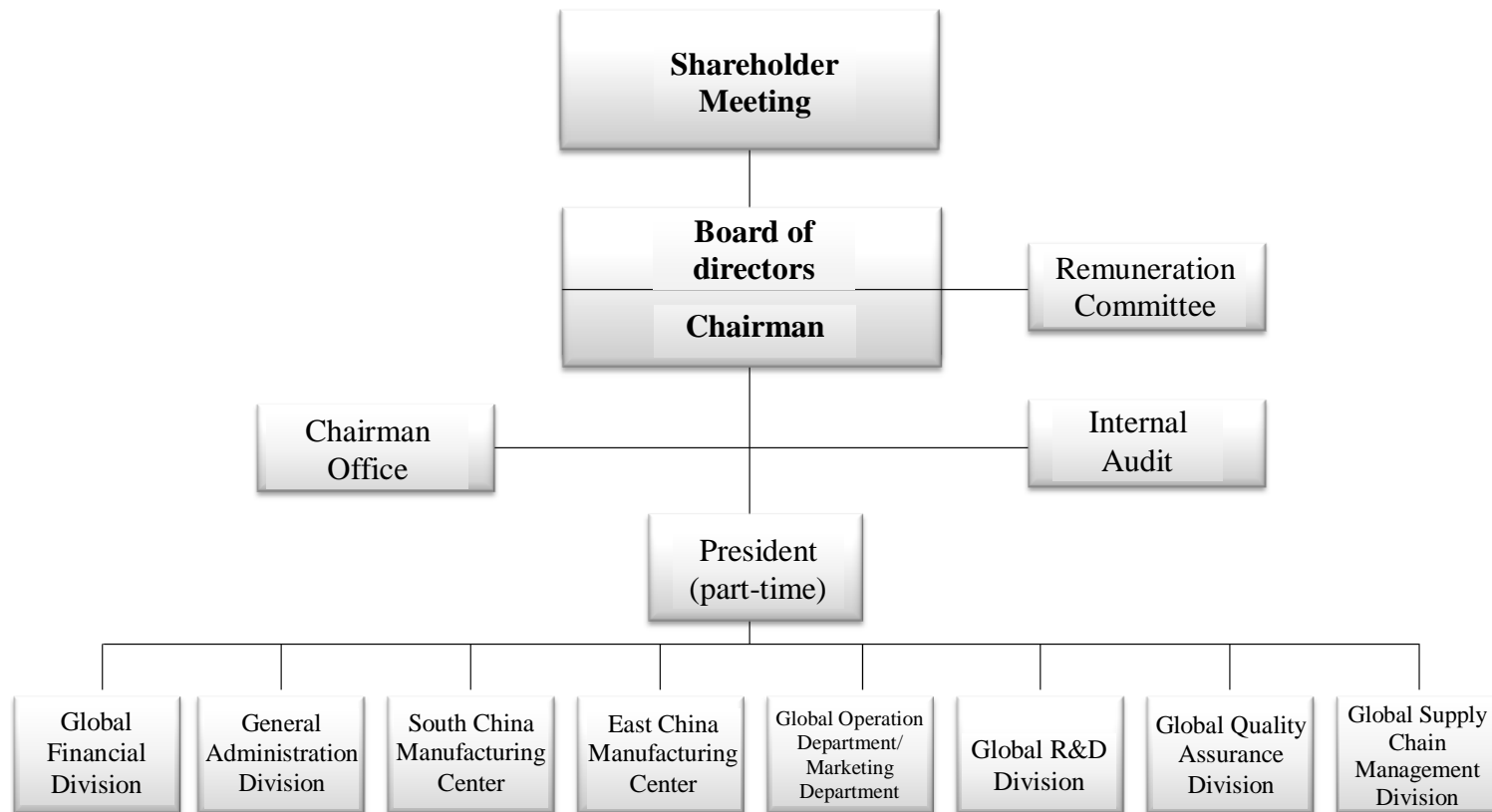
- I. Company organization system**
- II. Background information of Directors, Supervisors, President, Vice Presidents, Assistant Managers, and the heads of various departments and branches**
- III. Remuneration paid to Directors, Supervisors, the President, and the Vice President in the most recent year**
- IV. Corporate governance**
- V. Disclosure of CPAs' remuneration**
- VI. Change of CPA**
- VII. Any of the Company's Chairman, President, or managers involved in financial or accounting affairs being employed by the auditor's firm or any of its affiliated company within the recent year**
- VIII. Shareholding transfers and share collateralization within the latest year, up till the publication date of this annual report, initiated by directors, supervisors, managers and shareholders with more than 10% ownership interest**
- IX. Relationships among The Company's top ten shareholders including spouses, second degree relatives or closer**
- X. Investments jointly held by The Company, The Company's directors, supervisors, managers, and enterprises directly or indirectly controlled by The Company. Calculate shareholding in aggregate of the above parties**

Three. Corporate Governance Report

I. Company organization system

(I) Organizational structure

Chenbro Micom Co., Ltd Global organization chart



(II) The responsibilities of various divisions

Department	Main responsibilities
Chairman Office	Be responsible for the Company's overall business operation, business concept shaping, and business vision planning.
Global Operation Department/ Marketing Department	The Company and product image visual convey, market intelligence gathering and analysis, website management and marketing, exhibition planning and management, and the Company's product roadmap planning. Market/customer development and management, product sales strategies, and the coordination of production and sale. Product gross profit control, order processing, delivery, global inventory management and accounts receivable management. Provide customers with comprehensive pre-sale and after-sales services. Further cultivation of existing customers and proactive development of new markets/customers.
Global R&D Division	Be responsible for product research and development and manufacturing technology improvement. Strengthen the customer-oriented concept and modular design capability. New product components acceptance and tooling inspection and acceptance. Resolve production line problems and provide related technical support. Assist with the plant production and conduct the electronic materials and parts test operation. Product functions and reliability verification. Provide product technical support and electronic components acceptance operation. Be responsible for product software and firmware development. Solve the software and firmware problems related to the system integration. Thermal design and simulation analysis and verification. Structure simulation analysis and verification. Be responsible for the development and promotion of high-end storage and system products. Designated VIP customer management and service. Cooperate with the Hardware and Software R&D Department to plan the related electronic parts development, management, and ordering services. New product development and design specifications (PRD) requirements and contract confirmation Plan the project design and development schedule, enact pilot run schedule, and control the cost, materials, and suppliers of new project development.
South China Manufacturing Center	Computer chassis and server manufacturing.
East China Manufacturing Center	Computer chassis and server manufacturing.
Global Quality Assurance Division	Establishment and management of the global quality operation system. Quality Assessment of the product in development process and quality management of running items. Global customer quality management Supplier management Solutions for related problems and customer support (FAE/RMA)
Global Supply Chain Management Division	Comprehensive management along the supply chain from suppliers, manufacturers, and branches to end users for customer satisfaction at the lowest cost. The principal items are materials procurement, materials management, planned production, logistics and warehouse management.
Global Financial Division	The implementation of accounting operations, including the enactment of general accounting operating procedures, obtaining accounting evidences, taxation, and bookkeeping. The implementation of return on investment and cost financial analysis, and credit rating of accounts receivable. The Company's financial flow management, the establishment of bank quota, and exchange rate hedging operations. Annual budget operation planning, composition, and control and management. Operating procedure improvement and project promotion. Product development cost input, P&L estimation, and ROI analysis Provide and analyze the management information needed for management decision-making. Periodic business analysis reports and competitor's business analysis
General Administration Division	The Company's computer information systems and hardware, and software maintenance and management. Human resources development, the establishment and implementation of personnel management system, employee salary and benefits planning, education and training services, and the establishment and implementation of the General Affair System. Contract preparation and review, process and negotiation of legal affairs cases, and the establishment of contracts and intellectual property (IP) database. Patent proposal review, intellectual property right education and training, competitors' and industry chain manufacturers' patent analysis, and utilization of intellectual property to enhance the growth scale of innovation General Affairs and administrative management, planning and management of meals, clothing, accommodation and transportation of employees, employee benefits and activities planning. Environmental protection at the plant site, plant safety production planning management. Planning of infrastructure engineering at the plant site, plant management, and administrative facility maintenance and repair.
Internal Audit	Design of the annual audit plan, conducting routine audits, presentation of audit worksheets and audit reports. Assistance in the supervision, monitoring, and auditing of the pursuit and tracking of the internal control of all subsidiaries with the issuance of audit reports. Independently and objectively assess the reasonableness, effectiveness, and implementation of the internal control system in accordance with the operation and management needs of the Board of Directors and the management. Also, implement the Company's and subsidiaries' periodic and occasional audit, project review, and improvement follow-up.

II. Background information of Directors, Supervisors, Presidents, Vice Presidents, Assistant Managers, and the heads of various departments and branches

(I) Director and supervisor profile

- (1) Name, gender, nationality or place of registration, major experience (education), other positions in the Company and other companies, date of election to (assuming) office, tenure, initial date of election to office, shareholding by the person, spouse, dependents, and in the name of a third party, the professional knowledge and state of independence:

Date: April 22, 2018

Title	Nationality and Registry	Name	Gender	Date elected	Term	Date first elected	Shareholding as of elected date		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current duties in The Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Chairman	Republic of China	CHEN MEI CHI	Female	2017.06.20	3 years	2009.07.06	9,656,009	8.07	9,656,009	8.07	1,914,577	1.60	0	0	Department of Finance, National Chengchi University EMBA, National Taiwan University	The Company's Chairman Director of Peng Wei Investment and Development Co., Ltd. Chairman of Lian-Mei Investment Ltd. Director of Chen-Source Inc.	Chairman Office Deputy Manager	LEE TSUN YEN	Sister-in-law
Director	Republic of China	WU CHUNG PAO	Male	2017.06.20	3 years	2009.06.26	0	0	0	0	0	0	0	0	National Taiwan University Institute of International Business – Master Degree Chairman of Protech Information Co., Ltd.	Chairman of Protech Information Co., Ltd. Independent Director of Marktech International Corp. Independent Director of Trade-Van Information Co., Ltd. Independent Director of EVA Air Director of CPC Corporation, Taiwan	None	None	None

Title	Nationality and Registry	Name	Gender	Date elected	Term	Date first elected	Shareholding as of elected date		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current duties in The Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Director	Republic of China	LEE TSUN YEN	Female	2017.06.20	3 years	2009.06.26	5,296,029	4.42	5,296,029	4.42	13,614,433	11.37	0	0	Taipei Shilin High School of Commerce, Integrated Business Department Chairman of Ming-Kwong Investment Co., Ltd.	Assistant Manager of the Company's Chairman Office Chairman of Ming-Kwong Investment Co., Ltd. Chairman of Chong-Chiao Asset Management Co., Ltd Director of Chen-Source Inc. Chairman of Chin-Yeh Technology Co., Ltd. Independent Director of HIM International Music Inc. Chairman of CPDC	Chairman	CHEN MEI CHI	Sister-in-law
Director	Republic of China	HSU SHEN KUO	Male	2017.06.20	3 years	2014.06.20	525,112	0.44	515,112	0.44	0	0	0	0	Master of Public Administration, Kennedy School of Government, Harvard University, Master of Law School, George Washington University PH.D of Law, University of San Francisco National Taipei University Department of Law	Part-time Professor of Law School, Beijing University Works in Center for General Education, National Taiwan University	None	None	None
Independent Director	Republic of China	TSAO AN PANG	Male	2017.06.20	3 years	2014.06.20	0	0	0	0	0	0	0	0	MBA, Illinois Institute of Technology USA CEO and President of D-Link Corporation	Independent Director of AVerMedia Global Channel Resource Inc. (GCR) Chairman	None	None	None
Independent Director	Republic of China	HSU KUEI YING	Female	2017.06.20	3 years	2004.06.29	0	0	0	0	0	0	0	0	Accounting Department of Soochow University Finance Director of Liteon Group (resigned on June 17, 2000)	None	None	None	None

Title	Nationality and Registry	Name	Gender	Date elected	Term	Date first elected	Shareholding as of elected date		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current duties in The Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Independent Director	Republic of China	HUANG WEN CHENG	Male	2017.06.20	3 years	2011.05.27	0	0	0	0	0	0	0	0	Master of Business Administration (MBA), National Chengchi University Department of Mechanical Engineering, National Cheng Kung University President of CHINA-MOTOR Corp. Chairman of Automotive Research & Testing Center (ARTC)	Chairman of Hongyi International Investment Co., Ltd Chairman of eLand Information Co., Ltd. Chairman of Kuo-Fu Management Consulting Co., Ltd. Independent Director of YFY Investment Holding Co., Ltd. Director of Tungthih Electronics Co., Ltd. ACES Electronics Co., Ltd. Director of corporate representative Enterex International Co., Ltd. Independent Director of E-CMOS Corporation	None	None	None
Supervisor	Republic of China	HUANG LI LONG	Female	2017.06.20	3 years	2002.06.27	826,946	0.69	826,946	0.69	0	0	0	0	Soochow University Officer of Schering-Plough Co., Ltd.	None	None	None	None
Supervisor	Republic of China	LEE YA MI	Female	2017.06.20	3 years	1999.10.20	181,334	0.15	181,334	0.15	0	0	0	0	Christ's College Taipei Studied at Rutgers University, New Jersey, USA President of ACRON INTERNATIONAL LTD.	ESIM Technology Co., Ltd. Director	None	None	None
Supervisor	Republic of China	CHEN JEN SHYANG	Male	2017.06.20	3 years	2002.06.27	126,224	0.11	126,224	0.11	0	0	0	0	Doctoral of Taiwan University Vice Professor of Ming Chuan University Associate	None	None	None	None

- (2) Directors and supervisors who are corporate shareholders: None
- (3) Major shareholders who are corporate shareholders as stated in Paragraph (2) above: None
- (4) The professional knowledge and independence of directors and supervisors

Date: April 22, 2018

Name	Qualification	Compliance of independence (Note 1)												Number of positions as an Independent Director in other public listed companies
	Having more than 5 years work experience and professional qualifications listed below													
	Lecturer (or above) of commerce, law, finance, accounting, or any subjects relevant to the company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holders of professional qualification relevant to the company's operations	Commercial, legal, financial, accounting or other work experiences required to perform the assigned duties	1	2	3	4	5	6	7	8	9	10	
CHEN MEI CHI			✓							✓		✓	✓	None
LEE TSUN YEN			✓							✓		✓	✓	1
WU CHUNG PAO			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
HSU SHEN KUO	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
HUANG WEN CHENG			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
TSAO AN PANG			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
HSU KUEI YING			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
HUANG LI LONG			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None
LEE YA MI			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	None
CHEN JEN SHYANG	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None

Note 1: place a "✓" in the box below if the Director or Supervisor met the following conditions during the time of active duty and two years prior to the elected date.

- (1) Not employed by the company or any of its affiliated companies.
- (2) Not a Director or Supervisor of affiliates (except as an independent director established by the Company or its parent company, subsidiaries under this law, or applicable laws in the host countries).
- (3) Does not hold more than 1% of the company's outstanding shares in his/her own name or under the name of spouse, underage children, or any other person; nor is any party listed herein one of the ten largest natural person shareholders of the company.
- (4) Not a spouse, relative of second degree, or direct kin of third degree or closer to persons not qualified for criteria 1~3.
- (5) Not a director, supervisor, or employee of the company's corporate shareholder holding more than 5% of the company's outstanding capital; nor a director, supervisor, or employee to any of the top 5 corporate shareholders.
- (6) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the company.
- (7) Not a professional, business owner, partner, director, supervisor, or manager of any sole-proprietorship, partnership, company, or institution providing commercial, legal, financial, or accounting services or consultations to the company or any of its affiliated companies; nor a spouse to anyone listed herein. Except the members of the Remuneration Committee performing their duties pursuant to Article 7 of the Regulation Governing the Establishment of Remuneration Committee and the Performance of Authority of Companies trading their stocks in TWSE/GTSM".
- (8) Not a spouse or relative of second degree or closer to any other directors.
- (9) Does not meet any descriptions stated in Article 30 of the Company Act.
- (10) Not elected as a government or corporate representative according to Article 27 of The Company Act.

(II) Background information of the President, Vice Presidents, Assistant Managers and heads of various departments and branches

Date: April 22, 2018

Title	Nationality	Name	Gender	Date elected	Shares held		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current positions in the company and other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Chairman and President	Republic of China	CHEN MEI CHI	Female	2013.10.31	9,656,009	8.07	1,914,577	1.60	0	0.00	National Taiwan University / EMBA Chengchi University / Department of Banking	The Company's Chairman Director of Peng Wei Investment and Development Co., Ltd. Chairman of Lian-Mei Investment Ltd. Director of Chen-Source Inc.	Assistant Manager of Chairman Office	LEE TSUN YEN	Sister-in-law
Vice President of Finance and Accounting Department	Republic of China	CHIH CHIA LIN	Female	2008.09.30	51,999	0.04	0	0.00	0	0.00	National Taiwan University EMBA / Accounting Department of Soochow University Motorola Taiwan	None	None	None	None
Vice President of R&D Department	Republic of China	KUO SHANG TI (Note 1)	Male	2013.10.08	0	0.00	0	0.00	0	0.00	National Jiaotong University / Telecommunications Graduate School Intel Corporation NetApp Taiwan TYAN Computer Corporation Mentor Graphics	None	None	None	None
Vice President of Global Operation Department	Republic of China	CHEN YA NAN	Female	2015.10.06	214	0.00	0	0.00	0	0.00	National Taiwan University / Department of Foreign Languages Intel Corporation LSI Logic Asia, Inc. NetApp Taiwan	None	None	None	None

Title	Nationality	Name	Gender	Date elected	Shares held		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current positions in the company and other companies	Spouse or relatives of second degree or closer acting as managers		
					Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			Title	Name	Relationship
Assistant Manager of Marketing Department	Republic of China	LIN TSUNG MIN	Male	2015.01.01	314,266	0.26	0	0.00	0	0.00	National Taiwan University of Science and Technology Institute / Mechanical Engineering Graduate School Chenbro USA Chenbro Europe Advantech Corporate	None	None	None	None
Assistant Manager of Global R&D Department	Republic of China	HUANG YU TZU	Male	2015.01.01	64,833	0.05	52	0.00	0	0.00	Longhua University of Science and Technology / Department of Foreign Languages National Kaohsiung Junior College / Mechanical Engineering Department Tranbon Electronics Co., Ltd.	None	None	None	None
Global Chief Financial Officer	Republic of China	TSOU KE TI	Male	2016.10.13	0	0.00	0	0.00	0	0.00	EMBA, Guanghua School of Management, Peking University. Chief Financial Officer, China Region, LSE International Corporation, Liteon Group Chief Financial Officer, Yongsheng Energy Co., Ltd. UMC Group.	None	None	None	None

Note 1: Vice President KUO SHANG TI of the R&D Division was removed from office on June 20, 2017.

III. Remuneration paid to Directors, Supervisors, the President, and the Vice President in the most recent year

(1) Directors' remuneration (including Independent Directors)

December 31, 2017; unit: thousand

Title	Name	Directors' remuneration								The sum of A, B, C and D as a percentage of after-tax profit (Note 10)		Remuneration as an employee								The sum of A, B, C, D, E, F and G as a percentage of after-tax net profit (Note 10)		Remuneration from invested businesses other than the subsidiaries (Note 11)
		Remuneration (A) (Note 2)		Pension (B)		Directors' remuneration (C) (Note 3)		Fees for services rendered (D) (Note 4)				Salaries, bonuses, special allowances etc. (E) (Note 5)		Pension (F)		Remuneration to employees (G) (Note 6)						
		The Company	All companies contained in the financial report (Note 7)	The Company	All companies contained in the financial report (Note 7)	The Company	All companies contained in the financial report (Note 7)	The Company	All companies contained in the financial report (Note 7)	The Company	All companies contained in the financial report (Note 7)	The Company	All companies contained in the financial report (Note 7)	The Company	All companies contained in the financial report (Note 7)	The Company		All companies contained in the financial report (Note 7)	The Company	All companies contained in the financial report (Note 7)		
Cash amount	Stock amount	Cash amount	Stock amount																			
Director	CHEN MEI CHI	0	0	0	0	8,079	8,079	105	105	1.8	1.8	2,660	2,660	12	12	127	0	127	0	2.41	2.41	0
Director	WU CHUNG PAO																					
Director	LEE TSUN YEN																					
Director	HSU SHEN KUO																					
Independent Director	HUANG WEN CHENG																					
Independent Director	TSAO AN PANG																					
Independent Director	HSU KUEI YING																					
* In addition to the disclosure of the above table, any remuneration to the Directors of the Company received from all other companies included in the financial statement for the service rendered (such as advisors not under the status as employees):																						

Table of salaries scale

Remunerations to individual directors in respective brackets along the salaries scale	Name of director			
	The total of the aforementioned 4 items (A+B+C+D)		The total of the aforementioned 7 items (A+B+C+D+E+F+G)	
	The Company (Note 8)	All companies contained in the financial report (Note 9) H	The Company (Note 8)	All companies contained in the financial report (Note 9) I
<NT\$2,000,000	HSU KUEI YING / CHEN MEI CHI / WU CHUNG PAO/LEE TSUN YEN / HUANG WEN CHENG / HSU SHEN KUO/ TSAO AN PANG	HSU KUEI YING / CHEN MEI CHI / WU CHUNG PAO/LEE TSUN YEN / HUANG WEN CHENG / HSU SHEN KUO/ TSAO AN PANG	HSU KUEI YING / WU CHUNG PAO / HUANG WEN CHENG / HSU SHEN KUO / TSAO AN PANG	HSU KUEI YING / WU CHUNG PAO / HUANG WEN CHENG / HSU SHEN KUO / TSAO AN PANG
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)			CHEN MEI CHI / LEE TSUN YEN	CHEN MEI CHI / LEE TSUN YEN
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)				
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)				
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)				
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)				
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)				
> NT\$100,000,000				
Total	7 persons	7 persons	7 persons	7 persons

Note 1: Directors' names should be presented separately (for corporate shareholders, state separately the name of the corporate shareholder and its representatives); the amount of benefits and allowances can be presented in aggregate sums. If a particular director also holds a position as the President or Vice President, fill in this table and (3) the salary scale of the President and Vice Presidents.

Note 2: The 2017 remuneration to directors (including salary, job-related allowance, severance pay, various bonuses, incentive payments, etc.)

Note 3: The 2017 remuneration distribution amount to Directors was resolved in the 2018 Board meeting.

Note 4: The 2017 business operation expenses of the Board Directors (including traveling expenses, special disbursement, allowances, dormitories, transportation vehicles, etc.) For the housing, vehicle, and other transportation vehicle provided or personal expenses, the nature and cost of the assets, actual rent or computed rent according to fair market value, gasoline, and other payment should be disclosed; also, it amounted to NT\$995 thousand, excluding remuneration paid to drivers.

Note 5: The salary, job-related allowance, severance pay, various bonuses, incentives, traveling expenses, special disbursement, various allowances, dormitory, and transportation vehicle granted to the directors who are also an employee (including President, Vice President, and other managers and employees) in 2017. For the housing, vehicle, and other transportation vehicle provided or personal expenses, the nature and cost of the assets, actual rent or computed rent according to fair market value, gasoline, and other payment should be disclosed; also, it amounted to NT\$995 thousand, excluding remuneration paid to drivers. For salary expenses recognized in accordance with IFRS 2, "Share-based Payment", including the acquisition of ESO, restricted ESO, and participation in the subscription to new shares for raising capital, included as remuneration.

- Note 6: The 2018 remuneration to employees for an amount of NT\$39,240 thousand will be resolved in the 2017 Board meeting. the distribution proposal will be reported in the 2018 shareholders' meeting; therefore, the remuneration paid to the directors who are also an employee (including President, Vice President, and other managers and employees) in the preceding paragraph is an amount proportionally to the actual distribution amount of last year.
- Note 7: The total remunerations paid to the Company's directors by all companies (including the Company) in the consolidated financial statements should be disclosed.
- Note 8: The amount of remuneration made by The Company to each Director is disclosed separately in amount ranges.
- Note 9: For the total remunerations paid to the Company's each director by all companies (including the Company) in the consolidated financial statements, the name of the director should be disclosed in the respective remuneration level.
- Note 10: Net income refers to the recognition under IFRS. In 2017, the net income as stated in the individual financial statements amounted to NT\$455,442 thousand.
- Note 11: a. This field must state any form of remuneration the Director has received from The Company's invested businesses other than subsidiaries.
b. For Directors who receive remuneration from invested businesses other than subsidiaries, the amount of remuneration from these invested businesses should be added to column I of the Remuneration brackets table. Change the name of the column to "All invested businesses".
c. Remuneration refers to any returns, compensation (including remuneration to employees, directors, and supervisors), professional fees etc which The Company's Directors have received for serving as directors, supervisors, or managers in invested businesses other than subsidiaries.
- * The basis of remuneration disclosed above is different to the basis required by the income tax law; hence the above table has been prepared solely for information disclosure, and not for tax purposes.

(2) Supervisors' remuneration

December 31, 2017; unit: thousand

Title	Name	Supervisors' remuneration						The sum of A, B, and C as a percentage of after-tax net profit (Note 8)		Remuneration from invested businesses other than the subsidiaries (Note 9)
		Remuneration (A) (Note 2)		Remuneration (B) (Note 3)		Fees for services rendered (C) (Note 4)				
		The Company	All companies shown in the financial report (Note 5)	The Company	All companies shown in the financial report (Note 5)	The Company	All companies shown in the financial report (Note 5)	The Company	All companies shown in the financial report (Note 5)	
Supervisor	HUANG LI LONG	0	0	3,462	3,462	54	54	0.77	0.77	0
Supervisor	LEE YA MI									
Supervisor	CHEN JEN SHYANG									

Table of salaries scale

Remunerations to individual supervisors in respective brackets along the salaries scale	Name of supervisors	
	The total of the aforementioned 3 items (A+B+C)	
	The Company (Note 6)	All companies shown in the financial report (Note 7) D
<NT\$2,000,000	HUANG LI LONG / LEE YA MI / CHEN JEN SHYANG	HUANG LI LONG / LEE YA MI / CHEN JEN SHYANG
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)		
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)		
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)		
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)		
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)		
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)		
> NT\$100,000,000		
Total	3 persons	3 persons

Note 1: The name of each supervisor is illustrated respectively. The payment amount is disclosed in a lump sum.

Note 2: Refers to the remuneration (including salary, job-related allowance, severance pay, various bonuses, incentives, etc.) paid to the supervisors in 2017.

Note 3: The remuneration paid to the supervisors in 2017 was for an amount resolved in the 2018 Board meeting.

Note 4: Refer to the related business execution expenses of the supervisors (including traveling expenses, special disbursement, various allowances, dormitories, and transportation vehicles) in 2017. If houses, cars or other vehicles, or personal allowances were granted, please describe the nature and cost of assets, their rental rates calculated based on actual or fair value, and details on petrol and other subsidies. If personal drivers were allocated, please make a footnote disclosure of the salaries made to these driver, but do not count them as part of the beneficiaries' remuneration.

Note 5: The total remunerations paid to the Company's supervisors by all companies (including the Company) in the consolidated financial statements.

Note 6: The amount of remuneration made by The Company to each Supervisor is disclosed separately in amount ranges.

Note 7: The amount of remuneration made by the consolidated entity as a whole (including The Company) to each Supervisor is disclosed separately in amount ranges.

Note 8: Net income refers to the recognition under IFRS. In 2017, the net income as stated in the individual financial statements amounted to NT\$455,442 thousand.

Note 9: a. This field must state any form of remuneration the Supervisor has received from The Company's invested businesses other than subsidiaries.

b. For Supervisors who receive remuneration from invested businesses other than subsidiaries, the amount of remuneration from these invested businesses should be added to column D of the Remuneration brackets table. Change the name of column D to "All invested businesses".

c. Remuneration refers to any returns, compensation (including remuneration to employees, directors, and supervisors), professional fees etc which The Company's Supervisors have received for serving as directors, supervisors, or managers in invested businesses other than subsidiaries.

* The basis of remuneration disclosed above is different to the basis required by the income tax law; hence the above table has been prepared solely for information disclosure, and not for tax purposes.

(3) Remuneration paid to the President and Vice President

December 31, 2017; Amount: thousand

Title	Name	Salary (A) (Note 2)		Pension (B)		Bonuses and allowances etc (C) (Note 3)		Remuneration to employees (D) (Note 4)				The sum of A, B, C and D as a percentage of after-tax profit (%) (Note 8)		Remuneration from invested businesses other than the subsidiaries (Note 9)
		The Company	All companies contained in the financial report (Note 5)	The Company	All companies contained in the financial report (Note 5)	The Company	All companies contained in the financial report (Note 5)	The Company		All companies contained in the financial report (Note 5)		The Company	All companies contained in the financial report (Note 5)	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	CHEN MEI CHI	9,290	11,038	297	333	3,892	3,892	8,053	0	8,053	0	4.70	5.12	0
Vice President	CHIH CHIA LIN													
Vice President	KUO SHANG TI													
Vice President	CHEN YA NAN													
Global Chief Financial Officer	TSOU KE TI													

* Regardless of the title, where the position equivalent to the President or Vice President (for example, Controller, CEO, Director, etc.) should be disclosed.

Table of salaries scale

The brackets of remunerations to all Presidents and Vice Presidents of the Company	Names of the Presidents and the Vice Presidents	
	The Company (Note 6)	All companies shown in the financial report (Note 7)
<NT\$2,000,000		
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)	CHEN MEI CHI、CHIH CHIA LIN	CHEN MEI CHI、CHIH CHIA LIN
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	KUO SHANG TI、CHEN YA NAN	TSOU KE TI、KUO SHANG TI、CHEN YA NAN
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)		
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)		
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)		
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)		
> NT\$100,000,000		
Total	4 persons	5 persons

Note 1: The names of the President and Vice Presidents should be presented separately; the amount of benefits and allowances can be presented in aggregate sums. If a particular director also holds a position as the President or Vice President, fill in this table and (1) the salary scale of the Director (including Independent Directors).

Note 2: The 2017 salary, job-related allowance, and severance pay of the President and Vice President should be filled out.

Note 3: The 2017 various bonuses, incentives, traveling expenses, special disbursement, various allowances, dormitories, and transportation vehicles, and other remuneration amount paid to the President and Vice President should be filled out. If houses, cars or other vehicles, or personal allowances were granted, please describe the nature and cost of assets, their rental rates calculated based on actual or fair value, and details on petrol and other subsidies. If personal drivers were allocated, please make a footnote disclosure of the salaries made to these driver, but do not count them as part of the beneficiaries' remuneration. For salary expenses recognized in accordance with IFRS 2, "Share-based Payment", including the acquisition of ESO, restricted ESO, and participation in the subscription to new shares for raising capital, included as remuneration.

Note 4: Fill in the remuneration to employees in 2017. The Board passed the proposal on the remuneration to employees in 2018 amounting to NT\$39,240 thousand and reported it to the Shareholders' Meeting of 2018. As such, the aforementioned remuneration to employees for the President and Deputy President (including stock and cash) was calculated on the basis of the actual disbursement of the previous year. The IFRS have been adopted for recognition of net income. The net income recognized in 2017 in individual financial statements amounted to NT\$455,442 thousand.

Note 5: The disclosure should cover all companies included in the consolidated financial statements (including The Company); present the total amount of remuneration paid by all companies above to The Company's President/Vice Presidents.

Note 6: The amount of remuneration made by The Company to its President/Vice Presidents is disclosed separately in amount ranges.

Note 7: The amount of remuneration made by the consolidated entity as a whole (including The Company) to its President/Vice Presidents is disclosed separately in amount ranges.

Note 8: Net income refers to the earnings after taxation in the most recent year. If IFRS was adopted, the net income refers to the earnings after taxation as stated in the separate or individual financial statements.

Note 9:

- this field must state any form of remuneration the President and Vice President have received from The Company's invested businesses other than subsidiaries.
- If the President and Vice President collects remuneration from the invested companies other than the subsidiaries, such remuneration from the invested company rather than from the subsidiaries should be included in Column E in the Remuneration Bracket Report; also, the column should be renamed as "All invested companies."
- Remuneration refers to any returns, compensation (including remuneration to employees, directors, and supervisors), professional fees etc which The Company's President and Vice President have received for serving as directors, supervisors, or managers in invested businesses other than subsidiaries.

* The basis of remuneration disclosed above is different to the basis required by the income tax law; hence the above table has been prepared solely for information disclosure, and not for tax purposes.

(4) Name of the managers received remuneration and the distribution of remuneration

December 31, 2017; unit: thousand

	Title (Note 1)	Name (Note 1)	Stock amount	Cash amount	Total	As a percentage of net profit after tax (%)
Manager	Chairman and President	CHEN MEI CHI	0	8,053	8,053	1.77
	Vice President of Finance and Accounting Department	CHIH CHIA LIN				
	Vice President of Global Operation Department	CHEN YA NAN				
	Assistant Manager of Global R&D Department	HUANG YU TZU				
	Assistant Manager of Marketing Department	LIN TSUNG MIN				
	Global Chief Financial Officer	TSOU KE TI				
	Vice President of the Global R&D Division (relieved from office on 2017/09/30).	KUO SHANG TI				

Note 1: The Company has the name and job title disclosed individually; however, has the earnings distribution disclosed in a lump sum.

Note 2: According to Tai.Chai.Jen.III.Zi No. 0920001301 Letter of the Securities and Futures Institute dated March 27, 2003, the scope of application to the management is as follows:

- (1) President or equivalent
- (2) Vice President or equivalent
- (3) Assistant Manager or equivalent
- (4) Head of Finance
- (5) Head of Accounting
- (6) Any other authorized signatories involved in The Company's administrative affairs

Note 3: If the Director, President, and Vice President collect employee bonus (including stock dividend and cash dividend), Form 1 and this Form must be filled out.

Note 4: Refers to the 2017 remuneration to employees for an amount of NT\$39,240 thousand that is to be resolved in the 2018 Board meeting. However, the distribution proposal has not yet been reported in the 2018 shareholders' meeting; therefore, the current remuneration (including stock and cash) to the management in the preceding paragraph is an amount estimated proportionally to the actual distribution amount of last year.

Note 5: Net income refers to the recognition under IFRS. In 2017, the net income as stated in the individual financial statements amounted to NT\$455,442 thousand.

(5) The analysis of the ratio of total amount paid to the Company's directors, supervisors, president, and vice president by the Company and by all the companies included in the consolidated financial statements within the last two years to the net income in the individual financial statements; also, the description of the correlation among the remuneration policy, standard, and combination, the procedures for determining remuneration, and the operating performance and future risks

1. Ratio of total remuneration to net income:

Title	Ratio of total remuneration to net income			
	2016		2017	
	The Company	Consolidated financial statements	The Company	Consolidated financial statements
Director	2.39	2.39	2.41	2.41
Supervisor:	0.77	0.77	0.77	0.77
President and Vice President	3.89	3.89	4.70	5.12

Note 1: The 2017 employee bonus to the management and remuneration to directors and supervisors was an amount estimated proportionally to the actual distribution amount of last year.

Note 2: Net income refers to the earnings after taxation in 2016 after the adoption of IFRS by the Company as stated in the individual financial statements, which amounted to NT\$600,188 thousand, and the earnings after taxation in 2017 after adoption of IFRS by the Company as stated in the individual financial statements, which amounted to NT\$455,442 thousand.

2. The correlation of remuneration payment policy, standard, and combination, procedures for determining remuneration, the operating performance, and future risks:

(1) Directors and supervisors

A. Traveling expense:

It is by referring to the payment standard of the industry and depending on the meeting attendance of the directors and supervisors.

B. Remuneration to directors and supervisors:

It is handled in accordance with Article 24 of the Company's Articles of Association. If the Company is with profit generated, an amount less than 3% of the profit should be appropriated as remuneration to directors and supervisors. The remuneration to directors and supervisors should be reported in the shareholders' meeting. If the Company is with cumulative losses, an equivalent amount should be reserved in advance to make up the losses, and then the remuneration to directors and supervisors should be appropriated according to the distribution ratio referred to in the preceding paragraph. The proposal for the remuneration to directors and supervisors is to be drafted up by the Board of Directors and reported in the shareholders' meeting. Then, the remuneration to directors and supervisors is to be distributed in average according to the respective seats and tenure of the directors and supervisors. Allowance for traveling expense with an amount of NT\$3,000 is distributed to each attending director and supervisor. Remuneration to directors and supervisors is distributed only when the Company has earnings available for distribution; therefore, it will not pose a risk on the Company's future business operation.

(2) President and Vice President

The Company's remuneration policy is based on the average salary level for the said job position in the industry, the scope of the job responsibility in the Company, and the contribution to the Company. The procedures for determining remuneration, in addition to considering the Company's overall operating performance, a reasonable remuneration is granted by referring to personal performance and contribution to the Company's business operation. Remuneration is distributed by referring to the current business performance; therefore, it will not pose a risk on the Company's future business operation.

IV. Corporate governance

(I) The operation of the Board of Directors

A total of six (6) Board meetings were convened in 2017 with the attendance of the directors and supervisors as follows:

Title	Name	Actual Attendance B	Proxy Attendance	Required attendance	Actual attendance rate (%) [B/A] (Note 1)	Remarks
Chairman	CHEN MEI CHI	6	0	6	100	Reelected on 06/20/2017
Director	LEE TSUN YEN	6	0	6	100	Reelected on 06/20/2017
Director	WU CHUNG PAO	6	0	6	100	Reelected on 06/20/2017
Director	HSU SHEN KUO	5	1	6	83.33	Reelected on 06/20/2017
Independent Director	HSU KUEI YING	6	0	6	100	Reelected on 06/20/2017
Independent Director	TSAO AN PANG	6	0	6	100	Reelected on 06/20/2017
Independent Director	HUANG WEN CHENG	6	0	6	100	Reelected on 06/20/2017

Title	Name	Actual Attendance B	Proxy Attendance	Required attendance	Actual attendance rate (%) [B/A] (Note 1)	Remarks
Supervisor	CHEN JEN SHYANG	6	0	6	100	Reelected on 06/20/2017
Supervisor	HUANG LI LONG	6	0	6	100	Reelected on 06/20/2017
Supervisor	LEE YA MI	6	0	6	100	Reelected on 06/20/2017

Other remarks:

- I. The matters listed in Article 14-3 of the Securities Exchange Act and the resolutions of the Board of Directors with the objection or reservations of independent directors documented or in writing: None. Please refer to Page 33~35.
- II. The implementation of avoiding the proposal with conflict of interest: None.
- III. The objective of enhancing the occupational function of the Board of Directors in current year and the most recent year, and assessing its implementation:
 - (I) Enhancing the occupational function of the Board of Directors: Chenbro believes that a Board of Directors with sound governance system and effective supervisory function is the foundation of corporate governance. The Company bases on this principle to have the Remuneration Committee formed in order to assist the Board of Directors carrying out its duties and strengthening its management mechanism.
 - (II) Evaluation of implementation: the Company has appointed designated personnel for the disclosure of the monthly revenue and materiality.
- IV. The formation and duties of supervisors:
 - (I) Supervisors' communication with the Company's employees and shareholders: Supervisors may make direct contact or communication with employees or shareholders, when necessary.
 - (II) Supervisors' communication with Internal Audit Officer and CPAs (for example, the matters, methods, and results of communication regarding the Company's finance, business operation, etc.)
 1. Audit Officer had an audit report presented to the supervisors in the following month upon the completion of the audit, and the supervisors did not raise any objection against it.
 2. Audit Officer had attended the regular Board meeting to report the audit performed, and the supervisors did not raise any objection against it.
 3. Supervisors and CPAs had occasionally conducted a face-to-face communication or communicated in writing regarding financial status.
- V. If supervisors had attended the Board meeting to express their opinions, the Board meeting date, term, content of motion, resolution, and the response to the supervisor's statement should be detailed: None. Please refer to Page 33~35.

Note 1:

- * For any supervisor resigned before the end of the fiscal year, the resignation date and actual attendance rate (%) that is calculated according to the actual number of Board meeting convened and the said supervisor's actual attendance frequency should be detailed in the Remark column.
- * For any director and supervisor reelected before the end of the fiscal year, the name of the dismissed and the incumbent directors and supervisors should be filled in the form. The directors and supervisors should be indicated as dismissed, incumbent, or reelected, and the reelection date should be detailed in the Remark column. The percentage of actual attendance (%) is calculated based on the number of board of directors meetings held during active duty and the actual attendance.

Opinions of the Independent Directors on important motions and the resolutions.

Board of directors	Contents of the motion and subsequent	The matters listed in Article 14-3 of the Securities Exchange Act	Adverse opinion or qualified opinions from the Independent Directors.	Adverse opinion or qualified opinions from the Supervisors.
16 th session of the 12 th Board 2017.01.19	1. The resolution of distributing salary and year-end bonus to the management reached in the Company's Remuneration Committee meeting on January 9, 2017.	V	None	None
	2. Amendments of the "Articles of Associations".	V	None	None
	3. Amendments of the "Third Party Lending Procedures".	V	None	None
	4. Amendments of the "Procedures for Election of Directors and Supervisors".	V	None	None
	5. The Company adjusted the investment structure in China by opening Beijing and Shanghai branches of ChenPower information Technology (ShangHai) Co., Ltd. and the shutdown of Chenbro Micom (Shenzhen) Co., LTD. and Chenbro Micom (Beijing) Co., Ltd.	V	None	None
	Independent directors' opinions: None.			
	The responses to the opinions of the Independent Directors: None.			
17 th session of the 12 th Board 2017.02.23	Resolution: all Directors in session acted in favor of the motion.			
	1. The 2016 remuneration to employees, directors, and supervisors.	V	None	None
	2. The Company planned to roll over the export negotiation limit amounting to USD 500,000 with the Bank of Taiwan, Chung Ho Branch.	V	None	None
	3. The US\$500,000 foreign exchange derivatives quota extension made by Bank of Taiwan Chunghe Branch.	V	None	None
	Independent directors' opinions: None.			
18 th session of the 12 th Board 2017.05.09	The responses to the opinions of the Independent Directors: None.			
	Resolution: all Directors in session acted in favor of the motion.			
	1. Amendments of the "Regulations Governing the Acquisition and Disposal of Assets".	V	None	None
	2. The Company moved to shut down CHENBRO EUROPE B.V., a subsidiary in Holland, for the integration of the investment structure in Europe.	V	None	None
	3. The Company moved to convert the indirect subsidiary of CHENBRO UK Limited, which was directly invested in by CHENBRO EUROPE B.V., a direct subsidiary of the Company in Holland, as a direct investee to be the corporate HQ.	V	None	None
	Independent directors' opinions: None.			
	The responses to the opinions of the Independent Directors: None.			
	Resolution: all Directors in session acted in favor of the motion.			

Board of directors	Contents of the motion and subsequent	The matters listed in Article 14-3 of the Securities Exchange Act	Adverse opinion or qualified opinions from the Independent Directors.	Adverse opinion or qualified opinions from the Supervisors.
1 st session of the 13 th Board 2017.06.20	1. The motion of the election of a new chairman at the expiration of the tenure of the previous chairman.	V	None	None
	2. The motion of the election of the members to the 3 rd Remuneration Committee and the nomination of the convener of the committee.	V	None	None
	3. 2016 cash dividend distribution date.	V	None	None
	4. The resolution of distributing salary and bonus to the management reached in the Company's Remuneration Committee meeting on June 20, 2017.	V	None	None
	5. The subsidiary in Germany, Chenbro GmbH, required a larger sum of working capital. The additional amount of funds shall be supported by the parent company of Chenbro through financing.	V	None	None
	6. For the flexible appropriation of funds, Chenbro Micom (USA) INC. planned to roll over the credit limit of USD 2 million from Citibank under the endorsement/guarantee undertaken by the parent company.	V	None	None
	7. The replacement of the R&D head of the Company.	V	None	None
	Independent directors' opinions: None.			
	The responses to the opinions of the Independent Directors: no.			
	Resolution: all Directors in session acted in favor of the motion.			
1 nd session of the 13 th Board 2017.08.10	1. For foreign exchange transactions and hedging needs, the Company planned to increase the limit of derivative trade in foreign exchange with CTBC Bank by USD 500,000.	V	None	None
	2. For the flexible appropriation of funds, PROCASE & MOREX CORP planned to roll over the credit limit of USD 3 million under the endorsement/guarantee undertaken by the parent company.	V	None	None
	Independent directors' opinions: None.			
	The responses to the opinions of the Independent Directors: no.			
	Resolution: all Directors in session acted in favor of the motion.			
3 rd session of the 13 th Board 2017.11.07	1. The Audit Plan of the Company in 2018.	V	None	None
	2. For the flexible appropriation of funds, Chenbro Micom (USA) INC. planned to roll over the credit limit of USD 2million under the endorsement/guarantee undertaken by the parent company.	V	None	None
	3. In response to the needs of the indirect subsidiary ADEPT International Company for working capital, the parent company will offer a loan amounting to USD 3 million.	V	None	None
	Independent directors' opinions: None.			
	The responses to the opinions of the Independent Directors: None.			
	Resolution: all Directors in session acted in favor of the motion.			

Board of directors	Contents of the motion and subsequent	The matters listed in Article 14-3 of the Securities Exchange Act	Adverse opinion or qualified opinions from the Independent Directors.	Adverse opinion or qualified opinions from the Supervisors.
4 th session of the 13 th Board 2018.02.02	1. The resolution of distributing salary and year-end bonus to the management reached in the Company's Remuneration Committee meeting on February 2, 2018.	V	None	None
	2. Amendments of the "Rules of Procedure for Board of Directors Meetings".	V	None	None
	3. Amendments of the "Rules Governing the Responsibilities of the Independent Directors"	V	None	None
	4. For the flexible appropriation of funds, the Company planned to roll over the limit of endorsement/guarantee undertaken in favor of PROCASE & MOREX CORP amounting to USD 3.5 million.	V	None	None
Independent directors' opinions: None.				
The responses to the opinions of the Independent Directors: None.				
Resolution: all Directors in session acted in favor of the motion.				
5 th session of the 13 th Board 2018.03.20	1. The Company's 2017 "Internal Control System Declaration."	V	None	None
	2. The amendments of the Company's "Internal Control System Declaration" and "Internal Audit Enforcement Rules."	V	None	None
	3. The Remuneration Committee convened on March 20, 2018 and passed the motion of the remuneration to employees and Directors and Supervisors in 2017.	V	None	None
	4. The Company's 2017 financial statements and 2017 business reports that were prepared by the Company internally.	V	None	None
	5. The 2017 statement of earnings distribution.	V	None	None
	6. Chenbro Micom (USA) INC. planned to roll over the credit limit from Citibank amounting to USD 2 million under the endorsement/guarantee undertaken by the parent company.	V	None	None
	7. The subsidiary of an indirect subsidiary of the Company, Chenbro Technology (Kunshan) Co., Ltd., desired to engage in an equity joint venture with Zhong Ke Controllable Information Co., Ltd. for the manufacturing of server cases. The parties entered into an MOU, which is not bound by law but under good will for the feasibility study of this operation.	V	None	None
Independent directors' opinions: None.				
The responses to the opinions of the Independent Directors: None.				
Resolution: all Directors in session acted in favor of the motion.				

(II) Implementation of the Audit Committee or supervisors' participating in the operation of the Board of Directors

- (1) Implementation of the Audit Committee: The Company has not yet had the Audit Committee established; therefore, it is not applicable.
- (2) Supervisor's participating in the operation of the Board of Directors: Please refer to Page 32 for details.

(III) How The Company's actual governance differs from The Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies and why

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies
	Yes	No	Summary description	
1. Will the Company based on the “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” set up and disclose the Company’s corporate governance best-practice principles?	V		The Company has enacted the “Corporate Governance Best-Practice Principles” to regulate the protection of shareholders’ equity, strengthen the functions of the Board of Directors, respect the stakeholders’ equity, and enhance information transparency. Please visit the Company’s website at www.chenbro.com for the Company’s “Corporate Governance Best-Practice Principles;” also, it is disclosed in the MOPS website at: https://sii.twse.com.tw/	No significant difference
2. Shareholding structure and shareholders’ equity				
(1) Will the Company have the internal procedures regulated to handle shareholders’ proposals, doubts, disputes, and litigation matters; also, have the procedures implemented accordingly?	V		(1) In addition to commissioning a professional shareholder service agency to handle stock affairs, a spokesman is designated to handle the suggestions of shareholders or disputes and other issues. In addition, the shareholder section is setup on the Company’s website to receive or respond to shareholders’ opinions.	No significant difference
(2) Will the Company possess the list of the Company’s major shareholders and the list of the ultimate controllers of the major shareholders?	V		(2) The Company fully grasps and understands the major shareholder structure through professional shareholder service agency and periodically reports changes in the equity of the directors, supervisors, and managers.	
(3) Will the Company establish and implement the risk control and firewall mechanisms with the related parties?	V		(3) The finance, business, and management of the affiliated companies are operated independently. Transactions are conducted between the affiliated companies in accordance with the principle of fairness and reasonableness. It is processed in accordance with the related operating regulations.	
(4) Will the Company set up internal norms to prohibit insiders from utilizing the undisclosed information to trade securities?	V		(4) The Company enacted the Procedures for Handling Material Inside Information on December 29, 2009. In addition, the first amendment was made on November 10, 2014 to prohibit the Company’s insiders from utilizing undisclosed information to trade marketable securities.	
3. The constitution and obligations of the board of directors				
(1) Will the Board of Directors have diversified policies regulated and implemented substantively according to the composition of the members?	V		(1) 1. In Chapter III of the Corporate Governance Best Practice Principles of the Company, “Fortification of the Function of the Board”, the policy of diversity was inscribed. The nomination and election of the members of the Board are governed by the Articles of Incorporation of the Company where the nomination system is adopted. In addition to the experience and academic qualification of the candidates, the opinions of the stakeholders will also be	No significant difference

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies
	Yes	No	Summary description	
<p>(2) Will the Company, in addition to setting the Remuneration Committee and Audit Committee lawfully, have other functional committee set up voluntarily?</p> <p>(3) Will the Company have the performance evaluation rules and methods for the Board of Directors regulated and have the performance evaluation performed regularly every year?</p> <p>(4) Will the Company have the independence of the public accountant evaluated regularly?</p>		V	<p>seriously considered under the due procedure of the “Regulations Governing the Election of Directors and Supervisors” and the “Corporate Governance Best Practice Principles” to ensure the diversity and independence of the members of the Board.</p> <p>2. The members of the Board are diversified to meet the needs of the Company in operation, the mode of business, and development. The ratio of male to female Directors and Supervisors is 4:3. These members are specialized in leadership, decision-making, operation judgment, corporate management, crisis management, and are disciplined in related industries and well aware of the dynamics of the international market. Examples are Chen Mei-Chi, Wu Chung-Pao, Huang Wen-Cheng, and Tsao An-Pang. Hsu Hsian-Kuo is specialized in legal affairs. Lee Chun-Yan and Director Hsu Kuei-Ying are experts in administrative management and finance. For further information on the specialization of the Directors, refer to Note 1 on page.40.</p> <p>3. The Company disclosed the Board's policy on diversity on the official website and MOPS.</p> <p>(2) The Finance & Accounting Officer and supervisors are to have the overall evaluation assessed and then forwarded it to the Board of Directors for resolution.</p> <p>(3) The Company did not enact the “Rules Governing the Performance Evaluation of the Board of Directors.” However, the Company’s Remuneration Committee will regularly assess the director and manager performance and remuneration policy and standard structure in accordance with Article 28-1 of the “Corporate Governance Best-Practice Principles.”</p> <p>(4) 1. The Company will assess the independence of the commissioned CPAs at least once a year in accordance with Article 29 of the Company’s “Corporate Governance Best-Practice Principles.”</p> <p>2. The Company had enacted the “Guidelines for Election of Auditing and Attestation CPAs” on November 10, 2014.</p> <p>3. PricewaterhouseCoopers Taiwan (PwC Taiwan) has issued the “Communication with the corporate governance unit letter” with the role, responsibilities, and independence of the attestation CPAs</p>	No significant difference

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies
	Yes	No	Summary description	
			declared. Please refer to Page 41 for details. 4. The Board of Directors has assessment performed in accordance with the “Communication with the corporate governance unit letter” provided by the attestation CPAs and the independence evaluation questionnaires. Please refer to Page42~43 for details.	
			5. The Company had the independence of the attestation CPAs assessed in accordance with the operating procedures in the preceding paragraph in the Board meeting on February 2, 2018.	
4. If the TWSE/GTSM-listed company, is it necessary to establish a full-time (part-time) position or body charged with the corporate governance affairs of the Bank (including but not limited to providing information for the Directors and Supervisors necessary for their performance of duties, organization of sessions for the Board and the General Meeting of shareholders, administering company registration and making changes in the registration content, preparation of the minutes of Board meetings and General Meeting of shareholders on record)?	V		The financial and accounting staff of the Company also act in the capacity as the administrators of corporate governance under the supervision of the Vice President of Finance and Accounting. Their functions are specified below: 1. The Board consulted the Directors for opinions prior to each session and planned for the agenda. All Directors will be notified to the session at least 7 days in advance with sufficient information on the agenda so that all members will be able to understand the content of the motions for discussion and resolution. If recusal is necessary due to the conflicting nature of some motions to relevant stakeholders, the parties concerned will be alerted in advance. The procedure of the meeting is tracked by minutes on record, and released to the Directors and Supervisors by the designated deadline as required. 2. The date for the session of the Shareholders’ Meeting shall be registered by the deadline every year as required by law. Meeting notices, agenda handbooks, minutes of the meeting on record, and the annual report were prepared and declared by the relevant deadlines as required by law. 3. The registration of the changes after the amendment to the Articles of Incorporation and the election of the new Directors and Supervisors. 4. Supply the Directors with the information related to the performance of their professed duties and the latest development of the regulatory environment related to the operation of the Company to assist the Directors in matters of compliance.	No significant difference
5. Has the Company established a communication channel for the stakeholders (including but not limited to the shareholders, employees, customers, and suppliers), set the stakeholder column on the Company’s website, and responded to the	V		The Company has established the system of a spokesman, acting spokesman, and designated personnel for handling investor relations. They are responsible for communication with the investors through different channels (including telephone, mail, e-mail, and company website) for instantaneous communication. In addition, the Company also responded to	No significant difference

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies
	Yes	No	Summary description	
stakeholders regarding their concerns over corporate social responsibilities?			the call of the TWSE in the amended regulations governing information disclosure of the official website (www.chenbro.com) and thereby established a “Section of Stakeholders” in a visible spot on the webpage so that the stakeholders can easily communicate with the Company on relevant issues with proper responses. For further information, refer to page. 57.	
6. Has the Company commissioned a professional stock service agent to handle shareholders affairs?	V		The Company’s stock affairs agency is the Shareholder Service Department of Fubon Securities Co., Ltd. and its website is at: http://www.fubon.com	No significant difference
7. Disclosure of information (1) Does the Company have a website setup and the financial business and corporate governance information disclosed? (2) Has the Company adopted other information disclosure methods (such as, establishing an English website, designating a responsible person for collecting and disclosing information of the Company, substantiating the spokesman system, placing the juristic person seminar program on the Company’s website, etc.)?	V V		(1) The Company uploaded the financial statements of the relevant years and information on corporate governance to the website with routine updates. The website is at www.chenbro.com (2) The Company has installed an official website in both the Chinese and English languages and set up a special page on investor services. Designated personnel were also appointed to gather and maintain information on the Company. The system of the spokesman was also properly implemented. The procedures of the institutional investor conference were also disclosed on the website.	No significant difference
8. Are there any other important information (including but not limited to the interests of employees, employee care, investor relations, supplier relations, the rights of stakeholders, the advanced study of directors and supervisors, the implementation of risk management policies and risk measurement standards, the execution of customer policy, the purchase of liability insurance for the Company’s directors and supervisors) that are helpful in understanding the corporate governance operation of the Company?	V		Please see Page 56~64.	No significant difference
9. State of corrective action taken for responding to the results of the corporate governance assessment announced by Taiwan Stock Exchange Corporation in the Corporate Governance Center the most recent fiscal year, and the priority for improvement on issues pending further corrective action and related measures. (The companies that are not subject to an evaluation do not need to fill out this form): The Company conducted self-assessment on corporate governance, and did not discover any major defects that necessitated corrective action.				

Note 1: The disclosure of information on the pursuit of the policy of diversity of the Board members.

According to Article 20 of the Corporate Governance Best Practice Principles of the Company:

The Board shall be accountable to the Shareholders' Meeting. All the operations and arrangements pertinent to the corporate governance system shall be able to ensure the performance of the Board in compliance with the applicable laws, the Articles of Incorporation, or the decision of the Shareholders' Meeting.

The structure of the Board of the Company consists of 5 seats of Directors with reference to the scale of operation and the shareholding by dominant shareholders and operation needs.

Board members shall be diversified in a manner that supports the Company's operations, business activities and growth. The diversification shall be based on, but is not limited to, the following two principles:

1. Basic conditions and values: Gender, age, nationality, and culture.
2. Professional knowledge and skills: Professional background (such as, law, accounting, industry, finance, marketing, or technology), professional skills, and industrial experience.

The members of the Board are disciplined with the kinds of knowledge, skills, and education necessary for their performance of professed duties. The Board shall be capable of performing the following for achieving the goal of corporate governance:

- (1) Operating judgment capability
- (2) Accounting and financial analysis capability
- (3) Management capability
- (4) Crisis management capabilities
- (5) Industry knowledge
- (6) International market viewpoint
- (7) Leadership capability
- (8) Decision-making capability

Core diversity aspects Name of director	Gender	Operating judgment	Accounting and financial analysis	Management	Crisis management	Industry knowledge	International market viewpoint	Leadership	Decision-making	Law
CHEN MEI CHI	Female	V		V	V	V	V	V	V	
LEE TSUN YEN	Female		V	V			V	V	V	
WU CHUNG PAO	Male	V		V	V	V	V	V	V	V
HSU SHEN KUO	Male	V		V	V		V	V	V	V
HUANG WEN CHENG	Male	V	V	V	V	V	V	V	V	V
TSAO AN PANG	Male	V		V	V	V	V	V	V	
HSU KUEI YING	Female		V	V			V		V	

The independence of external auditors (CPAs)

- I. From February 22, 2017 to the day this statement of declaration was made, we did not acknowledge any business relationships or other matters between us and Chenbro that may be reasonably deemed as affecting our status of independence.
- II. We hold that as of the day this statement of declaration was made, the designated team of Chenbro (including other members of our office) and we have complied with The Ethical Code of Conduct for Certified Public Accountants of the ROC No. 10, and have maintained our independence in working with Chenbro.

Note 3: Questionnaire of the independence of certified public accountants

Chenbro Micom Co., Ltd.

Audit Review Worksheet of External Auditors

Date of audit: February 2, 2018.

Target of the audit: CPA retained at ☒ Present ☐ in the past: Audrey Tseng, CPA; Chih Ping-Chiun, CPA
of PwC Taiwan

I. Audit on the conditions of independence (if "NO" is chosen for any of the following, further understanding of the issue is necessary)					
Item	Contents of the evaluation	Please select			Remarks
		Yes	No	N/A	
01	The CPA or spouse and dependents have no investment in or entitlement to the financial benefit of the Company.	✓			
02	The CPA or spouse and dependents have no lending and borrowing of funds with the Company. Except that the client is a financial institution and the transaction in at arm's length.	✓			
03	The CPA firm did not issue any report on any validation service of the design or assistance in the execution of the effective running of the financial system.	✓			
04	The CPAs and the audit service team did not and do not hold positions as Directors, managers, or positions that have a significant influence on the audit cases of the Company at present or in the last 2 years.	✓			
05	The non-auditing service rendered to the Company did not directly affect the key audit matters of the audit items.	✓			
06	The CPAs and the audit service team did not engage in the promotion or intermediary service of the stocks or other securities issued by the Company.	✓			
07	The CPAs and the audit service team did not represent the Company or a third party in taking defense positions in any lawsuit or other contentious matters.	✓			
08	The CPAs and the audit service team do not have any member who is a spouse, next of kin, next of kin through marriage or kindred within the 2 nd degree under the Civil Code to a Director, manager, or staff in a position that significantly affected the audit cases of the Company.	✓			
09	CPAs acting as co-auditors who were relieved from office within less than 1 year did not hold positions as Directors, managers, or other positions that significantly affected the audit cases of the Company.	✓			
10	The CPAs and the audit service team did not receive any gift of significant value or special treatment from the Directors, managers, or dominant shareholders of the Company.	✓			
11	The CPAs have not been employed by the client or the audit targets to perform regular duties and receive fixed salaries, or in the capacity as Director or Supervisor.	✓			
12	Companies listed at TWSE/TPEX: The CPAs did not provide auditing services for the Company for 7 consecutive years. Companies not listed at TWSE/TPEX: The CPAs did not provide auditing services for the Company for 10 consecutive years.	✓			

II. Audit of Independent Operation (if “NO” is chosen for any of the following, further understanding of the issue is necessary)					
Item	Contents of the evaluation	Please select			Remarks
		Yes	No	N/A	
01	The CPA was recused from the assignment as such assignment poses a direct or significant indirect conflict of interest that affects their independence and impartiality.			✓	Not applicable, as nothing specified above has ever occurred.
02	The reports of the CPAs from the audit, review, second review or special audit of the financial statements with a statement of opinions presented shall be characterized as independent in essence and in formality.	✓			
03	The audit team, other participating CPAs, or the shareholders of the institutional CPA firm, the CPA firm, affiliates of the CPA firm and association, shall also be independent of the Company.	✓			
04	The CPAs shall be impartial in performing their professional duties.	✓			
05	The CPAs shall be objective and impartial in performing their professional duties, and avoid bias, conflict of interest or private interest that hampers their professional judgment.	✓			
06	The CPAs did not affect their integrity, objectively, or impartiality due to a lack or loss of independence.	✓			
III. Audit on competence (if “NO” is chosen for any of the following, further understanding of the issue is necessary)					
Item	Contents of the evaluation	Please select			Remarks
		Yes	No	N/A	
01	The CPAs have no record of disciplinary action by the professional penalty committee in the last 2 years. The CPAs have not been involved in any lawsuits during the last 2 years.	✓			
02	The CPA firm has sufficient capacity, resources, and regional coverage ratio in performing its audit services for the Company.	✓			
03	The CPA firm has established well-defined quality control procedures covering all levels and key points of the audit procedure, the means of handling audit matters and judgment, review and quality control of independence and risk management.	✓			
04	The CPA firm has notified the Audit Company promptly regarding any obvious problems and development in risk management, corporate governance, finance and accounting, and related risk control.	✓			

(IV) Remuneration Committee

1. Profiles of the members of the Remuneration Committee

By identity (Note 1)	Qualification Name	Having more than 5 years work experience and professional qualifications listed below			Compliance of independence (Note 2)								Number of other public companies where the staff also hold positions as members of the remuneration committees.	Remarks
		Lecturer (or above) of commerce, law, finance, accounting, or any subjects relevant to the company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holders of professional qualification relevant to the company's operations	Commercial, legal, financial, accounting or other work experiences required to perform the assigned duties	1	2	3	4	5	6	7	8		
Independent Director	HUANG WEN CHENG			V	V	V	V	V	V	V	V	V	3	V
Independent Director	HSU KUEI YING			V	V	V	V	V	V	V	V	V	None	V
Independent Director	TSAO AN PANG			V	V	V	V	V	V	V	V	V	1	V

Note 1: Identity is known as director, independent director or others.

Note 2: Place a "✓" in the box below if the member met the following conditions during the time of active duty and two years prior to the elected date.

- (1) Not employed by the company or any of its affiliated companies.
- (2) Not a director or supervisor of the company or its affiliated companies Except for the Independent Directors established by the Company or its parent company, subsidiaries in accordance with local laws and applicable laws in the host countries.
- (3) Does not hold more than 1% of the company's outstanding shares in his/her own name or under the name of spouse, underage children, or any other person; nor is any party listed herein one of the ten largest natural person shareholders of the company.
- (4) Not a spouse, relative of second degree, or direct kin of third degree or closer to persons not qualified for criteria 1~3.
- (5) Not a director, supervisor, or employee of the company's corporate shareholder holding more than 5% of the company's outstanding capital; nor a director, supervisor, or employee to any of the top 5 corporate shareholders.
- (6) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the company.
- (7) Not a professional, business owner, partner, director, supervisor, or manager of any sole-proprietorship, partnership, company, or institution providing commercial, legal, financial, or accounting services or consultations to the company or any of its affiliated companies; nor a spouse to anyone listed herein.
- (8) Does not meet any descriptions stated in Article 30 of the Company Act.

2. The duties of the Remuneration Committee

The Remuneration Committee is to assist the Board of Directors executing and evaluating the Company's overall remuneration and benefits policies, and the remuneration to directors and managers. The Remuneration Committee is formed by three independent directors as of the end of April 2018.

3. Information on the operation of the Remuneration Committee

- (1) The Remuneration Committee of the Company is consisted of 3 persons.
- (2) The term of the incumbent members: June 20, 2017 ~ June 19, 2020.

The Remuneration Committee had five meetings (A) convened in 2017 and up to the printing date of the annual report with the attendance of the members as follows:

Title	Name	Actual attendance (B)	Proxy Attendance	Actual attendance (%) (B/A) (Note)	Remarks
Convener	HSU KUEI YING	5	0	100%	None
Members	HUANG WEN CHENG	5	0	100%	None
Members	TSAO AN PANG	4	1	80%	None
Other remarks: I. If the Board of Directors does not accept or amend the suggestions of the Remuneration Committee members, the Board meeting date, term, content of motion, resolution, and the response to the Remuneration Committee's opinions should be detailed: None II. If any of the members of the Remuneration Committee hold adverse opinion or qualified opinions with record or in written declaration against the resolutions of the committee, specify the date and the session of the committee meeting, the content of the motion, the opinions of all members and the response to the opinions of the members: None.					

Note:

- * For any independent director resigned before the end of the fiscal year, the resignation date and actual attendance rate (%) that is calculated according to the actual number of Remuneration Committee meeting convened and the said independent director's actual attendance frequency should be detailed in the Remark column.
- * Before the end of the year, if there was an election of directors and supervisors, the names of new and former directors and supervisors should be filled in and the company should remark in the remarks section whether the directors and supervisors are former, newly elected, or reelected, as well as the day of the reelection. The actual attendance rate to committee meetings (%) basing on the actual attendance to committee meetings during his or her term of office in proportion to the total number of committee meetings held in the same period.

(V) Performance of social responsibility

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
1. Implementation of sound corporate governance (1) Does the Company have the CSR policies or systems established and the implementation effect reviewed? (2) Does the Company have the CSR education and training arranged on a regular basis? (3) Does the Company have a specific (or part-time) unit set up to promote corporate social responsibility, have the management been authorized by the Board of Directors to handle matters and report the processing results to the Board of Directors? (4) Does the Company have a reasonable salary and remuneration policy set-up, have the employee performance evaluation system been combined with the corporate social responsibility policies and have a clear and effective reward and punishment system been established?	V	V	(1) The Company had enacted the “Corporate Social Responsibility Best-Practice principles” on April 29, 2015 with the contents of implementing corporate governance, developing sustainable environment, maintaining social welfare, strengthening corporate social responsibility information disclosure, etc., as well as complying with the international human rights conventions, providing employees with safe and healthy working environment, preventing environmental pollution in the manufacturing process, and committing to social welfare activities for the benefit of the society in order to fulfill corporate social responsibility. (2) 1. The Company had enacted the “Code of Ethical Conduct” and “Ethical Management Best-Practice Principles” on March 24, 2014. 2. The Company has the following trainings arranged in the orientation for the new recruits: Code of Ethical Conduct, management system, and corporate ethics and moral training. 3. The Company regularly arranges corporate ethics and moral education and training for all employees. (3) Currently, the Chairman holds this position simultaneously in administering the performance of corporate social responsibility and related works. (4) The Company has based on market salary P-value to determine salary standard in accordance with the principles of fairness and reasonableness; also, take into consideration of the employee duties, nature of work, and professional competence in order to motivate employees and to achieve the purpose of determining reasonable salary. In order to evaluate the job performance and inspire the potentials of the colleagues for an effective use of human	No significant difference

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
			resources and to provide objective and fair evaluation and feedback on the employees' performance for helping the organization and employees to grow and progress, the Company plans to formulate the performance evaluation system for implementation and regularly organize employee corporate ethics and moral education and training for employees and the advocacy matters.	
2. Development of a sustainable environment (1) Is the Company committed to enhance the utilization efficiency of resources and use renewable materials that are with low impact on the environmental? (2) Does the Company have an appropriate environmental management system established in accordance with its industrial character? (3) Does the Company pay attention to the impact of climate change on the operational activities, implement greenhouse gas check, and form an energy-saving, carbon-reduction, and greenhouse emissions reduction strategy?	V	V	(1) Environmental Policy: Chenbro follows environmental regulations in order to comply with the international situation and customer needs and to pursue sustainable development. We recognize that the Company's activities, products, and services may have an impact on the environment; therefore, we are committed not to use any of the banned or restricted substances. The production and use of the materials impacting the environment, and the selection of green products (GP) and services in compliance with the environmental requirements to achieve the objectives, reduce the use of packaging materials, use recycled materials to improve energy efficiency, and reduce the impact and burden on the environment. (2) The ISO 14001 Environmental Management System is established. Identify the potential impact of the Company's operating activities and products or services on the environment, and assess the likely significant impacts with the measurable objectives established, regularly review the sustainability and relevance of the objectives and management programs that must be consistent with the environmental policy. (3) The Company pays attention to the impact of climate change on the operating activities. The Company has the energy-saving, carbon reduction, and greenhouse gas reduction activity implemented as follows: 1. Reduce the number of light tubes in office and use LED	No significant difference

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
			energy-saving light bulbs entirely according to the principle of maintaining sufficient illumination in the office area during daytime. 2. Promote environmental office, turning off lights, unplugging power plugs, maintaining air-conditioned room temperature at certain level, and turning off light at lunchtime. 3. The use of e-form and reducing the consumption of papers.	
3. Enforcement of social justice (1) Does the Company have the relevant management policies and procedures stipulated in accordance with the relevant laws and regulations and international conventions on human rights? (2) Does the Company have the complaints mechanism and channels established for employees and have it handled properly? (3) Does the Company provide employees with a safe and healthy work environment, and provide safety and health education to employees regularly?	V	V	(1) The Company's complying with labor laws and regulations, respecting internationally recognized labor human rights principle and its implementation is as follows: 1. The Company has enacted the "Rules Governing Personnel Management" and "Code of Ethical Conduct." 2. Provide employees with comprehensive education and training programs and excellent welfare system, such as annual employee health checks, marriage subsidy, maternity subsidy, etc. 3. The Company is a member of AAEON Foundation and has setup the "Corridor of Arts" and provided employees with a comfortable working environment. (2) Employees may file a complaint with the Company's department head, Human Resources Department, and the Audit Department; also, it is to be implemented by the Human Resources Department. In general, the employee grievance mechanism is to be handled by the Human Resources Department. The Human Resources Department will conduct an investigation and convene the grievance investigation meeting. (3) Comply with the safety inspection of each governmental agency and regularly organize the related education and training programs as follows: 1. Regularly assign general affairs personnel to participate	No significant difference

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
			<p>in the Labor Safety and Health training courses.</p> <ol style="list-style-type: none"> Perform a fire safety inspection annually. Perform a construction public safety inspection every two-year. A cleaning company has service personnel assigned to station at each designated area to clean up the work environment. Regularly arrange health checks for employees and advanced health checks for the executives. Occupational health and safety policy: Committed to establish occupational health and safety (OH&S) management system and to ensure that employees work in a healthy and injury-free environment. We are fully aware of those hazards and risks that may endanger the wellbeing of the employees under the corporate governance. 	
(4) The Company has developed the mechanism for the routine communication with the employees, and informed the employees of the changes in operation that may cause significant influence on the employees through reasonable means.	V		(4) Labor relations requirements and measures are implemented in accordance with the relevant labor provisions. The Company's departments have meetings convened regularly for a two-way communication with the employees and a synchronized convey so that colleagues can clearly understand the changes in the Company's operations.	
(5) Does the Company have an effective career capacity development training program established for the employees?	V		(5) The Company values the importance of personnel training and development. For fulfilling the commitment of having the employees grown along with the Company, we have constructed a systematic learning and development blueprint and provided the management team and all employees with a comprehensive learning environment, including the courses of leadership and management knowledge and ability, personal occupational ability development, etc. Also, provide external training subsidies to encourage employees continuing to grow and pursue their dreams. At the same time, in order to broaden the horizons of employees, the Company frequently invites experts or celebrities from various fields to share their professional knowledge, work experience, life experience, and	

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
(6) Does the Company have the relevant consumer protection policies and complaint procedures established in the sense of R&D, procurement, production, operations and service processes?	V		<p>art and culture, so that every employee can absorb innovative thinking and humanity and culture experience at any time.</p> <p>(6) Although the Company has little direct contact with the end users, the Company does value the voice of customers and the interests of consumers. Provide a transparent and efficient grievance procedure and channel for the Company's products and services. The Company has the Customer Service unit setup to be responsible for product services, solving customer problems, and related product warranty and repair policy in accordance with the requirements announced on the official website of Chenbro.</p>	
(7) Has the Company complied with the relevant law and regulations and international standards on the marketing and labeling of products and services?	V		(7) The Company follows international regulations and policies with the relevant performance policies published on the Company's official website, including the policies of quality, green environment, corporate social responsibility, occupational health and safety, the environment, and conflict minerals; also, in term of products, complies with the requirements of ROHS, REACH, and other international environmental regulations. The identification and labeling of plastic products complies with ISO11469 and fulfills the obligations and service of green environmental protection policies.	
(8) Has the Company assessed whether the suppliers had a record of affecting the environment and society in advance?	V		(8) The Company for ensuring the production process of suppliers in compliance with the standards and regulations has requested suppliers to provide international quality system certification (ISO9001, TSO16949 ...) and the data needed for the Company's approval sheet, including drawings, environmental management substance test reports (RoHS, other regulatory requirements, etc.), MSDS, DATA SHEET, reliability verification, safety verification, etc. at the time of evaluation. The raw materials supplied comply with the requirements of green products in order to fulfill corporate social responsibility.	

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
(9) Does the contract signed by the major suppliers and the Company containing the clauses of having the contract terminated or cancelled at any time when the suppliers committing a violation against the corporate social responsibility policy and having a significant impact on the environment and society?	V		(9) According to the contracts signed with the major suppliers, the Company may demand compensation for damages if the manufacturers have committed a violation against the corporate social responsibility policies that is with a significant impact on the environment and society.	
4. Enhanced information disclosure (1) Does the Company have the relevant and reliable CSR information disclosed on the Company's website and MOPS?	V		(1) 1. The Company currently has the implementation of corporate social responsibility disclosed in the Company's annual report and on the website. 2. The Company had enacted the "Code of Ethical Conducts" and "Ethical Management Best-Practice Principles" on March 24, 2014; also, they were implemented in accordance with the spirit of fulfilling the corporate social responsibility. 3. The Company had enacted the "Corporate Social Responsibility Best-Practice Principles" on April 29, 2015. 4. The Company has the contents of the Principles disclosed on the MOPS (www.chenbro.com), and the information of corporate social responsibility disclosed on the Company's website.	No significant difference
5. For companies who had established corporate responsibility code of conducts in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies", please describe the current practice and any deviations from the code of conduct: The Company had enacted the "Code of Ethical Conducts" and "Ethical Management Best-Practice Principles" on March 24, 2014; also, had enacted the "Corporate Social Responsibility Best-Practice Principles" on April 29, 2015 that were implemented in accordance with the spirit of fulfilling the corporate social responsibility. Also, its operation was no different from the Principles enacted.				
6. Other important information that help understand the CSR operation: (Such as, the Company's systems and measures adopted for environmental protection, community involvement, social contribution, social services, social welfare, consumers' interests, human rights, security and health, and other social responsibility activities, and its performance): Please refer to Page 62 – 64.				
7. If the Company's Corporate Social Responsibility Report has passed the certification standards of the relevant certification institutions, it should be detailed: The Company's products are with UL certification and OHSAS 18001: 2007, ISO 9001 and ISO 14001: 2015 Management System Verification, but the Corporate Social Responsibility Report has not been verified by a third-party certification institution.				

(VI) Performance of ethical management and the adopted measures

Assessment items	Actual governance			Variation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary description	
1. Business Integrity Policy and action plans (1) Does the Company have the corporate management policy and method declared explicitly in the Articles of Incorporation and external documents; also, the commitment of the board of directors and the management to actively implement the operating policies?	V		(1) 1. The Company had enacted the “Code of Ethical Conduct” and “Ethical Management Best-Practice Principles” on March 24, 2014 with the establishment of excellent corporate governance, risk control mechanism, and comprehensive internal control to prevent unethical conduct from occurring, and to create a business environment for the Company’s sustainable development in order to substantiate the Company’s work rules and ethical conduct standards. 2. Announce the governing regulations and systems and code of ethical conduct for the reference of the employees. 3. The Company has the employee code of ethical conduct specified in the Employees Work Rules and Code of Ethical Conduct to prevent unethical conducts from occurring, including not to obtain illegal gains and hospitality by taking advantage of the job positions, gifts, kickbacks, embezzlement, be opportunistic in operation, conceal and lie or seek illegal gains, or take advantage of the job position to accept gifts or commission, or other illegal gains. 4. The Company has also stipulated that the Company’s employees shall not conduct any act on behalf of themselves or any third party that has major conflict against the Company’s best interests, including loaning of funds, major asset transactions, offering guarantees, or other dealings and acts. In addition, at the time of performing job duties may not demand, contract, and deliver or accept gifts, hospitality, kickbacks, bribery in any form or any other improper gains for personal gains or the gains of the Company and any third party.	No significant difference
(2) Does the Company have the prevention program for any fraud stipulated; also, have the respective operating procedures, behavior guidelines, disciplinary actions and complaints system declared explicitly; also have it	V		(2) 1. The Company has enacted the “Code of Ethical Conduct” and “Ethical Management Best-Practice Principles,” including the regulations and operating procedures, guidelines for conduct, disciplinary act, and grievance	

Assessment items	Actual governance			Variation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary description	
<p>implemented substantively?</p> <p>(3) Does the company have preventive measures adopted in response to the conducts stated in Article 7 Paragraph 2 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” or other business activities subject to higher risks of fraud?</p>	V		<p>system.</p> <p>2. The Company has it stipulated in the internal regulations that new recruits are subject to the integrity investigation; also, the unqualified employees will not be hired. The Company has designated the Human Resources Department to take charge of the employee disciplinary act and incentive program; also, has the relevant disciplinary act and rewards announced to the colleagues in writing.</p> <p>(3) 1. The Company’s each transaction and amount of donation and sponsorship must be reported to the respective authority for approval in compliance with the internal operating procedures.</p> <p>2. Advise and educate the related regulations and specifications to the internal staff occasionally.</p>	
<p>2. Proper enforcement of business integrity</p> <p>(1) Does the company have the integrity of the trade counterparty assessed and with the code of integrity expressed in the contract signed?</p> <p>(2) Does the Company have a specific (part-time) unit setup under the board of directors to advocate the code of integrity and to report on its implementation to the Board on a regular basis?</p> <p>(3) Does the Company have developed policies to prevent conflicts of interest, provided adequate channel for communication, and substantiated the policies?</p> <p>(4) Has the Company established effective accounting systems</p>	V	V	<p>(1) 1. The Company has procurement processed in accordance with the Company’s “Direction for Requisition, Purchase, and Verification.”</p> <p>2. The Company stated in the contract that the suppliers shall comply with the Company’s code of ethical conduct.</p> <p>(2) The Company’s ethical management is to be promoted or implemented by the Audit Department, Legal Affairs Department, Human Resources Department, Accounting Department, and Chairman Office; also, the Chairman Office is responsible for summarizing the implementation results.</p> <p>(3) 1. Employees may give suggestions through the Whistle Blower Mail Box of the external network of the Company for communication with the management and human resources function of the Company.</p> <p>2. The Company’s Human Resources Department will regularly review the employee disciplinary act and incentive program with the relevant disciplinary act and rewards announced to the colleagues in writing.</p> <p>(4) The Company has the Compliance self-assessment operation</p>	No significant difference

Assessment items	Actual governance			Variation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary description	
<p>and internal control systems to substantiate corporate management; also, have audits performed by the internal audit unit on a regular basis or by the commission CPAs?</p> <p>(5) Has the Company organized corporate management internal and external education and training programs on a regular basis?</p>	V		<p>conducted annually; also, requested all units to truly comply with the Company Law, the Securities Exchange Act, Business Entity Accounting Act, other related laws and regulations, and internal regulations of audit and internal control for the compliance of the staff, and has the ethical management implemented in accordance with the “Ethical Management Best-Practice Principles for TWSE/GTSM-Listed Companies.” Internal auditors have the implementation of ethical management audited occasionally and specially.</p> <p>(5) The Company’s Code of Ethical Conduct has included the spirit of ethical management best-practice principles. In addition, the Company for advocating and advertising the code of ethical conduct has provided education and training to the employees taking as a whole in every meeting; also, the Code of Ethical Conduct is placed in the Company’s intranet for the reference of the employees at any time.</p>	
<p>3. The operations of the Company’s Report System</p> <p>(1) Does the Company have a specific report and reward system stipulated, a convenient report channel established and a responsible staff designated to handle the individual being reported?</p> <p>(2) Does the Company have the standard investigating procedures and related confidentiality mechanism established for the incidents being reported?</p>	V	V	<p>(1) As explicitly stated in the work regulations of the employees, any offense shall be subject to disciplinary action or dismissal depending on the severity of the offense. In addition, the “Procedure for the Channels and Protection of Informants” has also been established. Employees may file a complaint with the Company’s department head, Human Resources Department, and the Audit Department; also, it is to be implemented by the Human Resources Department. Human Resources Department provides a reporting channel for employees to report any violation discovered. If the authenticity of the reported matter has been investigated and verified to be qualifying for rewards in accordance with the Work Rules, incentives will be granted accordingly.</p> <p>(2) 1. For the matters reported by the employees to the Company’s department head, Human Resources Department, and Audit Department, the Human Resources Department shall investigate the authenticity of the reported matters. 2. The Company has established the “Procedure for the Channels and Protection of Informants”. The HR</p>	No significant difference

Assessment items	Actual governance			Variation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary description	
(3) Has the Company taken proper measures to protect the whistle-blowers from suffering any consequence of reporting an incident?	V		Department duly observes the principles of confidentiality in the investigation and interviews all related personnel to gather information and evidence to ensure fairness, justice, and non-disclosure. (3) The Company shall keep the informants and the reported matters in confidence and it may not be disclosed throughout the investigation process. If the report is proved valid, the informant will be properly protected, and will not be under any unfavorable treatment due to the report on offenses. The Company established the “Procedure for the Channels and Protection of Informants” to ensure no unfavorable treatment to the informants and the safety of their property and lives, and the right of employment and economic benefits.	
4. Enhanced information disclosure (1) Does the Company have the contents of corporate management and its implementation disclosed on the website and MOPS?	V		The contents of the “Ethical Management Best-Practice Principles” are published on the MOPS and the Company’s website; also, it is available on the annual report related information.	No significant difference
5. Where the Company may have establish its own business integrity best-practice principles in accordance with the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies”, and shall elaborate the practice of business integrity and the variations from the aforementioned regulation: The Company had enacted the “Code of Ethical Conduct” and “Ethical Management Best-Practice Principles” on March 24, 2014; also, its operation was no different from the Principles enacted.				
6. Other vital information that helps to understand the practice of business integrity of the Company: (e.g., the review and revision of the best-practice principles of the Company in business integrity) The Company had enacted the “Ethical Management Best-Practice Principles” on March 24, 2014; also, it was amended on April 29, 2015.				

(VII)The disclosure and inquiry methods of the Corporate Governance Best-Practice Principles and the related regulations

Important regulations	Disclosure and inquiry methods
Corporate Governance Best-Practice Principles Rules of Procedure for Shareholders’ Meeting Rules of Procedure for Board of Directors Meetings Rules Governing the Responsibilities of the Independent Directors Codes of Ethical Conduct Ethical Management Best Practice Principles Remuneration Committee Charter Corporate Social Responsibilities Best-Practice Principles Articles of Association Procedures for Handling Material Inside Information	Market Observation Post System (MOPS): Inquire in the “Corporate Governance” section at the http://mops.twse.com.tw The Company’s Website: http://www.chenbro.com

(VIII) Other important information that will help understand the implementation of the Company's corporate governance

1. Employee interests and employee care

Chenbro bases on the humane management and labor prosperity and sharing philosophy to implement the Human Resources Management System with incentives (distinct reward practice and adequate placement practice), growth (comprehensive training resources and opportunities), and achievement (space for professional and occupational performance and appropriate career planning). The fundamental principle for the enactment and establishment of systems is to comply with the law and regulations.

●Free of discrimination

(1) Do not hire temporary helps:

Provide a stable working environment so that employees can go for a long-term career development with a peace of mind, except for the part-time students hired in summer vacation and winter break, current employees are full-time staff. Do not hire temporary helps.

(2) Hire employees with mental or physical disability:

Offer unlimited job opportunities to the personnel with mental or physical disability; also, assign the personnel with disability to the proper job positions matching their expertise and competence. Two employees with mental or physical disability are hired monthly.

(3) Equality Management System:

All employees, regardless of gender, race, age, birthplace, and religion, are subject to the same management system, for example – same salary standard for the same job performed either by male or female worker. Encourage employees to pursue diversified learning and growth. Provide equal opportunities of development. Cultivate management or professional ability of employees through a comprehensive and sustainable training and promotional system by the classification of occupational ability; also, further assign a more challenging job to employees.

(4) Hire new graduates:

The Company offers job opportunities to new graduates with a complete training program established, including professional training, training at the factory site, and enhancing the soft strength.

●Incentive reward system

(1) The salary of all employees is based on the competence and performance. In addition to the basic wages that are not below the mandatory minimum pay, the Company also participates in the market salary survey to find out the market average salary and above.

(2) Regularly conduct employee performance evaluation in accordance with the principle of fairness and just, and the 360-degree feedback measure in order to reward the outstanding employees.

(3) Establish various incentive programs (year-end bonuses and dividends bonus) to inspire employees with substantive and positive incentives.

(4) Promote autonomous management with a positive and stimulating potentials management model.

●Welfare System

The Employee Welfare Committee for the best interests of the employees has enthusiastically planned various activities and welfare facilities, such as, Badminton Club, Yoga Club, Baseball and Softball Club, Bicycling Club, and Golf Club to create a lively working atmosphere and to boost employee morale. In 2017, the Company appropriated NT\$3,490,000 to the Employee Welfare Committee for welfare activities of the employees.

(1) Multiple benefit programs:

Such as, employee cafeteria, library, three-festival gift money, birthday and marriage gift money, yearend banquet, free annual health checks, employee travel, art and culture, and continuing education subsidies bereavement condolences, maternity subsidy and other

employee benefits. Purchase blood pressure monitors for employees and play soft music at 11:00 am and 3:00 pm to remind colleagues to exercise timely.

(2) Comprehensive employee group insurance:

The Company provides employees with various insurance coverage, including life insurance, accident insurance, hospitalization insurance, medical insurance, cancer insurance, and occupational hazard insurance. Increase the protection measures for employees.

(3) Employee Stock Ownership Trust (ESOP) system:

The Company had the Employee Stock Ownership Trust (ESOT) plan initiated in March 2015 to allow employees participating in the Company's growth and to embrace profits and optimized benefits.

(4) Arrange soul-art seminars:

For the mental and physical health of employees, the Company occasionally arranges telepathic communication seminar and musical and artistic performances for employees to enrich soul, to learn knowledge, and to relieve stress.

(5) Bonus system:

The Company's employees are entitled to bonus benefit. The employee's performance will be fully integrated with the reward policy to substantiate the business philosophy of "the company belongs to the employees." The Company implemented the Employee Stock Ownership Trust plan in March 2015 to bring positive encouragement value to the employees.

2. Investor Relations

The Company has a spokesman and deputy spokesman appointed to express opinions to the public or to respond to the questions raised by the investors, either by phone or by E-mail. (Telephone: 02-82265500, extension 161; Email: sylvialee@chenbro.com)

The Company discloses essential information on financial performance and operation at regular intervals, and holds an institutional investor conference at least twice a year. Information on materiality will also be released simultaneously with the installation of a website in both the Chinese and English languages for enhancing the information transparency of the Company so that investors can keep abreast of the operation and development planning of the Company.

3. Supplier Relations

Establish good communication channels and extend responsibility upward and downward. Also, request that the product quality of suppliers meet the green environment regulations and relevant international specifications. A system for traceability of materials has been established for checking out if the suppliers have established a corresponding system of traceability to ensure product quality and the assurance of the warranty conditions for the increased protection of customers.

4. Stakeholders' rights

The Company has enacted the "Procedures for Handling Material Inside Information." The Company's directors, supervisors, managers, and employees, or the individuals who have learned about the Company's material inside information because of the identity, occupation, or control relationship must exercise due diligence to fulfill the obligation of faith and attention, based on self-discipline and prudent attitude to perform job in accordance with the principle of honesty and creditability, strictly comply with the material information handling, disclosure, and confidentiality requirements of the competent authorities, and substantiate the spokesman system and designate the department or personnel to take charge of handling material inside information in order to improve the relationship with the stakeholders. Shareholders have priority rights to express an opinion on the Company's operational performance; also, must respect and satisfy the demands of all stakeholders (shareholders, employees, customers, suppliers, and communities). Stakeholders may communicate with or give suggestion to the Company via mail, telephone, e-mail, or the company website to protect their rights.

5. Continuing education of directors and supervisors

The Company's directors and supervisors are to take their continuing education in accordance with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE/GTSM-Listed Companies" as follows:

Continuing education of directors and supervisors (2017)

Title	Name	Training date	Organizer	Course name	Training hours	Total continuing education hours of the year
Independent Director	TSAO AN PANG	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	
Independent Director	HSU KUEI YING	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	
Independent Director	HUANG WEN CHENG	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/08/08	Accounting Research and Development Foundation	Discussion on the authority and responsibility of the Directors, Supervisors, and Senior Executives in "Monitoring and Audits" and legal liability	3	
Director	HSU SHEN KUO	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Accounting Research and Development Foundation	The new challenge of global taxation governance 2.0	3	
Director	LEE TSUN YEN	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	

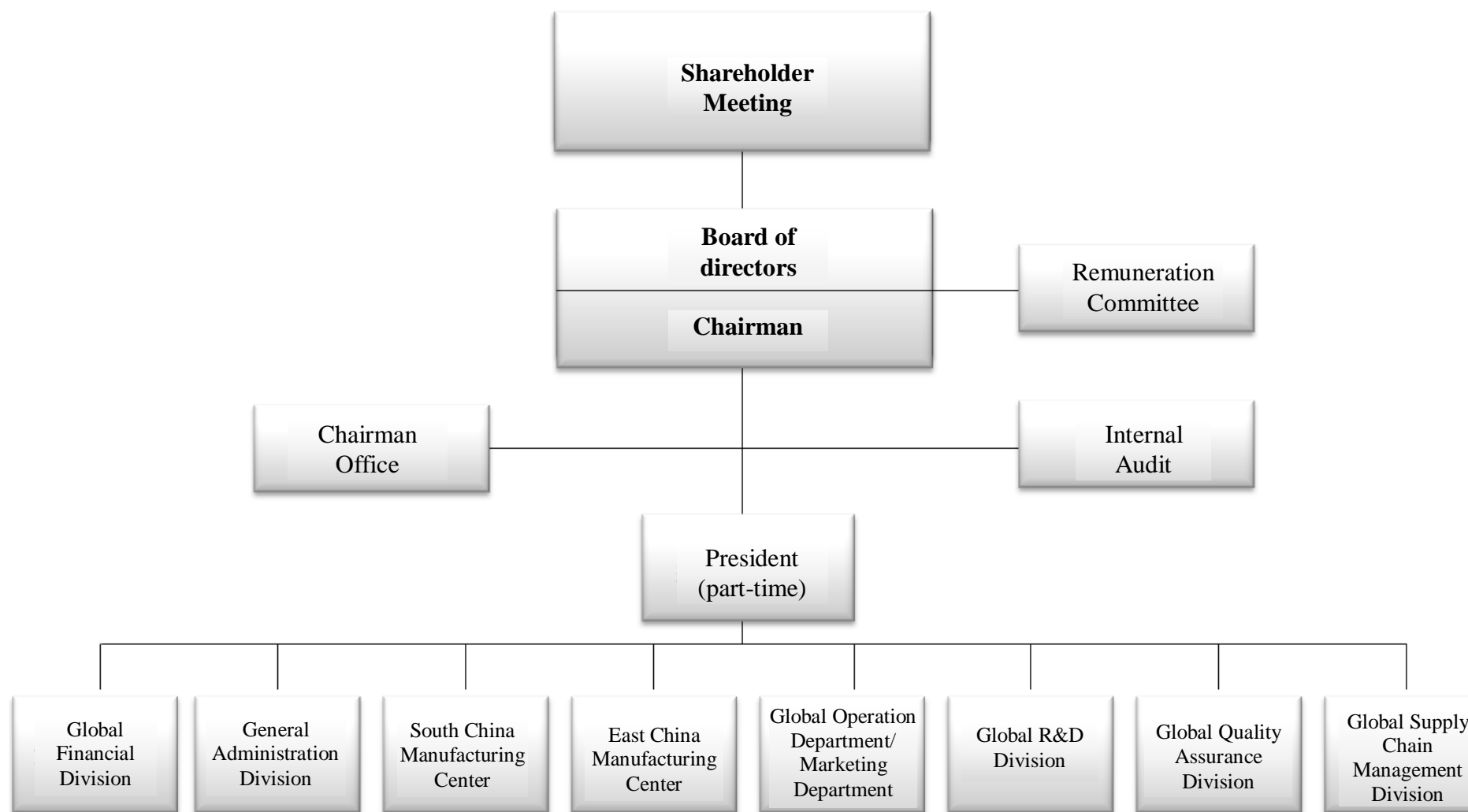
Title	Name	Training date	Organizer	Course name	Training hours	Total continuing education hours of the year
Director	WU CHUNG PAO	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	9
		2017/09/21	Corporate Governance Association in Taiwan	Global Trend Analysis –Risk and Opportunity	3	
		2017/09/21	Corporate Governance Association in Taiwan	Information Security Governance under Technology Development	3	
Director	CHEN MEI CHI	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	
Supervisor	LEE YA MI	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	
Supervisor	HUANG LI LONG	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	
Supervisor	CHEN JEN SHYANG	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	

6. Implementation of risk management policies and risk measurement standards

(1) Risk Management Policies

Base on professional technique and concept of domestic and foreign risk assessment to actively implement risk prevention and loss control and to continue improving with effective risk management system and full participation of all employees in education and training in order to achieve the ultimate goal of zero risk.

Chenbro Micom Co., Ltd Global organization chart



Risk management organization table

Important risk assessment matters	Risk control direct unit (Business Organizer)	Risk review and control	Board of Directors and Audit Office
	(1 st mechanism)	(2 nd mechanism)	(3 rd mechanism)
1. Interest rates, exchange rates, and financial risk 2. High risk and high leverage investment, loaning of funds, derivatives transaction, and financial investment 3. Investment, reinvestment, and merger and acquisition synergy	Financial Department	Financial Investment Review Unit (Members: Global Financial Division, Office of the Chairman)	Board of Directors and Supervisors: (Risk assessment and control policy and ultimate control) Audit Office :(risks check, evaluation, supervision, improvement, tracking, and reporting)
4. R&D plans	Cooling/Structural R&D Department, Hardware R&D Department, Software R&D Department, Physical Design	R&D Review Unit (Members: Global R&D Division, Office of the Chairman)	
5. Changes in policy and law 6. Litigation and non-litigation matters 7. Contract preparation and review 8. Patent Proposal Review	Legal Affairs Intellectual property	Legal Affairs Review Unit (Members: General Administration Division, Office of the Chairman)	
9. Changes in technology and industry 10. Changes in product and corporate image	Marketing Department	Marketing Review Unit (Members: Global Sale and Marketing Division, Office of the President, Office of the Chairman).	
11. Production and sale coordination 12. Plant expansion or production 13. Collective purchase or sales	Zhangheju Plant, Chin-Qin Plant, outsourcing mold, Production Planning Division, Procurement Division, Warehousing & Delivery Division, Business Department, US Branch, Europe Branch, Greater China area, and Chin-Qin business operation	Production and Sale Review Unit (Members: Global Supply Chain Management Division, South China/East China Manufacturing Center, Global Sales and Marketing Division, Office of the Chairman).	
14. Changes in the shareholding of directors, supervisors, and major shareholders 15. Changes in management power	Accounting Department and the Board of Directors	Operation Review Unit (Members: Global Financial Division, Office of the Chairman, the Board)	

7. Implementation of customer policies

Focus on service for the customers, maintaining positive relations with the customers, routine participation in meetings for exchanges (QBR) so as to find out the complaints of the customers and give them solutions. In addition, the Company also makes corresponding adjustments to the operation standards with positive efforts in auditing and corrective action to ensure meeting the needs of the customers and creating profit for the Company so that all sides are winners.

8. The liability insurance obtained for directors and supervisors by the Company

Insured objects	Insurance company	Insurance Amount (NT\$)	Insurance policy starting and ending time	Date of reporting to the Board.
All directors and supervisors	Fubon Insurance Co., Ltd.	319,900,000	Starting time: September 7, 2016 Ending time: September 7, 2017	None
All directors and supervisors	Fubon Insurance Co., Ltd.	297,600,000	Starting time: September 7, 2017 Ending time: September 7, 2018	Date Reported by the Board: 2017/08/10

9. Manager's participating in corporate governance related continuing education and training (2017):

Title	Name	Training date	Organizer	Course name	Training hours	Total continuing education hours of the year
Chairman	CHEN MEI CHI	2018/02/02	Taiwan Institute of Directors	Significant influence of the tax reform in the USA on Taiwan	3	3
		2017/11/07	Taiwan Institute of Directors	Update of the tax reform in Taiwan and the USA and the response in corporate governance	3	6
		2017/01/19	Taiwan Institute of Directors	The new challenge of global taxation governance 2.0	3	
Vice President of Finance and Accounting Department	CHIH CHIA LIN	2017/11/23 ~ 2017/11/24	Accounting Research and Development Foundation	Continuing education of the accounting officers of the security issuers, security firms, and Taiwan Stock Exchange Corporation	12	12

10.Strengthen auditing and self-inspection operation

The Company has a complete internal control system enacted and implemented effectively. In daily operations, in addition to requesting each unit to fulfill management responsibilities and handling self-inspection operation, each department shall also prepare for cross-auditing, effective monitoring, and debugging and self-correcting in a timely manner. The Board of Directors and the management will regularly review the self-inspection result of each unit and the audit reports of the Audit Office in order to substantiate the effectiveness and efficiency of the Company's operations, to enhance the Company's competitiveness, to ensure the accuracy of financial reports, and to confirm the compliance of all relevant laws and regulations.

11.Procedures for handling material inside information

The Company's Board of Directors had the "Procedures for Handling Material Inside Information" resolved on December 29, 2009. And initiated the advocacy of the following:

- (1) Provide the "Procedures for Handling Material Inside Information" to directors and supervisors at least once a year.
- (2) Provide the "Procedures for Handling Material Inside Information" to the newly appointed management.
- (3) In addition to advocating the "Procedures for Handling Material Inside Information" to the management periodically, also advocate the insider trading related information on the website of Taiwan Stock Exchange Corporation.
- (4) Advocate the "Procedures for Handling Material Inside Information" to employees.

12.The Company's implementing corporate social responsibility

(1) Energy-saving and carbon reduction and environmental protection action

The Company actively responds to global environmental protection activities and take advantage of the Company's core profession by designating the Company's administration department to plan, supervise, audit, and improve the Company's energy-saving policy; also, to advocate and convey correct energy-saving concept periodically. Bins for recycling of materials with a proper classification were installed at the workplace so that employees can make it a habit to recycle materials by category. The Zhonghe Branch of the First Social Welfare Foundation and Blue Sea Environmental Protection Technology Co., Ltd. recycled resources from time to time, and provided education on the multilateral saving of energy for the efficient use of energy and carbon reduction as an integral part of energy management for the employees and supported the government policy of energy savings and environmental protection.

(2) Charity

1. Environmental Sustainability

1-1 Promote organic vegetation

In recent years, Taiwan is deep in the food safety crisis. The health of Taiwanese is threaten by the heavily used agricultural and chemical fertilizers throughout the agricultural production; also, jeopardizing the land. The Company has worked with Huei-Shiang Organic Life Farm for the fourth year since 2013 to promote the concept of organic healthy vegetation diet, to sponsor Huei-Shiang Organic Life Farm in Miaoli, to gift customers and the staff with organic pomelos and oranges, to support organic farmers, and to promote the channels and visibility of organic produces. The Company had arranged the employee travel outing in 2015 and 2016 to visit Huei-Shiang Organic Life Farm for experiencing the hard work and importance of organic farming. It is desirable to start from within the Company to awaken the attention and care of the public for organic vegetation diet.

2. Arts and culture promotion

2-1 Yunlin Art Light-up Project

The Company has initiated the “Yulin Arts Program” for 5 consecutive years since 2013. This event is organized by the Aaeon Foundation. The Company donated NT\$300,000 in 2017 and rallied for the support of the employees and their families in volunteer works. There were more than 300 volunteers serving the cause. We made our contribution with money and human resources. There were more than 95 participating schools with 6,845 teaching activities held starting from the first year, with a grand total of over 300,000 teachers and students involved.

“Taipei Art Exploration Journey” is the highlight of “Yunlin Art Light-up Project.” We took the children to the Lin Liu Hsin Puppet Show Museum, Ximen Square, Ying Ge Pottery Museum, Lee Mei Shu Museum in Sanxia, National Palace Museum and Zhi Shan Garden, and other cultural spots. There were also fun games for the development of their limbs. After the art exploration tour in Taipei, Yunlin children returned home to be tour volunteers sharing the tourism spots they visited and their thoughts with the lower grade students. Children are like the eyes of travelers, through their eyes and their mouths to write down and speak out their feelings and appreciation. Let them know that all their dreams can come true as long as they are determined to observe, set, and fulfill their goals full-heartedly. It is the most important purpose of going on a teaching tour.

2-2 The Joint Arts plan and Artistic Taiwan

For the continuation of the Yulin Arts Program, the Company donated NT\$1.1 million in 2017 for sponsoring joint ventures in artistic creation where 10 schools that performed splendidly in the Yulin Arts Program were selected for introducing more artistic resources. The Artistic Thinking Taiwan program aims at motivating children to “sketch” out the beauty of their home towns and “speak” out their works on the stage for further identification through the exhibition of the works from outstanding artists of Taiwan and the “Sketching out my Hometown” drawing contest.

2-3 Support Taiwan’s traditional Opera culture

Chenbro understands that it takes rich soil and nutrient to root culture and to promote arts. Under the introduction of Mr. Stanley Shih, the Chairman of the National Cultural and Arts Foundation, we met master Wu Hsing-Kuo and master Lin Hsiu-Wei of the Contemporary Legend Theatre. Further to the donation of NT\$1 million to the second strings of contemporary artists, we also organized several seminars and the promotion of performance arts so that the people of the Company could seek a breakthrough from learning under the motivation of the Contemporary Legend Theatre. Arts and culture are indeed closely associated with creative minds at work. This also helps to effectively promotion the miniature culture of theatre arts in Taiwan to carry on their spirit.

3. Social Care

3-1 Visitation of under-privilege families in New Taipei City and Yunlin County

Chenbro, in addition to donating to Social Affairs Bureau of New Taipei City and Yunlin County annually, will grant the “volunteer leaves” to employees for a four-day

under-privilege families care tour every four months in New Taipei City and Yunlin County. The employees will learn how to be humble and to give and share for knowing that there are many more families needed helps and helping those families feel the warmth of the society.

3-2 Yunlin Yi Xin Child Care Center

There is a severe scarcity of facilities for taking care of young children in Yunlin, to the extent that many children in malfunctioning families have to be relocated to the centers for the care of children in other cities and counties, which makes the attention, supervision and visits of relatives very difficult and inconvenient. For helping the misfortunate children in Yunlin, Chenbro donated 40 PC monitors to help the Yunlin Yi Xin Child Care Center set up a computer classroom and also connected it to different external resources. On January 14, 2017, Yunlin Yi Xin Child Care Center was successfully activated. With the convergence of our efforts and the love of all, we help the children staying in a dark corner of Yunlin to shake off the yoke of poverty and heal the wounds deep inside, and embrace a bright future.

4. Talent cultivation

4-1 Sponsorship for The Alliance Cultural Foundation

For helping the home coming aboriginal youth cultivate the ability for a sustainable operation and helping aboriginal elites return home to work, Chenbro has donated since the year of 2012 to sponsor The Alliance Cultural Foundation. In response to the “Junyi Academy Plan” of Mr. Chang-Shou Yen with the theme of and focus on “Rural home coming talents employment and entrepreneurship plan” and “Rural home coming cultivation plan,” also, the four action plans and directions of “Tourism Promotion,” “Industry Counseling,” “Arts and Culture Development,” and “Education Plan” in order to provide the students in Hualien and Taitung with a good learning environment and bright future.

4-2 Sponsorship of Tou Liu Senior High School in the “Soft Tennis” Game

Chairperson Chen Mei-Chi donated NT\$500,000 for sponsoring the 1st National Elite Cup Youth Soft Tennis Invitation Tournament in remembrance of the late physical education teacher, Liao Ku-Ben, for his selfless effort in supporting the formation of the soft tennis team at Tou Liu Senior High School, the alma mater, and the training of players. She hoped this event could help to upgrade the capacity of young people in Taiwan in soft tennis and gear up with the world and open a new era of soft tennis.

5. “Maggie Love Sharing” network platform - to share the power of love

The “Maggie Love Sharing” network platform is for sharing beautiful things and for the synergy of kindness. The Company had the “Maggie Love Share” website setup in December 2013 with the website setup at www.maggiloveshare.com. The Company has the chartable activity information and corporate volunteers’ insights collected by texts, photos, and films photos through the “Maggie Love Share.” Share with good friends and work partners in life through the infinite power of Internet. Let more people know and even join the charitable activities through the words of mouth. Regardless money donation or volunteer work, we expect this website to exercise the positive power of “sharing” in order to achieve the goal of more fun and happiness!

The “Maggie Love Share” website has been setup for four years with three ~ five newsletter articles published monthly. There are more than 150,000 visitors with their feedback to share constantly. Apparently, the “Maggie Love Share” is demonstrating positive effect as a public platform. The Company would like to see the spread of good knowledge in the future. Although the writing is not perfect, the intention is to generate resonance through sincere sharing and writing in order to do more for the good of the world.

(3) Protect the human rights of employees and substantiate the safety and health measures.

It has been detailed in the “Labor Relations” section. Please refer to Page 94~100 of the Annual Report.

(IX) Internal control

1. Internal Control Declaration: Please refer to Page 126 [Appendix I] for details.
2. For the CPAs specifically commissioned to review the internal control system, the Independent Auditor’s Report should be disclosed: None.

(X) The punishment rendered to the Company and its internal staff lawfully, the disciplinary action brought against the internal personnel who had violated the

internal control system, and the major nonconformities and the corrective action in the most recent year and up to the printing date of the annual report: None

(XI) The important resolutions reached in the shareholders' meeting and Board meeting in the most recent year and up to the printing date of the annual report

1. The important resolutions reached in the 2017 shareholders' meeting and their implementation

Chenbro's 2017 shareholders' meeting was held in Chunghe of New Taipei City on June 20, 2017. The matters resolved in the shareholders' meeting for implementation are as follows:

Convening date	The 2017 General Shareholders' Meeting
2017.06.20	<p>1.Acknowledged the 2016 business report and financial statements (including individual and consolidated financial statements). Implementation: The attending shareholders were consulted by the Chairman to have the motion passed as proposed.</p> <p>2.Acknowledged the 2016 earnings distribution proposal. Implementation: For the 2016 earnings distribution, shareholders' dividend was for NT\$3/share based on the 119,725,950 outstanding shares, for a grand total dividend amount of NT\$359,177,850. In addition, remuneration to directors and supervisors in cash was for an amount of NT\$15,285,900; also, remuneration to employees was for an amount of NT\$51,972,059. The ex-dividend base date scheduled on July 16, 2017 was resolved in the Board meeting on June 20, 2017; also, cash dividend was distributed on July 31, 2017.</p> <p>3.Discussed having some clauses of the "Third Party Lending Procedures" amended. Status of implementation: the motion was passed with disclosure on MOPS and the official website of the Company in accordance with the amended procedures.</p> <p>4.Discussed having some clauses of the "Articles of Associations" amended. Status of implementation: the motion was passed with the approval of the Ministry of Economic Affairs for registration for change on July 13, 2017, and was disclosed on the official website of the Company.</p> <p>5.Discussed having some clauses of the "Procedures for Election of Directors and Supervisors" amended. Status of implementation: the motion was passed and proceeded with the amended procedures.</p> <p>6.Discussed having some clauses of the "Rules of Procedure for Shareholder Meetings" amended. Status of implementation: the motion was passed with disclosure on MOPS and the official website of the Company in accordance with the amended procedures.</p> <p>7.Discussed having some clauses of the "Regulations Governing the Acquisition and Disposal of Assets" amended. Status of implementation: the motion was passed and proceeded with the amended procedures.</p> <p>8.The election of the 13th Board of Directors and Supervisors Names of elected directors: CHEN MEI CHI, LEE TSUN YEN , HSU SHEN KUO , WU CHUNG PAO. Names of elected independent directors: HSU KUEI YING, HUANG WEN CHENG, TSAO AN PANG. Names of elected supervisors: CHEN JEN SHYANG, HUANG LI LONG, LEE YA MI. Status of implementation: the motion was passed with the approval of the Ministry of Economic Affairs for registration for change on July 13, 2017, and was disclosed on the official website of the Company.</p> <p>9.The motion for lifting the ban on competition of the newly elected Directors Status of implementation: the motion was passed.</p>

2. Resolution of the Board on key issues

(1) The attendance of the Independent Directors to the sessions of the Board.

In 2017 on the day this report was printed, the attendance of the Independent Directors to the sessions of the Board ☉: attended in person; ★: attend by proxy; ※: absent								
2017/ 2018	1 st session in 2017	2 nd session in 2017	3 rd session in 2017	4 th session in 2017	5 th session in 2017	6 th session in 2017	1 st session in 2018	2 nd session in 2018
HUANG WEN CHENG	☉	☉	☉	☉	☉	☉	☉	☉
TSAO AN PANG	☉	☉	☉	☉	☉	☉	☉	★
HSU KUEI YING	☉	☉	☉	☉	☉	☉	☉	☉

(2) Important resolutions of the board of directors

Important resolution date	Important resolution contents
16 th session of the 12 th Board 2017.01.19	<ol style="list-style-type: none"> 1. Resolved to pass the resolution of distributing salary and year-end bonus to the management reached in the Company's Remuneration Committee meeting on January 9, 2017. 2. Resolution in favor of the business plan and budget of the Company in 2017. 3. Resolved to pass the amendments of the "Articles of Association." 4. Resolved to pass the amendments of the Third Party Lending Procedures. 5. Resolved to pass the amendments of the Corporate Governance Best-Practice Principles. 6. Resolved to pass the amendments of the "Corporate Social Responsibility Best-Practice Principles." 7. Resolved to pass the amendments of the "Procedures for Election of Directors and Supervisors". 8. Resolution to upgrade the management efficiency and tax planning in Mainland China through the adjustment of the investment structure in China. ChenPower information Technology (ShangHai) Co., Ltd., and investee of indirect subsidiary AMBER INTERNATIONAL COMPANY, will establish branches in Beijing and Shanghai. Chenbro Micom (ShenZhen) Co., Ltd., and Chenbro Micom (Beijing) Co., Ltd. will be shut down.
17 th session of the 12 th Board 2017.02.23	<ol style="list-style-type: none"> 1. Resolved to pass the Company's 2016 "Internal Control System Declaration." 2. Resolved to pass the 2016 remuneration to employees, directors, and supervisors. 3. Resolved to pass the Company's 2016 financial statements and 2016 business reports that were prepared by the Company internally. 4. Resolved to pass the Company's 2016 earnings distribution proposal. 5. Resolved to pass the "shareholder proposal operation" of the 2017 general shareholders' meeting. 6. The motion of the "Nomination of the Candidates of Independent Directors" in the regular session of the Shareholders' Meeting in 2017 was passed. 7. Resolved to pass the motions discussed in the Company's 2017 general shareholders' meeting. 8. Resolved to pass the amendments of the Rules of Procedure for Shareholders' Meeting. 9. The motion of the roll-over of the limit for export negotiation amounting to USD 500,000 by Bank of Taiwan Zhonghe Branch was passed. 10. Resolved to pass the US\$500,000 foreign exchange derivatives quota extension made by Bank of Taiwan Chunghe Branch.
18 th session of the 12 th Board 2017.05.09	<ol style="list-style-type: none"> 1. Resolved to pass the Company's 2017Q1 financial statements. 2. Resolved to pass the "shareholder proposal operation" of the 2017 general shareholders' meeting explaining the reason why the "shareholder proposal operation" was not included as a motion to be discussed in the general shareholders' meeting. 3. The motion on the review of the qualification requirements of the candidates to the seats of Independent Directors was passed. 4. The motion of lifting the ban on competition of the newly elected Directors was passed. 5. Resolved to pass the motions discussed in the Company's 2017 general shareholders' meeting.

Important resolution date	Important resolution contents
	<ol style="list-style-type: none"> Resolved to pass the amendments of the Company's "Regulations Governing the Acquisition and Disposal of Assets". The motion of shutting down the subsidiary of Holland, CHENBRO EUROPE B.V. for the integration of the investment structure of the Company in Europe was passed. The motion of the conversion of the indirect subsidiary of CHENBRO UK Limited, which was directly invested in by CHENBRO EUROPE B.V., a direct subsidiary of the Company in Holland, as a direct investee to be the corporate HQ was passed.
1 st session of the 13 th Board 2017.06.20	<ol style="list-style-type: none"> The motion of the election of a new chairman at the expiration of the tenure of the previous chairman was passed. The motion of the election of the members to the 3rd Remuneration Committee and the nomination of the convener of the committee was passed. Resolved to pass the 2016 cash dividend distribution date. Resolved to pass the resolution of scheduling the Remuneration Committee meeting on June 20, 2017. The motion for additional amounts of funds supported by the parent company of Chenbro for financing the subsidiary in Germany, Chenbro GmbH, which required a larger sum of working capital, was passed. The motion of roll-over of the credit limit of NT\$100 million from Citibank was passed. The motion of roll-over of the credit limit of USD 2 million from Citibank under the endorsement/guarantee undertaken by the parent company in favor of Chenbro Micom (USA) INC. was passed. The motion of the roll-over of the credit limit from Bank SinoPac amounting to NT\$200 million was passed. The motion of an additional credit limit from CTBC Bank amounting to NT\$100 million was passed. The motion of the replacement of the R&D head of the Company was passed.
2 nd session of the 13 th Board 2017.08.10	<ol style="list-style-type: none"> Resolved to pass the Company's 2017 Interim Consolidated Financial Statements. The motion of the roll-over of the credit limit from E. Sun Bank amounting to NT\$100 million was passed. The motion of the roll-over of the credit limit from Shanghai Commercial and Saving Bank amounting to USD 3 million was passed. The motion of the roll-over of the credit limit from Taipei Fubon Bank amounting to USD 3 million was passed. Resolved to pass the US\$500,000 foreign exchange derivatives quota extension made by Taipei Fubon Bank. The motion of the roll-over of the credit limit of USD 3 million under the endorsement/guarantee undertaken by the parent company in favor of PROCASE & MOREX CORP was passed. The motion of an additional limit derivative trade in foreign exchange with CTBC Bank of USD 500,000 for the needs of foreign exchange transactions and hedging was passed.
3 rd session of the 13 th Board 2017.11.07	<ol style="list-style-type: none"> Resolved to pass the Company's 2018 audit plan. Resolved to pass the Company's 2017Q3 financial statements. The motion of the roll-over of the credit limit of USD 2 million under the endorsement/guarantee undertaken by the parent company in favor of Chenbro Micom (USA) INC. was passed. The motion of the offering of a loan amounting to USD 3 million by the parent company in favor of indirect subsidiary ADEPT International Company as working capital was passed.
4 th session of the 13 th Board 2018.02.02	<ol style="list-style-type: none"> Resolved to pass the resolution of distributing salary and year-end bonus to the management reached in the Company's Remuneration Committee meeting on February 2, 2018. The business plan and budget of the Company in 2018 was passed. Resolved to pass the amendments of the Rules of Procedure for Board of Directors Meetings. Resolved to pass the amendment of the "Rules Governing the Responsibilities of the Independent Directors" The motion of the roll-over of the credit limit granted by Bank of Taiwan, Zhonghe Branch, amounting to NT\$240 million was passed. Resolved to pass the Company's extending the US\$3.5 million endorsement/guarantee for PROCASE & MOREX CORP.
5 th session of the 13 th Board 2018.03.20	<ol style="list-style-type: none"> Resolved to pass the Company's 2017 "Internal Control System Declaration." Resolved to pass the amendment of the Company's "Internal Control System Declaration" and "Internal Audit Enforcement Rules."

Important resolution date	Important resolution contents
	<p>3.The motion of the session of the Remuneration Committee held on March 20, 2018 for resolution of the proposal of remuneration to employees and Directors and Supervisors was passed.</p> <p>4.Resolved to pass the Company's 2017 financial statements and 2017 business reports that were prepared by the Company internally.</p> <p>5.Resolved to pass the Company's 2017 earnings distribution proposal.</p> <p>6.Resolved to pass the "shareholder proposal operation" of the 2018 general shareholders' meeting.</p> <p>7.Resolved to pass the motions discussed in the Company's 2018 general shareholders' meeting.</p> <p>8.The motion of an additional credit limit from Citibank to the Company amounting to USD 6 million was passed.</p> <p>9.The motion of the roll-over of the credit limit from Citibank to Chenbro Micom (USA) INC amounting to USD 2 million under the endorsement/guarantee undertaken by the parent company was passed.</p> <p>10.The motion in favor of the subsidiary of an indirect subsidiary of the Company, Chenbro Technology (Kunshan) Co., Ltd., desiring to engage in an equity joint venture with Zhong Ke Controllable Information Co., Ltd. for the manufacturing of server cases was passed. The parties entered into an MOU, which is not bound by law but under good will for the feasibility study of this operation.</p>

Please visit the website of "MOPS" at <http://mops.twse.com.tw> for information in details.

(XII) If the directors or supervisors have different opinions on the resolutions reached by the Board of Directors with a record or written statement made in the most recent year and up to the printing date of the annual report, please state the content of the opinion:
None.

(XIII) The summary of the resignation or dismissal of the Company's Chairman, President, Accounting Officer, Finance Officer, Internal Audit Officer, and R&D Director in the most recent year and up to the printing date of the annual report:

The master list showing the resignation and relief from office of the heads of R&D of the Company

May 8, 2018

Title	Name	Election Date	Termination Date	Cause of Resignation or Termination
Vice President, Global R&D Division	KUO SHANG TI	2013/10/08	2017/06/20	Rotation of duties
Chief Internal Auditor	HUIYING SU	2013/2/18	2018/4/9	Resignation

V. Disclosure of CPAs' remuneration

Monetary Unit: NT\$ 1000

Auditor's firm	Name of CPA	Audit remuneration	Non-audit remuneration					CPA auditing period	Remarks
			Policy design	License registration	Human resource	Others (Note 2)	Subtotal		
PwC Taiwan	Audrey Tseng And Chih Ping Chiun	4,404	0	0	0	3,925	3,925	2017/01/01~2017/12/31	1. Transfer pricing report and risk assessment service amounting to NT\$1,507 thousand. 2. Assistance to the administrative procedure for shutting down the subsidiary in Holland amounting to NT\$2,418 thousand. 3. Auditing fee increased by NT\$260 thousand as compared with the same period of the previous year mainly because of the audit of the subsidiaries in Europe.
BDO Taiwan	Shu cheng Zhang	0	0	0	0	47	47	2017/01/01~2017/12/31	The 2017 Sideline business entity's business tax auditing and attestation with a direct withholding method adopted

Note 1: If there is any CPA or CPA Firm being replaced in current year, the auditing period should be indicated separately and the reason for such replacement should be detailed in the remark column; also, the information regarding the audit and non-audit fee paid should be disclosed.

Note 2: Non-audit remuneration should be listed separately by service category. If the "Other" category amounts to 25% of total non-audit remuneration, then services must be detailed in the remarks column.

CPA fee table

Monetary Unit: NT\$ 1000

Service fee items		Audit remuneration	Non-audit remuneration	Total
Amount bracket				
1	Below NT\$2,000 thousand	0	0	0
2	NT\$2,000 thousand (inclusive) ~ NT\$4,000 thousand	0	3,972	3,972
3	NT\$4,000 thousand (inclusive) ~ NT\$6,000 thousand	4,404	0	4,404
4	NT\$6,000 thousand (inclusive) ~ NT\$8,000 thousand	0	0	0
5	NT\$8,000 thousand (inclusive) ~ NT\$10,000 thousand	0	0	0
6	Over NT\$10,000 thousand (inclusive)	0	0	0

CPA fee information:

- (I) If the non-auditing fee paid to the attestation CPAs, attestation CPA Firm, and the affiliated enterprises is for an amount more than one fourth of the auditing fee, the auditing amount, non-auditing amount, and the contents of the non-auditing service must be disclosed:

1.PwC Taiwan

The auditing fee covers the services for financial audits and taxation audits with related certification.

The non-auditing fee covers the services of the transfer pricing report and risk assessment report, and the assistance in the administrative procedure of shutting down the subsidiary in Holland.

2.BDO Taiwan

The non-auditing fee also covers the certification of the direct deduction of sale tax by business owners.

If the commissioned CPAs Firm is replaced and the auditing fee paid in the year of replacement is less than the auditing-fee paid in the prior year, the auditing fee before and after the replacement and the root cause should be disclosed: None

- (II) If the auditing fee of the current year is more than 15% less than the year before, the reduced fee amount, ratio, and the root cause should be disclosed: None

VI. Change of CPA

I. The former CPAs

Date of reappointment	It was resolved in the Board meeting on March 22, 2016		
Reason for reappointment	To have the attestation CPAs changed from Huiling Pan and Bingjun Tzi to Huijin Tseng and Bingjun Tzi since the year of 2016 in accordance with Article 68 of the Auditing Standard No. 46 “CPA Firm Quality Control” and the internal organization adjustment of PwC Taiwan.		
Was the termination of audit services initiated by the principal or by the CPA	Participants		Principal
	Situation	CPA	
	Service terminated by	Not applicable	Not applicable
	Service no longer accepted (continued) by	Not applicable	Not applicable
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	None		
Disagreements with the issuer	Yes		Accounting policy or practice
			Financial statement disclosure
			Audit coverage or procedures
			Others
	None	V	
	Description		
Other disclosures (Disclosures deemed necessary under Article 10.6.1.4 ~ Article 10.6.1.7 of The Guidelines)	Not applicable		

II. The successor CPAs

Name of firm	PwC Taiwan
Name of CPA	Audrey Tseng and Chih Ping Chiun
Date of reappointment	It was resolved in the Board meeting on March 22, 2016
The inquiries on the accounting process or accounting principle for specific transactions and the possible opinions to be issued on the financial statements and its results before the commission of the successor CPAs.	None
Written disagreements from the succeeding auditor against the opinions made by the former CPA	None

III. The reply of the former CPAs on the matters stated in Article 10 Paragraph 6 Section 1, Section 2, and Section 3 of the Auditing Standards:

It is classified as an internal job rotation of the CPAs Firm; therefore, it is not applicable.

VII. Any of the Company's Chairman, President, or managers involved in financial or accounting affairs being employed by the auditor's firm or any of its affiliated company within the recent year

None.

VIII. Shareholding transfers and share collateralization within the latest year, up till the publication date of this annual report, initiated by directors, supervisors, managers and shareholders with more than 10% ownership interest

(I) Shareholding changes of directors, supervisors, managers, and major shareholders

Unit: shares

Title	Name	2017		As of April 22, 2018	
		Increase (decrease) in shares held	Increase (decrease) in shares collateralized	Increase (decrease) in shares held	Increase (decrease) in shares collateralized
Chairman	CHEN MEI CHI	0	0	0	0
Director	LEE TSUN YEN	0	0	0	0
Director	WU CHUNG PAO	0	0	0	0
Director	HSU SHEN KUO	0	0	0	0
Independent Director	HSU KUEI YING	0	0	0	0
Independent Director	HUANG WEN CHENG	0	0	0	0
Independent Director	TSAO AN PANG	0	0	0	0
Supervisor	HUANG LI LONG	0	0	0	0
Supervisor	LEE YA MI	0	0	0	0
Supervisor	CHEN JEN SHYANG	0	0	0	0
Vice President of Global Operation Department	CHEN YA NAN	0	0	0	0
Vice President of Finance and Accounting Department	CHIH CHIA LIN	0	0	0	0
Vice President, Global R&D Division	KUO SHANG TI (Note 1)	0	0	0	0
Junior Vice President of Marketing Department	LIN TSUNG MIN	0	0	0	0
Junior Vice President of Mechanical Design Department	HUANG YU TZU	0	0	9,000	0
Global Chief Financial Officer	TSOU KE TI	0	0	0	0
Shareholders with over 10% shareholding	CHEN FENG MING (Note 2)	0	0	0	0

Note 1: Vice President KUO SHANG TI of Global R&D Division was relieved from office on June 20, 2017,

Note 2: Major shareholders with over 10% shareholding

(II) Changes in the pledged equity: None.

(III) The counterparty of equity transfer is a related party: None.

(IV) The counterparty of equity pledge is a related party: None.

IX. Relationships among The Company's top ten shareholders including spouses, second degree relatives or closer

April 22, 2018; unit: shares

Name (Note 1)	Shares Held In Own Name		Shareholdings of spouse and underage children		Shares Held In The Names Of Others		Among the top 10 shareholders, there are related parties, spouse to each other, and kindred within the 2 nd tier under the Civil Code, and the name and affiliation, if applicable (Note 3)		Remarks
	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage			
CHEN FENG MING	13,614,433	11.37	5,296,029	4.42	0	0	LEE TSUN YEN CHEN MEI CHI CHEN LIAN CHUN	Spouse Sister Brother-in-law	None
Peng Wei Investment and Development Co., Ltd. Representative: CHEN LIAN CHUN	11,940,912	9.97	0	0	0	0	CHEN MEI CHI CHEN FENG MING LEE TSUN YEN	Spouse Relative by marriage. Relative by marriage.	None
Lian-Mei Investment Ltd. Representative: CHEN MEI CHI	11,830,000	9.88	0	0	0	0	CHEN LIAN CHUN CHEN FENG MING LEE TSUN YEN	Spouse Younger brother Brother-in-law	None
CHEN MEI CHI	9,656,009	8.07	1,914,577	1.60	0	0	CHEN LIAN CHUN CHEN FENG MING LEE TSUN YEN	Spouse Younger brother Brother-in-law	None
Ming-Kwong Investment Co., Ltd. Representative: LEE TSUN YEN	9,141,967	7.64	0	0	0	0	CHEN FENG MING CHEN MEI CHI CHEN LIAN CHUN	Spouse Relative by marriage. Relative by marriage.	None
Cathay Life Insurance Co. Ltd. Representative: TSAI HONG TU	8,301,000	6.93	0	0	0	0	None	None	None
LEE TSUN YEN	5,296,029	4.42	13,614,433	11.37	0	0	CHEN FENG MING CHEN MEI CHI CHEN LIAN CHUN	Spouse Relative by marriage. Relative by marriage.	None
ZHOU SU ZONG	2,000,000	1.67	0	0	0	0	None	None	None
CHEN LIAN CHUN	1,914,577	1.60	0	0	0	0	CHEN MEI CHI	Spouse	None
LI CHEN YU CHOU	1,695,456	1.42	0	0	0	0	None	None	None

Note 1: Illustrate the top-ten shareholders. The name of the corporate shareholders and the name of its representative should be illustrated separately.

Note 2: The calculation of shareholding ratio refers to the shareholding ratio calculated in accordance with the shareholding of the shareholders, spouse, minor children, and in the name of others.

Note 3: The relationship among the shareholders (including legal person and natural person) in the preceding paragraph should be disclosed in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

X. Investments jointly held by The Company, The Company's directors, supervisors, managers, and enterprises directly or indirectly controlled by The Company. Calculate shareholding in aggregate of the above parties

December 31, 2017; unit: thousand shares

Transfer investment business (Note 1)	Invested by The Company		Held by directors, supervisors, managers, and directly or indirectly controlled enterprises		Aggregate investment	
	Shares	Shareholding percentage	Shares	Shareholding percentage	Shares	Shareholding percentage
CHENBRO EUROPE B.V.	20	100%	0	0	20	100%
Micom- Source Holding Co.	20,450	100%	0	0	20,450	100%
CHENBRO MICOM (USA) INC.	10,000	100%	0	0	10,000	100%
CLOUDWELL HOLDINGS, LLC.	3,600	100%	0	0	3,600	100%
CHENBRO GmbH	250	100%	0	0	250	100%
CHENBRO UK Limited (Note 2)	20	100%			20	100%

Note: The Company's investments under the equity method

Note: The Board resolved to hold the equity shares of CHENBRO UK Limited directly in a session dated May 9, 2017, and completed the transfer of the equity share and registration of the changes in August 2017.

Four

Funding Status

- I. The Company's capital stock and stock shares**
- II. Disclosure relating to corporate bonds**
- III. Disclosure relating to preference shares**
- IV. Disclosure relating to depository receipts**
- V. Employee stock warrants**
- VI. Disclosure regarding the management of new restricted employee stock**
- VII. Disclosure on new shares issued for the acquisition or transfer of other shares**
- VIII. The implementation of the fund plan**

Four. Funding Status

I. The Company's capital stock and stock shares

(I) Capital Sources

Year / month	Issue price (NT\$)	Authorized capital		Paid-up capital		Remarks		
		Shares (Thousand Shares)	Amount (NT\$ thousand)	Shares (Thousand Shares)	Amount (NT\$ thousand)	Capital Sources (NT\$ thousand)	Paid in properties other than cash	Others
1983/12	0	0	500	0	500	Incorporation capital 500	None	1983.12.05 Jian-1-Zi No. 106007
1984/05	0	0	2,000	0	2,000	Cash capitalization 1,500	None	1984.5.28 Jian-1-Zi No. 144359
1986/11	0	0	7,000	0	7,000	Cash capitalization 5,000	None	1986.11.12 Jian-1-Zi No. 169350
1989/12	0	0	25,000	0	25,000	Cash capitalization 18,000	None	1990.01.05 Jian-1-Zi No. 110347
1990/10	10	7,500	75,000	7,500	75,000	Cash capitalization 50,000	None	1991.1.7 Jing-(80)-Shang-Zi No. 00117
1998/09	10	13,500	135,000	13,500	135,000	Capitalization from earnings 30,000 Cash capitalization 30,000	None	1998.10.06 Jing-(87)-Shang-Zi No. 131175
1999/08	10	80,000	800,000	30,230	302,300	Cash capitalization 25,000 Capitalization from earnings 142,300	None	Securities & Futures Institute 7.19.1999 (88) Tai-Cai-Zheng-(I) No. 63566
2000/08	10	80,000	800,000	46,331	463,308	Capitalization from earnings 161,008	None	Securities & Futures Institute 8.24.2000 (89) Tai-Cai-Zheng-(I) No. 70667
2001/09	10	80,000	800,000	50,037	500,373	Capitalization from additional paid-in capital 37,065	None	Securities & Futures Institute 8.23.2001 (90) Tai-Cai-Zheng-(I) No. 153655
2002/09	10	80,000	800,000	54,040	540,402	Capitalization from earnings 40,030	None	Securities & Futures Institute 8.16.2002 (91) Tai-Cai-Zheng-(I) No. 0910145672
2004/11	10	80,000	800,000	60,358	603,587	Capitalization from earnings 52,377 Capitalization from additional paid-in capital 10,808	None	Financial Supervisory Commission 9.30.2004 Jin-Guan-Zheng-(I)-Zi No. 0930144328
2005/08	10	80,000	800,000	70,425	704,252	Capitalization from earnings 100,665	None	Financial Supervisory Commission 7.19.2005 Jin-Guan-Zheng-(I)-Zi No. 0940129149
2006/08	10	90,000	900,000	81,971	819,712	Capitalization from earnings 115,460	None	Financial Supervisory Commission 7.19.2006 Jin-Guan-Zheng-(I)-Zi No.

Year / month	Issue price (NT\$)	Authorized capital		Paid-up capital		Remarks		
		Shares (Thousand Shares)	Amount (NT\$ thousand)	Shares (Thousand Shares)	Amount (NT\$ thousand)	Capital Sources (NT\$ thousand)	Paid in properties other than cash	Others
								0950131442
2007/07	10	120,000	1,200,000	95,537	955,369	Capitalization from earnings 135,657	None	Financial Supervisory Commission 7.17.2007 Jin-Guan-Zheng-(I)-Zi No. 0960037071
2008/07	10	120,000	1,200,000	111,511	1,115,109	Capitalization from earnings 159,740	None	Financial Supervisory Commission 7.25.2008 Jin-Guan-Zheng-(I)-Zi No. 0970037754
2011/06	10	120,000	1,200,000	115,506	1,155,057	Capitalization from earnings 39,948	None	Financial Supervisory Commission 6.21.2011 Jin-Guan-Zheng-Fa-Zi No. 1000028489
2012/06	10	150,000	1,500,000	120,126	1,201,260	Capitalization from earnings 46,202	None	Financial Supervisory Commission 6.19.2012 Jin-Guan-Zheng-Fa-Zi No. 1010027336
2016/10	10	(400)	(4,000)	119,726	1,197,260	Deregistration of treasury shares (4,000)	None	Jing-Shou-Shang-Zi No. 10501246700

Share category	Authorized capital			Remarks
	Outstanding shares	Unissued shares	Total	
Registered common stock shares of the listed companies	119,725,950	30,274,050	150,000,000	

(II) Shareholders structure

April 22, 2018; unit: shares

Shareholders structure Volume	Government institutions	Financial institutions	Other corporations	Individuals	Foreign institutions and foreigners	Total
Head count	0	0	41	5,444	37	5,522
Shareholding	0	0	45,301,214	71,675,868	2,748,868	119,725,950
Shareholding percentage	0	0	37.84	59.87	2.29	100.00

(III) Ownership diversification

1. Ordinary shares

April 22, 2018; unit: shares

Shareholding range	Number of shareholders	Shareholding	Shareholding percentage (%)
1 to 999	1,192	252,980	0.21
1,000 to 5,000	3,246	6,696,177	5.59
5,001 to 10,000	516	4,039,701	3.37
10,001 to 15,000	159	2,019,225	1.69
15,001 to 20,000	96	1,774,146	1.48
20,001 to 30,000	90	2,294,791	1.92
30,001 to 50,000	88	3,540,293	2.96
50,001 to 100,000	66	4,825,416	4.03
100,001 to 200,000	29	3,941,581	3.29
200,001 to 400,000	13	3,223,917	2.69
400,001 to 600,000	9	4,317,722	3.61
600,001 to 800,000	2	1,445,631	1.21
800,001 to 1,000,000	3	2,693,988	2.25
1,000,001 and above	13	78,660,382	65.70
Total	5,522	119,725,950	100.00

Note: NT\$10 par value

2. Preferred stock shares : Not applicable

(IV) List of major shareholders

April 22, 2018; unit: shares

Name of major shareholder	Shareholding	Shareholding percentage (%)
CHEN FENG MING	13,614,433	11.37
Peng Wei Investment and Development Co., Ltd.	11,940,912	9.97
Lian-Mei Investment Ltd.	11,830,000	9.88
Chen Mei Chi	9,656,009	8.07
Ming-Kwong Investment Co., Ltd.	9,141,967	7.64
Cathay Life Insurance Co. Ltd.	8,301,000	6.93
Lee Tsun Yen	5,296,029	4.42
Zhou-Zong Su	2,000,000	1.67
CHEN LIAN CHUN	1,914,577	1.60
Yu-Chou Chen Li	1,695,456	1.42

(V) Market price, net worth, earnings, and dividends per share, and other relevant information for the last two years

Unit: NTD/ shares

Item	Year	2016	2017	Up till March 31, 2018 (Note 8)
Market price per share (Note 1)	Highest	61.50	58.60	51.8
	Lowest	36.80	40.80	44.2
	Average	50.70	51.50	48.45
Net worth per share	Before dividend distribution	23.86	24.38	25.09
	After dividend distribution	20.86	-	-
Earnings per share	Weighted average outstanding shares	119,725,950	119,725,950	119,725,950
	Base earnings per share (Note 3)	5.01	3.80	
Dividends per share	Cash dividend	3.0	Note 2	-
	From earnings	0	0	-
	From capital reserves	0	0	-
	Cumulative undistributed dividends (Note 4)	0	0	-
Analysis of investment returns	P/E ratio (Note 5)	10.12	13.55	-
	Price to dividends ratio (Note 6)	16.9	Note 9	-
	Cash dividend yield (Note 7)	5.92	Note 9	-

For the capitalization from earnings or additional paid-in capital, the market price and cash dividend adjusted retroactively according to the number of shares issued should be disclosed.

Note 1: List the highest and lowest share price in each year, and calculate the average market price by weighing transacted prices against transacted volumes.

Note 2: The 2017 cash dividend of NT\$3.00 per share will be distributed upon the resolution reached in the shareholders' meeting.

Note 3: If stock dividends are issued, make retrospective adjustments while disclosing EPS before and after the adjustments.

Note 4: If equity securities are issued with terms that allow dividends to be accrued and accumulated until the the year the company makes profit, then the amount of cumulative undistributed dividends up till the current year must be disclosed separately.

Note 5: P/E ratio = Average closing price per share for the year / earnings per share.

Note 6: Price to dividend ratio = Average closing price per share for the year / cash dividends per share.

Note 7: Cash dividend yield = Cash dividend per share / average closing price per share for the current year.

Note 8: Net worth per share and earnings per share should be based on audited (auditor-reviewed) data as at the latest quarter before the publishing date of this annual report. For all other fields, data should be provided as at the end of their respective years.

Note 9: The 2017 earnings distribution proposal has not yet been resolved in the shareholders' meeting.

(VI) The company's dividend policies and execution

1. Dividend Policy

The Company's annual net income is distributed orderly as follows:

1. Paying taxes.
2. Making up losses.
3. Appropriating 10% legal reserve. Unless the legal reserve is equivalent to the paid-in capital.
4. Having special reserve appropriated or reversed according to the law and regulations or the requirements of the securities competent authorities.
5. The remaining balance, if any, plus the accumulated unappropriated earnings of prior periods are to be reserved or applied for the distribution of dividend to shareholders depending on the current fund planning and economic development in accordance with the approval of the board of directors and the resolution reached in the shareholders' meeting.

The Company's dividend policy is based on the profit of the current year and the Company's future growth, capital budget planning, fund demands, as well as the interests of shareholders and the Company's long-term financial planning. Shareholder dividend is appropriated in accordance with the distributable earnings and it is paid in the form of cash dividend or stock dividend. However, the amount of cash dividend may not be less than 10% of the total dividend. If cash dividend per share is for less than NT\$0.2, stock dividend will be paid instead.

2. Implementation: The distribution of dividend proposed in the current shareholders' meeting

The Company intends to appropriate an amount of NT\$359,177,850 from the 2017 distributable earnings. A cash dividend of NT\$3 per share is proposed in the general shareholders' meeting for resolution and the Board of Directors will be authorized in the meeting to schedule the base date for dividend distribution.

3. Anticipation of significant changes in the dividend policy: the Company anticipated no significant change in the dividend policy. Shareholders are entitled to a dividend payment of no less than 60% of the distributable income.

(VII) The impact of the stock dividend resolved in the current shareholders' meeting on the Company's business performance and earnings per share

The Company has no stock dividend distribution planned; therefore, it is not applicable.

(VIII) Remuneration to employees, directors, and supervisors

1. In accordance with Articles of Incorporation of the Company, the Company's annual profits, if any, should be with not less than 6% appropriated as remuneration to employees and with not more than 3% appropriated as remuneration to directors and supervisors.

The remuneration to employees paid with stock or cash resolved by the board of directors is also available to the qualified employees of the subsidiaries; in addition, the Board of Directors is authorized to regulate the related matters. The distribution of remuneration to employees, directors and supervisors should be reported in the shareholders' meeting.

If the Company is with cumulative losses, an equivalent amount should be reserved in advance to make up the losses, and then the remuneration to directors, supervisors and employees should be appropriated according to the distribution ratio referred to in the preceding paragraph.

2. The accounting treatment for the estimation base applied to estimate remuneration to employees, directors and supervisors, the calculation base for the number of shares distributed as remuneration to employees, and the difference, if any, between the actual amounts distributed and the estimated amount:

Remuneration to employees, directors, and supervisors is recognized as expense and liability when it is a legal and constructive obligation with the amount estimated reasonably. If the accrued amounts for employees' compensation and remuneration to directors and supervisors are different from the actual distributed amounts, the differences should be recognized based on the accounting for changes in estimates. The Group calculates the number of shares of employees' stock dividend based on the fair value per share at the previous day of shareholders' meeting held in the year following the financial reporting year, after taking into account the effects of ex-rights and ex-dividends.

3. Distribution of remuneration to employees resolved by the Board of Directors:

- Distribution of remuneration to employees in the form of cash and stock, and remuneration to directors and supervisors: The Company's 2017 remuneration to employees was resolved in the Board meeting on March 20, 2018 for an amount of NT\$39,239,857 and remuneration to directors and supervisors for an amount of NT\$11,541,134. In addition, the estimation base is referred to the profit for the year then ended.
 - The ratio of the proposed distribution of stock shares as remuneration to employees to the total net income and remuneration to employees on the individual financial statements: No stock is distributed to employees in current year; therefore, it is not applicable.
 - The imputed earnings per share of NT\$3.80 after distributing the remuneration to employees, directors, and supervisors is to be proposed for distribution.
4. The actual distribution of remuneration to employees, directors and supervisor in previous year
The Company's actual distribution as remuneration to employees, directors and supervisors in 2016 is as follows:

Unit: NT\$ 1000; thousand shares

	The distribution amount resolved in the Board meeting
I. Distribution:	
1. Remuneration to employees of cash	51,972
2. Remuneration to employees of stock	0
(1) Shares	0
(2) Amount	0
(3) Ratio to the outstanding stock shares at yearend	0
3. Remuneration to directors and supervisors	15,286

(IX) Shares repurchased by The Company

None.

II. Disclosure relating to corporate bonds

None.

III. Disclosure relating to preference shares

None.

IV. Disclosure relating to depository receipts

None.

V. Employee stock warrants

None.

VI. Disclosure regarding the management of new restricted employee stock

None.

VII. Disclosure on new shares issued for the acquisition or transfer of other shares

None.

VIII. The implementation of the fund plan

The prior issuances or private placements of marketable securities not yet completed or completed within three years without any effect up to the quarter prior to the printing date of the annual report:

The Company has no plan for the issuance or private placement of marketable securities for the execution of fund utilization in the most recent year; therefore, it is not applicable.



Five

Business Performance

- I. Content of business**
- II. Market and sales overview**
- III. The employee information within the last two years and up to the printing date of the annual report**
- IV. Contribution to Environmental Protection**
- V. Employer and employee relationships**
- VI. Major contracts**

Five. Business performance

I. Content of business

(I) Business scope

- (1) The main contents of the business service:
 Computer application software design engineering.
 Import and export of computer products and peripheral equipment.
 The research and development, manufacturing, processing, and trading of computer peripheral equipment and its supplies, consumables, and main system.
- (2) Business ratio of main products (2017)

Unit: NT\$1,000

Main products	Operating revenues	Business ratio (%)
Server Chassis	3,776,221	69%
Peripheral products and components	1,434,591	26%
PC chassis	243,390	4%
Molds	59,552	1%
Total	5,513,754	100%

- (3) The Company's current products
 - Desktop PC chassis and components.
 - Industrial computer chassis and components.
 - Server chassis and components.
 - Computer peripheral equipment.
- (4) New products planned for development
 - Cloud products:
 - Server Series:
 - High-density 2U storage
 - High-density 4U storage
 - 4U GPGPU vertical server
 - 4U high-density GPGPU server
 - 1U/2U Intel Whitley platforms
 - Hyper-Converged platform
 - Personal computer (PC) series:
 - PC chassis
 - Upgrade of screw-free structures

(II) Industry overview

(1) Industrial status and development

① Desktop PC

According to the data released by III, the shipment volume of desktop PCs (DT) in 2017 was 102,748,000 units, which was a decline of 0.8% from the same period of 2016. The shipment volume of AIO PCs was 13,918,000 units, or an increase of 3% from the same period of the previous year and accounted for 13% of the DT shipment volume. This was the first time of growth after 3 consecutive years of decline.

The DT PC market can roughly be classified into 2 categories, commercial use and home use. Home use DT PC was affected by the prevailing use of cell phones, tablets, and even 2-in-1 NB PCs that caused a substitution effect in budgeting. The decline in this category remained critical. Commercial use DT PCs are business machines that many enterprises still have the budget for to replace new units.

According to the data released by Digitimes, Lenovo is still the leading firm in AIO PCs worldwide with a shipment volume of 3,918,000 units. It was followed by Apple, whose shipment volume shrunk to just 360,000 units or at the growth rate of 5%. HP's shipment volume of AIO PCs increased by 17.7% annually mainly because of the demand in the market for commercial use PCs, and this made it the number three supplier. The shipment volume of Dell declined by 4% on the year and it remained in 4th place in supply. Taiwanese suppliers MSI, ASUS, and ACER were ranked in 5th, 6th, and 7th place, respectively. MSI benefited from the shipment of eSports devices which accounted for 70% of its shipment volume.

The decline in demand for DTs year after year indicates that this item is no longer attractive. However, some OEM manufacturers in Taiwan suggested that competition is already at the point of equilibrium and the profit margin in OEM production is still better than NBs. In addition, brand customers have the need for one-stop shopping. This motivated the firms to return to OEM production of DTs. The investment strategy of tooling will be a point of attention for the case makers.

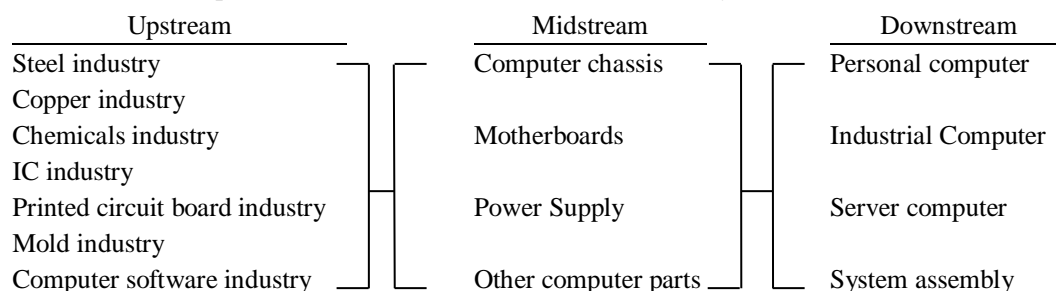
② Servers

According to the findings of III, the shipment volume of servers in 2017 was 11,126,000 units worldwide or at an annual growth rate of 4.9% from the same period of 2016.

The data released by Digitimes indicated that the shipment volume of servers from Taiwanese server suppliers increased by 15.8% in 2017 as compared with the same period of the previous year. The shipment volume of EMS firms (server brands) was on the decline, which made the importance of Taiwanese firms (manufacturing end) in the global server industry surface.

The growth of the server market in 2017 was mainly driven by the demand in cloud data centers, which dictated direct purchasing from OEM manufacturers in Taiwan, and contributed to the annual growth of White box servers. In China, the shipment volume of Huawei, Inspur, and Sugon continued to grow, while Huawei and Inspur accounted for 20% of the total. This was the result of the government policy of indigenous research and development and the development of part of the overseas market. Lenovo was affected by the information security factors in the US market that they are not inclined to procure from China, which dropped the shipment volume by about 5%. Of all the famous brands in servers worldwide, Dell was still the champion in 2017 by shipment volume at 2,321,000 units or at 18.3% of the total. It was followed by HP at 2,147,000 units or at 17% of the total. The annual growth rate of Dell and HP was about 2~3%, which was far behind the double-digit growth of the white box server makers.

(2) Correlation of upstream, midstream, and downstream industry



(3) Product development trend and competition

① Desktop PC

DT PCs for eSports is a new market segment that attracted many suppliers with investment in research and development. From a product perspective, the price for this type of product is high and there is a demand for high-end specifications. The target customers are clear cut but the market size is small. This item did not significantly affect the overall growth of DT PCs.

As for AIO, the products are inclined to the consumer market and affected by the prevailing use of cell phones, tablets and even eSports DT PCs that replaced a portion of its market share. Furthermore, the hardware and applications are limited so further growth is not optimistic. Mini-PCs are a prospective product for most DT PC firms. Yet, the customized order of NUC by Intel, and the specification of the mini-STX motherboard in 2016 did not provide the dynamics for DT systems. As such, most motherboard makers launched their own Mini-PC quasi system, which could be used in conjunction with NB PCs by sharing parts and components and key technologies such as cooling and Internet modules.

In 2018, AMD integrated the BEGA chip and will launch the APU RYZEN 5 and RYZEN 3 to market. Under the performance of VEGA in graphic and hardware, the outstanding price/performance ratio is expected to cut out a piece of the market share from CPUs and avail another choice for DTs.

② Servers

According to the data released by the IDC, ODM Direct emerged as the number one and surpassed all branded servers. Most big cloud server firms committed great effort to the installation of public clouds that helped to push up the shipment volume of white box servers, which in turn shaped a new mode of operation for the server industry. CPUs, GPUs, OS and system architecture were also affected.

In CPUs, the Intel x86 CPU has always been the champion. Yet, the launch of the EPYC CPU by AMD and its joint venture with Microsoft in making the ultra large cloud hardware design Project Olympus will change the rules of the game. In addition, Qualcomm also released the Centriq 2400 ARM CPU, which helped to establish a foothold in the server sector. Intel actively participated in the alliance of sever standards like OCP and ODCC (Open Data Center Committee, which was previously the Scorpion Program of China), and plays and critical role in the alliance. The accession of IBM in OCP allowed the company to go back to leadership in the competition of CPUs in the white box server sector with the launch of its Power 9 CPU and the influence of OCP.

The NVidia chip is the top choice in AI, and beat all competitors in CPU and GPU. This also triggered the launch of Xeon Phil by Intel to embrace the challenge. The surprising performance of the AlphaGo from Google made the ASIC architecture behind TPU emerge as another choice for AI. Further to the above two choices, FPGA could also be considered. The Intel Xeon Processor Scalable Family has the kind of chips for bundling with FPGA. With the capacity of Intel in creating the new mode of system, this architecture is expected to occupy a place in the market.

Hyper-Converged infrastructure is a solution for cloud applications and information security. Software is the nucleus of this product. Through the cloud structure of general purpose hardware, computing, storage, and Internet devices were bundled as “Infrastructure in a box”. This will be the market that conventional server brands could go for.

Edge computing is the transmission of computing resources to a local network approximated to the resources that help to shorten the time for the two-way transmission of data from and to the cloud and cut down the cost of bandwidth. This is a key technology indispensable for the development of 5G. Edge computing is also suitable for the application of subordinated IoT such as unmanned driving, drones, AR/VR and robots, which emphasis timely image analysis and capacity in processing identification. Linux open source community and telecommunication and cloud suppliers spent most of their resources in edge computing so as to create a general purpose IoT edge computing framework.

Hardware manufacturers at the upstream of the server industry chain spared no effort in the open source alliance for launching their own standards and products, and they are in the leading

position of the industry. As such, joining the alliance will be a vital strategic objective of the Company for development in the future.

(III) Technological research and development

- (1) R&D expense invested in the most recent year and up to the printing date of the annual report

Unit: NT\$1,000; %

Item \ Year	2017 (Note 1)	Up till March 31, 2018 (Note 1 and 2)
R&D expense	178,125	46,183
Operating revenues	5,513,754	1,389,407
Ratio of R&D expenses to operating income (%)	3%	3%

Note 1: Data are referred from the consolidated financial statements that were prepared in accordance with International Financial Accounting Standards.

Note 2: The 2018Q1 financial statements were reviewed by the CPAs.

- (2) Successful developed technologies or products

Important R&D achievements in 2017:

New products

Product Model No.	Produce description
OEM Server	OEM products
RM14608/10	1U modularized rackmount server chassis
RM14604 L6	1U modular storage quasi system server rackmount
RM14500	1U modularized high-density server chassis
RM23708/24	2U large form factor modularized rackmount server chassis
RM23708/12/24 L6	2U large form factor modularized storage quasi system server rackmount
RM23808/12/24	2U Modular storage server Rackmount Chassis
RM43596	4U ultra high dense modularized JBOD chassis
Friction RAIL	Development of easy sliding rail
New-generation server panel	Development of 1U/2U/4U new-generation panel

New patents

Applying date	Nation	Type of patent	Patent name	Product scope
2017/8/14	Taiwan	Utility model	Accommodating cabinet and anti-stop safety device	Rack
2017/8/16	Taiwan	Utility model	Unit storage device	Rack
2017/8/17	Taiwan	Invention	Fixed device	HDD module
2017/8/22	Taiwan	Utility model	Access device tray structure	HDD module
2017/8/22	Taiwan	Utility model	Storage unit positioning device	HDD module
2017/8/22	Taiwan	Utility model	Open type screw-free access device positioning module	HDD module
2017/8/22	Taiwan	Utility model	Shock-absorption structure for the access device that is mounted on the rack	HDD module
2017/9/22	Taiwan	Utility model	Spring reed fixing structure for the access device tray	HDD module
2017/9/25	Taiwan	Utility model	Server cabinet and sliding rail assembly	Rack
2017/10/6	Taiwan	Utility model	Edge support fixing structure for the circuit board in the cabinet	PCB Holder
2017/10/6	Taiwan	Utility model	Disk bearing device and multi-unit accommodating mechanism	HDD module
2017/10/10	China	Invention	Holding device	HDD module
2017/11/22	Taiwan	Utility model	Hard disk module, hard disk loading device and hard disk conglomerating system	HDD TRAY
2017/11/23	China	Utility model	Positioning device of the storage unit	HDD module
2017/11/23	China	Utility model	Positioning module for open-type screw-free access device	HDD module
2017/11/27	China	Utility model	Accommodating cabinet and anti-stop safety device	Rack
2017/11/27	China	Utility model	Server cabinet and sliding rail assembly	Rack
2017/11/27	China	Utility model	Unit stowage device	Rack
2017/11/27	China	Utility model	Hard disk support frame	HDD module
2017/11/29	China	Utility model	Hard disk module, hard disk loading device and hard disk conglomerating system	HDD TRAY
2017/11/30	China	Utility model	Spring reed fixing structure for the access device tray	HDD module
2017/11/30	China	Utility model	Shock-absorption structure for the access device that is mounted on the rack	HDD module
2017/11/30	China	Utility model	Edge support fixing structure for the circuit board in the cabinet	PCB Holder
2017/12/7	Taiwan	Invention	Server cabinet and unit rack	Rack
2017/12/8	Taiwan	Utility model	Cabinet structure	Rack

(IV) Short-term and long-term business development plans

(1) Short-term plan

- A. Focus on the Company's business operation with top priority to develop customers for the related applications.
- B. Financial assets held for trading. Utilize niche product to target on vertical market customers and avoid price competition.
- C. Utilize industrial design capabilities to help customers develop differentiated products and enhance value.
- D. Utilize a complete storage application product line to develop customers in this field.
- E. Promote solution-oriented and consulting-style marketing and increase product portfolio sales.
- F. Form alliances with motherboard and key component suppliers to provide a full product line and post-delivery service to the customers.
- G. Focus on tender businesses with special specifications for green products and process solutions.

(2) Long-term plan

- A. For coordination in the development strategy to further develop the markets in India, ASEAN, and Latin America for a larger share.

- B. Financial assets held for trading. Continue to improve manufacturing capacity and international certification, maintain the purchase orders from major customers, and develop new OEM/ODM customers.
- C. Through lean management and accountability, the Group seeks to improve the quality of the employees to upgrade the overall competitive power of the Company.
- D. Increase R&D and market planning personnel; develop ODM/JDM/OEM business and brand name in-depth.
- E. Establish a complete information network to provide customers with rapid service.
- F. In aligning with the trend of development of the cloud technology industry, the Company will continue to develop high-density servers and storage devices.
- G. The Company will continue to develop modularized standard items to save investment expenses for the customers and speed up the time for development of customized products.
- H. Pioneering financial planning to help reduce operational risk and stabilize operating scale.
- I. Development of cooling, low noise, precision ejection, and mold flow analysis.
- J. Cloud computing and storage electromechanical modules.
- K. Develop a global distribution network.
Construct a comprehensive global production and sales network gradually with the overall input of R&D, production, marketing, and finance resources. The Company's long-term goal is to become a globally renowned leading manufacturer with the excellent R&D and marketing team and the most efficient manufacturing center.

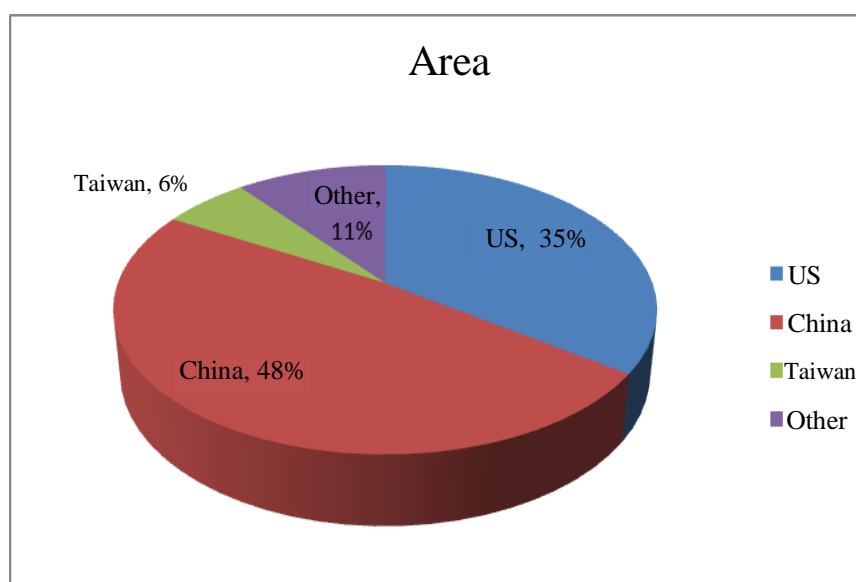
II. Market and sales overview

(I) Market analysis

(1) Main products (services) sales (providing) area

Unit: NT\$1,000

Area	Sales Revenues	%
US	1,924,118	35%
China	2,667,640	48%
Taiwan	333,584	6%
Other	588,112	11%
Total	5,513,754	100%



(2) Market share

According to the statistics of the Institute for Information Industry, a total of 102,748 thousand units of desktop PC were shipped in 2017, estimating the Company's desktop PC chassis accounted for 0.3% global market share. In terms of server chassis, a total of 11,126 thousand units of server were shipped in 2017, estimating the Company's market share accounted for 11.6% market share.

(3) Future market supply and demand and the growth

According to the forecast of IMF, global economic growth in 2018 will be at the rate of 3.9% mainly because of the overall tax cut in the USA. This will help to boost up investment in this major economy and stimulate growth for its trade partners. The forecast of economic growth in major economies will be: USA at 2.9%, China at 6.6%, Euro Zone at 2.2%, and Japan at 1.2%.

According to the forecast of Gartner, global spending on IT software and hardware in 2018 will amount to USD3,700 billion or at the growth rate of 4.5% from the same period of 2017. Digitization of eCommerce in the enterprises, block chain, IoT, big data, machine learning, and AI are expected to drive further growth in the future. The spending of enterprises on software is expected to grow by 9.5%. Software as a Service (SaaS) applications such as FMS, HCM, and data analysis will become prevalent.

① The 2018 Global Desktop PC market development trend

According to the study and forecast of the Institute for Information Industry, 101,926 thousand units of desktop PC will be shipped in 2018, representing a decline by 0.8% from the year of 2017.

The upgrade of Windows 10 and the continued drive for replacement of new machines stimulated growth in China, Latin America and Eastern Europe. However, the global PC market will be stagnant in 2018 or decline by a few percentage points.

On the supply side, the shortcomings of Intel CPUs affected the performance of extra high load operation, which may impact the sluggish growth market of commercial use, and will be favorable for AMD CPUs in further diffusion into the market. The price for DDR memory continued to surge, affecting the willingness of replacements for new machines in the business sector. The price of panels is expected to fall further. As for DT PCs, monitors could be purchased separately. As such, the stimulation for further growth of DT PCs is limited.

On the demand side, the DT PC market in 2018 is expected to be driven by the demand for replacement of new machines in the business sector, as the demand for consumer DT PCs was hampered by the prevalent use of tablets, 2-in-1 notebook and cell phones, and other mobile devices, which will yield a displacement effect. This will cause the market to suffer a significant decline. In the market of eSports, and in the demand for applications for AR and VR, high-end eSports DT PCs are expected to be the prime force to drive market growth. As for AIOs, the increase in shipment volume of high-end eSports models and a lesser extent for replacement for new machines is expected to trigger no significant growth in the market. The plan for using Windows 10 as the platform for all Microsoft hardware will be unchanged. The mini-STX specifications orchestrated by Intel may not help to stimulate substantial growth in the DT market, as the plans for the launch of the next generation of motherboards by the manufacturers remained uncertain, affecting local system integration firms in further commitment of resources.

② The 2018 Global server market development trend

According to the data and estimates of the Institute for Information Industry, 11,705 thousand units of server will be shipped globally in 2018, representing a 5.2% growth. AI, big data, IoT, edge computing, and private clouds for enterprises and 5G networks will be the factors driving for further growth of servers and storage devices. Major Internet service providers of the world seek to satisfy the demand for cloud terminals and new services that triggered competition among the big firms. It was echoed with the indigenous R&D policies of the government in many countries. The result has been the ceaseless expansion of big data centers all over the world that has stimulated further growth of the server industry.

(4) Competitive niche

① Complete product line

The Company has the product line of desktop PC chassis, industrial computer chassis, server chassis, storage server chassis, and Storage Expansion Kit, as well as customized services available to provide customers with a total solution program. In the quest for a complete product line, famous brand server firms elected to use the case or partial modification designed by the Company for a quicker time to market so as to compete with the white box firms. This move will contribute to market development and revenue growth.

② Product technology R&D and Continued Investment in R&D will be our concern

The Company has a complete technology R&D team, equipment, and experience available to rapidly respond to market demand and to continue improving product technologies, particularly in the field of industrial computer and high-density server chassis. For a long time, the Company has accumulated a wealth of patented designs on products as its edge in competition, and continued to invest in research and development with a focus on temperature control, low noise, EM compatibility, light weight and shock resistance of the servers for bolstering its competitiveness in products.

③ Complete global deployment

In addition to Taipei Headquarters, the Company has overseas operation bases setup in North America and Europe to serve local customers and collect market demand information for reference in decision-making regarding product development, production, and logistics management. In addition, in response to the growing market demand of China, a subsidiary was setup in Beijing in 2014, in Germany in 2015 and in Shanghai 2016 to stay close to the market with localized services provided. Added with the synchronized information network to immediately reflect market information, customer demand, product information, and production progress in order to provide the highest quality of product development

(5) Advantages and disadvantages of future development and the countermeasures

① Opportunities of future development

With the prevalence of cloud computing and mobile computing, various forms of applications were unveiled, which also stimulated the demand for servers. The center of gravity of the industry has also been shifted from brand server manufacturers as it was in the past to cloud network service providers, which is driving the launch of servers with different specifications from the conventional architecture. The Company has dedicated to server business for many years with experience in OEM production for branded server chassis, and with the years of experience in customized service; therefore, the Company is capable of fulfilling the needs of cloud computing leaders in design and production.

Driven by the stable development of market demand, the continuing technology upgrade, and the overall industrial development environment, the Company's strategic deployment and resource capacity structure are beneficial to the subsequent business growth and development.

② Disadvantages of future development and the countermeasures

A. Severe product market competition

Some low-level technology providers offer imitated or modified products with price competition strategy adopted that has sabotaged the overall market order severely and affected the overall market competition directly. However, such a phenomenon has been gradually minimized due to the increase of material and labor cost, the growing demand for product functions, and the technology upgrade. In addition, the Company will continue its investment in research and development such as heat flow analysis, signal analysis, and sheet metal forming analysis on related equipment and software to raise the entrance barrier of product technology and upgrade its compatibility. We will launch into the high-end market with high price/performance ratio products to avoid price competition among low-end items. The Company is in the process of planning for smart manufacturing and the establishment of the function of its overseas center for the dispatch of goods so as to provide quick and convenient logistics service, upgrade the level of operation and management capacity in order to provide service of a higher added value.

B. Challenges of a comprehensive manufacturing service

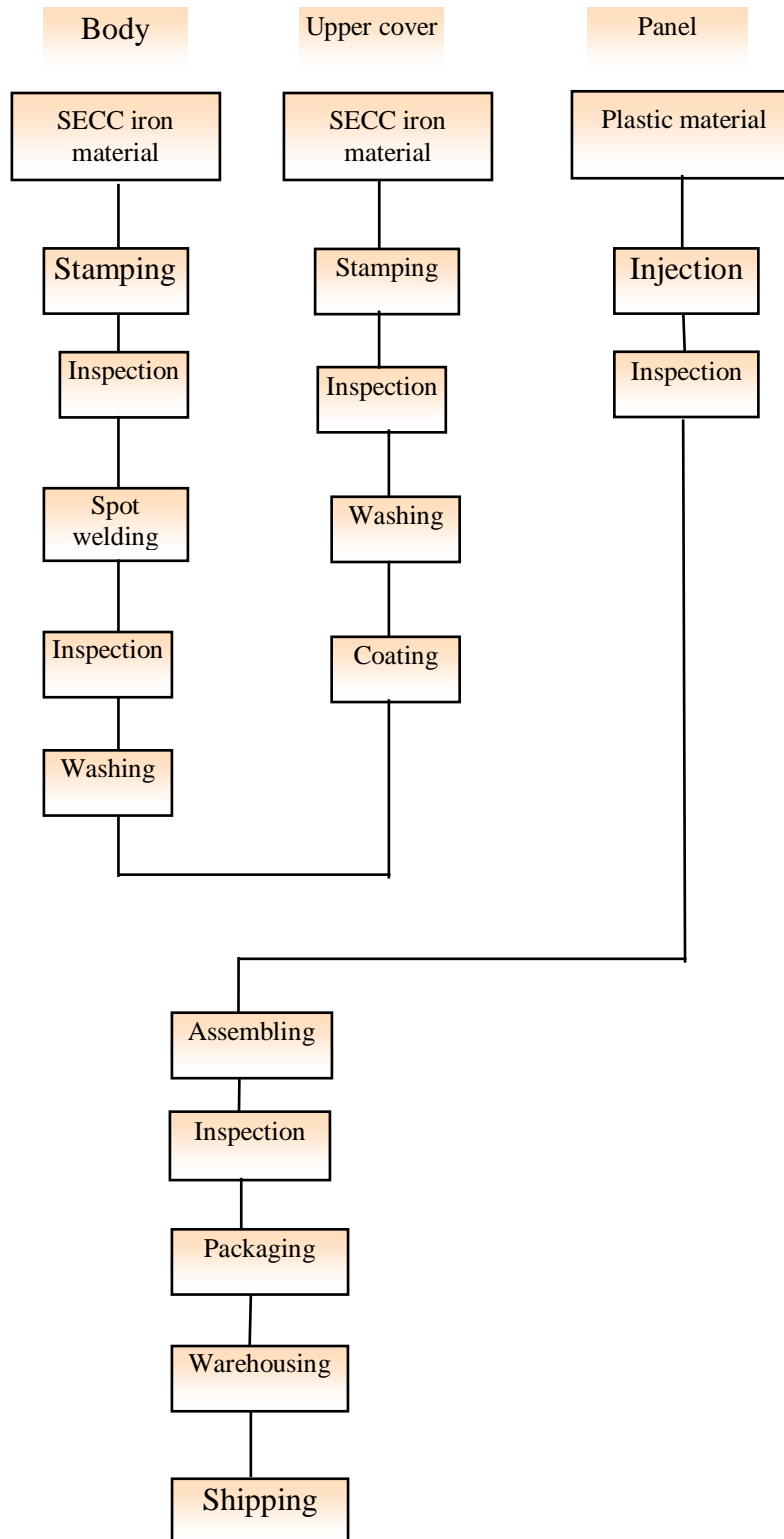
The customers of the Company demand a higher level and scale of services with uncertain needs in customer needs which dictated a quicker response and more flexible delivery service. These are the challenges to costing and operation. In aligning with the trend of industrial development, we have installed an integrated information system and moved towards lean manufacturing incrementally with ceaseless improvement of material flow in logistics, supply chain management, customer service management and related systems to fortify the flexibility in responding to the overall operation and upgrade the quality of manufacturing and service for the customers.

(II) Intended use and production processes of the main products

(1) Intended use of the main products

Computer mainframe chassis is the necessary main component for assembling various types of computers (PC, workstation, server, etc.).

(2) The production process of the main products



(III)The supply of main raw materials

Main products	Main raw materials	Main suppliers
Computer chassis	Stamping products	The Fortune Industrial Co., Ltd.
		Hsiung Ye Industrial Co., Ltd.
		Everything Is Easy Laser Seiki Co., Ltd.
		HSIN Chaio Yang Technology Co., Ltd.
	Power Supply	Zippy Technology Corp.
		FSP Technology Inc.
		AcBel Polytech Inc. (HO-GA COMPUTER CO., LTD.)
	Cooling fan	SUNON
		SANYO DENKI
		DELTA
		Nidec Sankyo Taiwan Corporation
		NMB
	Slide	King Slide Works Co., Ltd.
		Repon Group
	PCBA	Tailyn Technologies, Inc.
		Innoflux Group
		Likefu Electronic(Shenzhen) Co., Ltd./Jinmao Electronics Co., Ltd.
		Value Plus (Suzhou) Co., Ltd.
		Diamond Digital Corporation
	CABLE	Jianhong Technology Co., Ltd.
		Minde Co., Ltd.
		Jess-Link Products Co., Ltd.
		Uniconn Corp.
		Amphenol Assemble Technology

(IV) The name of the customers with over 10% of the total purchase (sale) amount in one of the last two years, and their purchase (sale) amount and ratio

1. The name of the customers with over 10% of the total sale amount in one of the last two years, and their sale amount and ratio

The main customers for sales within the last two years

Unit: NT\$1,000

Item	2016				2017				As of 2018Q1			
	Name of customer	Amount	Ratio to the annual net sales amount [%]	Relationship with the issuer	Name of customer	Amount	Ratio to the annual net sales amount [%]	Relationship with the issuer	Name of customer	Amount	Ratio to the net sales amount up to the prior quarter of the year [%]	Relationship with the issuer
1	Customer A	1,486,109	29%	5	Customer A	1,475,380	27%	5	Customer A	323,089	23%	5
2	Customer B	898,885	17%	5	Customer B	862,772	16%	5	Customer C	296,881	21%	5
3	Customer C	675,400	13%	5	Customer C	1,007,998	18%	5	Customer B	179,031	13%	5
	Others	2,149,573	41%		Others	2,167,604	39%		Others	590,406	43%	
	Net sales amount	5,209,967	100%		Net sales amount	5,513,754	100%		Net sales amount	1,389,407	100%	

Note 1: State the name of the customers with over 10% of the total sale amount within the last two years, and their sale amount and ratio. However, since the name of the customers may not be disclosed due to the contract signed or the counterparty of the transaction is an individual and is not a related party, it can be identified with a code number.

Note 2: 1. Subsidiaries, 2. Other invested companies valued with the equity method, 3. Other real related party, 4. Major shareholders with more than 10% shareholding, 5. None

2. The name of the firm that has supplied more than 10% of the total purchases of the Company in any of the past 2 years and the ratio of the amount of purchase: there was no particular firm that supplied more than 10% of the total purchase of the Company in the last 2 years.

(V) The production volume and value of the last two years

Unit: Amount: NT\$ 1000; Volume: unit

Production volume and value Main Products	Year	2017			2016		
		Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
PC chassis		300,000	195,249	123,562	456,000	264,021	168,392
Server computer chassis		2,100,000	1,278,418	2,713,500	1,680,000	996,874	2,293,544
Peripheral products and components		—	25,416,582	1,004,622	—	18,260,642	944,623
Total		2,400,000	26,890,249	3,851,684	2,136,000	19,521,537	3,406,559

(VI) The sales volume and value of the last two years

Unit: Amount: NT\$ 1000; Volume: unit

Sales Volume /Value Main Products	Year	2017				2016			
		Domestic sales		Exports		Domestic sales		Exports	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
PC chassis		—	—	319,509	243,390	—	—	412,552	302,432
Server computer chassis		2,260	14,295	1,290,621	3,761,926	569	6,008	1,043,233	3,474,436
Peripheral products and components		98,112	10,813	26,656,185	1,483,330	445,274	14,254	18,876,650	1,412,837
Total		100,372	25,108	28,266,315	5,488,646	445,843	20,262	20,332,435	5,189,705

III. The information of employees within the last two years and up to the printing date of the annual report

March 31, 2018

Year		2016	2017	As of March 31, 2018
Number of employees	Direct labor	937	1,114	1,192
	Indirect labor	906	971	1,010
	Total	1,843	2,085	2,202
Average age		36.93	38.07	37.98
Average years of service		3.76	3.48	3.54
Academic qualification	Doctoral Degree	0	1	0
	Master's Degree	61	68	68
	Bachelor	194	198	204
	Bachelor's Degree	182	211	233
	High school	193	286	296
	Below high school	1,213	1,321	1,401

IV. Contribution to Environmental Protection

- (I) The losses (including compensation) and punitive fine amount suffered due to environmental pollution in the most recent year and up to the printing date of the annual report: None
- (II) Future countermeasures (including improvement measures) and potential future expenditure (including the potential losses due to failure in taking countermeasures and the estimated amount of punitive fine and compensation), if such amount cannot be reasonably estimated, please detail the reason why it cannot be reasonably estimated:

The Company is mainly engaged in the business operation of computer chassis design, production, and sales. Promote environmental protection, safety, and health operation throughout the production process; also, continue to improve the environment and health and safety hazards arising from the manufacturing process. In response to all potential emergencies and disasters, develop an overall contingency plan and comprehensive management system for loss prevention, emergency response, crisis management and post-disaster recovery. The operation of a contaminating business in the next three years is not expected.

In response to the Restriction of Hazardous Substances Directive (RoHS) management measures, including the appointment of personnel responsible for planning, response, and implementation, provide the related education and training, obtain the related supporting document, guide suppliers to establish a green supply chain, and regularly perform audits. The Company has gradually been qualified and certified by the clients. More manpower will be invested and countermeasures will be taken in the future to prevent losses and damages from occurring.

V. Employer and employee relationships

- (I) Employee benefit policies, continuing education and training, work environment for the employees and personal safety protection, the retirement system and the implementation of the system, labor-management consultation and agreement, and the protection of labor rights.

(1) Employee welfare measures

●Reasonable working hours system:

Comply with the labor-related law and regulations with an 8-hour working day, two days off per week, and flexible working hours adopted so that employees can schedule their own working hours according to personal needs.

●Flexible leave system:

- A. Comply with the leave rules in the Labor Standards Law and the Act of Gender Equality in Employment. In addition to annual leave, personal leave, and sick leave, employees are also entitled to special leave, including marriage leave, maternity leave, paternity leave, bereavement leave, menstrual period leave, and family care leave.
- B. Respect employees' entitlement to asking for leave. Each leave is for minimum of 30 minutes, so that employees can take advantage of each category of leave flexibly.
- C. Employees in both sexes can apply for parental leave without pay in accordance with the Act of Gender Equality in Employment.

●Employee activity:

The Employee Welfare Committee for the best interests of the employees has enthusiastically planned various activities and welfare facilities, such as, Badminton Club, Yoga Club, Baseball and Softball Club, Bicycling Club, and Golf Club to create a lively working atmosphere and to boost employee morale. In 2017, the Company appropriated NT\$3,490,000 to the Employee Welfare Committee for welfare activities of the employees.

●Multiple benefit programs:

Such as, employee cafeteria, library, three-festival gift money, birthday and marriage gift money, yearend banquet, free annual health checks, employee travel, art and culture, and continuing education subsidies bereavement condolences, and other employee benefits.

Purchase blood pressure monitors for employees and play soft music at 11:00 am and 3:00 pm to remind colleagues to exercise timely.

●**Comprehensive employee group insurance:**

The Company provides employees with various insurance coverage, including life insurance, accident insurance, hospitalization insurance, medical insurance, cancer insurance, and occupational hazard insurance. Increase the protection measures for employees.

●**Employee Stock Ownership Trust (ESOP) system:**

The Company had the “Employee Stock Ownership Trust (ESOT)” plan initiated in March 2015 to allow employees participating in the Company’s growth and to embrace profits and optimized benefits.

●**Arrange soul-art seminars:**

For the mental and physical health of employees, the Company occasionally arranges telepathic communication seminar and musical and artistic performances for employees to enrich soul, to learn knowledge, and to relieve stress.

●**Bonus system:**

The Company’s employees are entitled to bonus benefit. The employee’s performance will be fully integrated with the reward policy to substantiate the business philosophy of “the company belongs to the employees.” The Company implemented the Employee Stock Ownership Trust plan in March 2015 to bring positive encouragement value to the employees.

●**Retirement System:**

Appropriate full amount of pension reserve for the old pension system according to the Labor Pension Reserve Appropriation System and appropriate and deposit an amount equivalent to 6% of the monthly salary to personal account with the Bureau of Labor Insurance, Ministry of Labor according to the Labor Pension Act or for employees who are entitled to the new pension system. Such employees may have additional pension reserve appropriated for an amount equivalent to maximum 6% of the monthly salary depending on personal need and willingness.

(2) **Employee working environment and personal safety protection measures**

The Company has instituted the “Work Regulations” which explicitly stated the related compensation for occupational hazards and related insurance. Information is available from the intranet of the Company for the reference of the employees.

●**Work safety for the employees in the workplace and protective measures**

A strict entrance code is in effect at the Company. Employees are required to present their ID badge for admission to the office area for the protection of the safety of the employees in the workplace.

The office space is monitored by a 24-hour CCTV system with an emergency alarm button. We have entered into an agreement with a security firm for the protection of the office area.

The Company has organized a Class A Labor Safety and Health team consisting of a team leader and several first-aid staff for the safety and health of the employees and promotion of health and safety in the workplace.

The Company maintains its drinking water facilities once quarterly in accordance with the Procedures for Labor Safety and Health.

●**Indoor air quality and ventilation equipment**

Plan appropriate work space to minimize an overcrowded environment.

Office no-smoking policy.

Photocopier and fax machine are placed in a separate place.

Regularly inspect and clean ventilation systems every year, including ventilation ducts, air filter, etc.

Set the appropriate room temperature to strengthen the circulation of fresh air and air refreshing frequency.

The ventilation and other equipment in the workplace will be inspected and maintained regularly.

●**Illumination**

Switch to LED lighting with cover added to filter lights in order to reduce eye discomfort.

Walls, floors, and furniture are made of non-reflective materials.

The lighting facilities and other equipment in the workplace will be inspected and maintained regularly.

●**Reduce the factors that cause physical discomfort from the use of computer.**

Use ergonomic chairs and adjust to the most comfortable working position for each individual.

Regularly exercise every day to minimize any physical discomfort due to prolonged immobilization.

The Company provides a big screen computer and screen support for personnel who need to use computers for long hours so that they have a comfortable office environment.

●**Electrical safety**

Ask professionally qualified electricians to determine sufficient power outlets for use in order to avoid power overloading causing fire.

Occasionally inspect electrical equipment to ensure electrical safety.

Electrical appliances users shall immediately report any damages found.

●**Fire safety**

According to the Regulations Governing Public Safety Inspection Certification of Buildings and Declaration, the Company commissioned a professional firm to conduct inspections on public safety once every other year.

The Company commissioned external firms to conduct inspections on fire safety equipment as required by the laws in fire safety.

The map showing the locations of fire safety equipment and escape routes was posted at the office area. There are clear instructions and signs for evacuation from the building.

Fire extinguishers were located at appropriate spots in the office area as required, with proper maintenance and inspection from time to time to ensure they are in working condition. A declaration of fire safety has also been made regularly as required. Training on fire safety is designed as an integral part of the orientation program for the new employees so that they know where exactly the fire safety equipment is and the escape routes in case of emergency.

Setup the fire system lawfully to ensure fire safety in the workplace.

●**Stumble, slip, and fall**

Make sure the work place and halls with sufficient lighting installed to avoid a collision or overcrowded. In addition, a good working place cleaning helps keep the working environment tidy and avoid tripping and falling accidents.

(3) **Employee continuing education and training**

●**Complete education and training system:**

Chenbro values the human resources management system of “selecting, training, utilizing, retaining talents.” Apply the “Annual Strategic Planning” to establish the annual demand and training plan with massive funds invested in cultivating talents and organizing the responsible education and training units. New recruits must undergo rigorous pre-job basic education and professional training. The current in-service employees must receive the job education and training that are provided according to the job responsibilities and career plan by the job and position classification so that employees can “make the best of their talents” and the organization’s effective operation can be achieved and the quality of customer service can be enhanced. The Company spent a total of NT\$2.47 million for employee education and training in 2017.

The Company has enacted the “Rules Governing Employee Training and Continuing Education.” In addition to the work guidance given to the employees, the Company encourages colleagues to participate in the diversified external training, including short-term study and long-term degree and credit hour courses; also, provides education grants to employees for the aforementioned courses in order to fulfill the Company’s business operation and personal development needs.

Internal Training Curriculum

Class Date	Course content	Class Hours
January 4	Basic of HW Design	1
January 11	Basic of HW Design-2	1
February 8	Basic of HW Design-3	1
February 16	Training under the ISO 2017 edition	3
March 8	Film editing marketing class	1
April 20	PLC introduction of project management tool, the application and description of Redmine	1
May 17	The development of business mode and Chenbro culture	2.5
July 4	2017 edition of ISO on training- training of internal auditor 1	6.5
July 18-19	Orientation	12.5
August 14	DISC courses	3
August 15	Redmine – General instruction in operation	1
August 18	Redmine – General instruction in operation	1
September 26	DISC self-motivation – “The power of character: Wake up your DISC code of success”.	2
November 1	Training on legal rules of GP green products	1
November 14	DISC self-motivation – “The power of character: Wake up your DISC code of success”.	2
November 23	Fire prevention, firefighting, and evacuation.	2
November 30 – December 1	Orientation	12.5
December 12	DISC self-motivation – “The power of character: Wake up your DISC code of success”.	2
December 19	Alleviation of pressure and positive thinking	1
December 12	PLC-ODM/OTS+DOM process was introduced into Training	1

External Training Curriculum

Class Date	Course content	Class Hours
March 7-8	Development and design of stamping products and practice of stamping evaluation analysis	13
March 13	The practice of employee training	6
March 14	The practice of MRP and capacity requirement planning	6
May 9-10	The use of mold flow analysis techniques for the improvement of ejection molding problems and responses to the problem	16
May 18	CAD Thinking	6
May 23	Training of Calibration Management Staff of Measurement Equipment	6
June 6	Interview skills	7
June 8	Reliability-based and design review	6
June 27	Training of Calibration Management Staff of Measurement Equipment	6

October 16-19	The practice of database management of Oracle 11g database-1	30
July 28	Condensation of the development cycle and reduction of cost in R&D	8
November 3	The practice of the inspection of the material system in manufacturing industry	6.5
November 9	The practice of operation audit	6
November 27	Multilateral Management of Corruption Risk	6
December 15	IT Audit and Information Governance_ Effective Cost Control under ERP system	6

Note: All aforementioned information includes internal and external training.

(4) Retirement System and its implementation

Pension system	Old pension system	New pension system
Governing law	Labor Standards Law	Labor Pension Act
How to appropriate pension fund?	Pension fund is appropriated for an amount equivalent to 2% of the monthly salary of employees and deposited in the Bank of Taiwan account (formerly known as Central Trust of China)	Appropriate an amount equivalent to 6% of the monthly salary according to the insurance coverage level and deposited in the personal account with the Bureau of Labor Insurance.
Amount appropriated	Labor Pension reserves accumulated amount of NT\$21,495 thousand (Note).	Appropriated an amount of NT\$8,405 thousand in 2017.

Note: The appropriated pensions reserve is net of the pension already paid to employees.

A. Defined benefit plan

1. The Company had the defined benefit plan enacted in accordance with the “Labor Standards Law” that is applicable for all the service years of full-time employees accumulated before the implementation of the “Labor Pension Act” on July 1, 2005 and the subsequent service years of the employees who have chosen to be subject to the Labor Standards Law continuously after the implementation of the “Labor Pension Act”. When an employee meets the requirements of retirement, the payment of pension is based on service years and the average salary of the 6 months prior to retirement, with services within 15 years accumulating 2 basis points per year, and service years beyond 15 years accumulating 1 basis point per year up to a maximum of 45 basis points. The Company has pension fund appropriated for an amount equivalent to 2% of the monthly salary every month and deposited in the account with the Bank of Taiwan in the name of the Pension Reserve Committee. In addition, the Company has the labor pension reserve account balance referred to in the preceding paragraph estimated at the end of each fiscal year. If the account balance is insufficient to pay pension benefit to the employees who qualify for retirement within next year for the pension benefit calculated in the preceding paragraph, the Company will have the spread amount appropriated in a lump sum before the end of March next year.
2. The Company’s defined benefit plan fund assets are commissioned for operation in accordance with the items (deposited with domestic and foreign financial institutions, investment in domestic and foreign listed or privately placed equity securities, and investment in domestic and foreign real estate security-based instruments) defined in Article 6 of the “Regulations for Revenues, Expenditures, Safeguard, and Utilization of the Labor Retirement Fund” by the Bank of Taiwan according to the ratio and amount of the commissioned operating items defined in the fund investment plan. The Labor Pension Fund Committee is responsible for monitoring the implementation. For the use of this fund, the minimum earnings distribution every year shall not be for an amount less than the income calculated in accordance with the local bank’s two-year time deposit rate; also, the insufficient fund, if any, should be made up by the National Treasury with the approval of the competent authorities. The Company is not entitled to participating in fund operation and management; therefore, the classification of the fair value of the plan assets cannot be disclosed in accordance with Article 19 Paragraph 142 of the International Accounting Standards. For the fair value of the total fund assets on December 31, 2017 and 2016, respectively, please refer to the Annual Labor Pension Fund Application Report published by the government.

B. Defined contribution plan

1. The Company has the defined contribution pension plan enacted in accordance with the “Labor Pension Act” since July 1, 2005 for the application of the employees with the ROC nationality. The Company for the labor pension system enacted for the employees who chose to be subject to the “Labor Pension Act” has an amount not less than 6% of the monthly salary appropriated and deposited in the personal account with the Bureau of Labor Insurance every month. Pension payment is made on a monthly basis or in a lump sum according to the cumulative amount in the personal account.
2. All other overseas companies appropriated funds as pension insurance or severance reserves for the employees in accordance with local laws of the relevant government of the host countries applicable to retirement of local employees. Further to appropriation as scheduled, there is no further obligation.

3. The Company had recognized pension cost in accordance with the aforementioned pension rules for an amount of NT\$8,405 thousand and \$7,582 thousand in 2017 and 2016, respectively.
4. The total net pension cost recognized in accordance with the requirements of the local governments by CHENBRO MICOM (USA) INCORPORATION, CHENBRO EUROPE B.V., Chenbro GmbH, Chenbro UK Limited, Chenbro Technology (Kunshan) Co., Ltd., ChenPower information Technology (Shang Hai) Co., Ltd., Dongguan Procace Electronic Co., Ltd., and Chenbro Micom (Shenzhen) Co., LTD. was NT\$32,899 thousand and NT\$22,887 thousand in 2017 and 2016, respectively.

C. Agreement between employees and employer

1. Arrange employer-employee meeting regularly to coordinate labor relations and to promote employer-employee cooperation.
 2. Setup suggestion mailboxes for strengthening the employee grievance channels.
 3. Adopt humane management for business operation in accordance with the Labor Standards Law.
- (II) The Company's losses arising from labor disputes in the most recent year and up to the printing date of the annual report, the estimated current loss amount and future loss amount, and the countermeasures

The Company has good labor relations without any labor disputes or any losses arising from labor disputes occurred in the most recent year. In addition, there is no possibility of incurring any labor dispute currently; therefore, the possibility of labor dispute in the future is expected to be minimal.

VI. Major contracts

Contract title	Covenant (Party A)	Covenant (Party B)	Contract signed / Date of revision
Vehicles Lease Agreement	Chenbro Micom Co., Ltd	President Tokyo Corporation	2018/01/16-2021/01/15
Business Housing Contract	Chenbro Micom Co., Ltd	Four Points by Sheraton Zhonghe, Taipei	2018/01/01-2018/12/31
Industry-university cooperation contract	Chenbro Micom Co., Ltd	Kun Shan University	2017/12/18-2018/01/31
Cloud Computing & Association in Taiwan Member Representative Change Application	Chenbro Micom Co., Ltd	Cloud Computing & Association in Taiwan	2017/11/16-2018/12/31
Agreement between W Taipei and Chenbro Micom Co., Ltd	Chenbro Micom Co., Ltd	W Taipei	2017/09/29-20180202
Global Views – Commonwealth Publishing Group books publishing project cooperation contract	Chenbro Micom Co., Ltd	Global Views – Commonwealth Publishing Group	2017/09/27-2022/09/27
Parking lease contract	Chenbro Micom Co., Ltd	Shunkang Asset Management Co., Ltd	2017/02/01-2017/04/30
2017 annual insurer/travel insurance renewal insurance	Chenbro Micom Co., Ltd	Alexander Leed Risk Services, Inc.	2017/06/01-2018/05/31
Health check contract	Chenbro Micom Co., Ltd	Taipei Beitou Health Management Hospital	2017/04/20-2017/12/31
Chunghwa Telecom's temporary FTTB business lease and transaction request	Chenbro Micom Co., Ltd	Chunghwa Telecom	2017/05/29-2017/06/04
Newly purchased official vehicles (certificate of delivery and acceptance)	Chenbro Micom Co., Ltd	President Tokyo Corporation	2017/04/05-2020/04/05
Chunghwa Telecom Mobile Broadband Service Application	Chenbro Micom Co., Ltd	Chunghwa Telecom	2017/03/30-2019/05/30



Six.

Financial status

- I. Summarized financial information for the last 5 years**
- II. Financial analysis for the latest 5 years**
- III. Supervisor's report on the review of the latest financial reports**
- IV. Most recent annual financial statements including Independent Auditor's Report**
- V. The Company's individual financial statements audited and certified by a certified public accountant in the most recent fiscal year.**
- VI. If the company or any of its affiliated companies had, in the recent years up until the publishing of this annual report, experienced financial distress, the impacts to the company's financial status must be disclosed**

Six. Financial summary

I. Condensed balance sheet, comprehensive income statement, name of the CPAs, and their auditing opinions within the last five years

(I) Condensed Balance Sheet - International Financial Reporting Standards (individual financial statements)

Unit: NT\$1,000

Item \ Year		Financial information for the last 5 years (Note 1)					The financial data as of March 31, 2018 (Note 3)
		2013	2014	2015	2016	2017	
Current assets		821,592	1,458,290	1,202,374	1,344,330	1,053,782	I.
Property, plant, and equipment (Note 2)		273,093	269,341	273,907	263,378	245,684	I.
Intangible assets		7,515	10,767	9,706	7,562	5,079	I.
Other assets		2,097,950	2,026,077	2,238,211	2,434,364	2,627,573	I.
Total assets		3,200,150	3,764,475	3,724,198	4,049,634	3,932,118	I.
Current liabilities	Before dividend distribution	830,898	1,065,482	921,356	1,126,315	950,069	I.
	After dividend distribution	1,130,213	1,424,660	1,232,643	1,485,493	Not yet appropriated	I.
Non-current liabilities		61,878	100,041	94,827	66,525	62,696	I.
Total liabilities	Before dividend distribution	892,776	1,165,523	1,016,183	1,192,840	1,012,765	I.
	After dividend distribution	1,192,091	1,524,701	1,327,470	1,552,018	Not yet appropriated	I.
Attributable to owners of the parent company		2,307,374	2,598,952	2,708,015	2,856,794	2,919,353	I.
Share capital		1,201,260	1,201,260	1,201,260	1,197,260	1,197,260	I.
Capital reserve		56,749	56,749	56,749	48,209	48,209	I.
Retained earnings	Before dividend distribution	1,022,678	1,264,701	1,407,689	1,688,376	1,783,465	I.
	After dividend distribution	723,363	905,523	1,096,402	1,329,198	Not yet appropriated	I.
Other equity		39,227	88,782	54,857	(77,051)	(109,581)	I.
Treasury stock		(12,540)	(12,540)	(12,540)	0	0	I.
non-controlling interests		0	0	0	0	0	I.
Total equity	Before dividend distribution	2,307,374	2,598,952	2,708,015	2,856,794	2,919,353	I.
	After dividend distribution	2,008,059	2,239,774	2,396,728	2,497,616	Not yet appropriated	I.

Note 1: The financial data within the last five years in the preceding paragraph were with the auditing and attestation performed by the CPAs (using International Financial Reporting Standards).

Note 2: No assets revaluation had been performed within the last five years for the financial data in the preceding paragraph.

Note 3: The Company did not prepare individual financial statements on March 31, 2018; therefore, the data of this form is not applicable.

Note 4: The "amount after distribution" in the preceding paragraph refers to the amount resolved in the shareholders' meeting in the following year.

Note 5: For the financial data corrected or recomposed internally upon the notice of the competent authorities, the corrected or recomposed amount should be applied to prepare the financial report with the fact and reason for correction or re-composition noted.

Condensed Balance Sheet - International Financial Reporting Standards (consolidated financial statements)

Unit: NT\$1,000

Year Item		Financial information for the last 5 years (Note 1)					The financial data as of March 31, 2018 (Note 3)
		2013	2014	2015	2016	2017	
Current assets		2,479,302	3,126,564	3,086,512	3,221,308	3,504,349	3,440,912
Property, plant, and equipment (Note 2)		1,107,108	1,243,760	1,209,024	1,569,099	1,675,691	1,684,851
Intangible assets		8,687	12,719	10,662	10,002	7,732	13,016
Other assets		262,557	194,266	320,390	187,737	188,221	218,004
Total assets		3,857,654	4,577,309	4,626,588	4,988,146	5,375,993	5,356,783
Current liabilities	Before dividend distribution	1,293,940	1,715,556	1,650,124	1,892,895	2,237,570	2,135,126
	After dividend distribution	1,593,255	2,074,734	1,961,411	2,252,073	Not yet appropriated	Not yet appropriated
Non-current liabilities		256,340	262,801	268,449	238,457	219,070	217,609
Total liabilities	Before dividend distribution	1,550,280	1,978,357	1,918,573	2,131,352	2,456,640	2,352,735
	After dividend distribution	1,849,595	2,337,535	2,229,860	2,490,530	Not yet appropriated	Not yet appropriated
Attributable to owners of the parent company		2,307,374	2,598,952	2,708,015	2,856,794	2,919,353	3,004,048
Share capital		1,201,260	1,201,260	1,201,260	1,197,260	1,197,260	1,197,260
Capital reserve		56,749	56,749	56,749	48,209	48,209	48,209
Retained earnings	Before dividend distribution	1,022,678	1,264,701	1,407,689	1,688,376	1,783,465	1,837,542
	After dividend distribution	723,363	905,523	1,096,402	1,329,198	Not yet appropriated	Not yet appropriated
Other equity		39,227	88,782	54,857	(77,051)	(109,581)	(78,963)
Treasury stock		(12,540)	(12,540)	(12,540)	0	0	0
non-controlling interests		0	0	0	0	0	0
Total equity	Before dividend distribution	2,307,374	2,598,952	2,708,015	2,856,794	2,919,353	3,004,048
	After dividend distribution	2,008,059	2,239,774	2,396,728	2,497,616	Not yet appropriated	Not yet appropriated

Note 1: The financial data within the last five years in the preceding paragraph were with the auditing and attestation performed by the CPAs (using International Financial Reporting Standards).

Note 2: No assets revaluation had been performed within the last five years for the financial data in the preceding paragraph.

Note 3: The financial data of the most recent quarter has been reviewed by the CPAs. In addition, the said financial data complied with the International Financial Reporting Standards.

Note 4: The “amount after distribution” in the preceding paragraph refers to the amount resolved in the shareholders’ meeting in the following year.

Note 5: For the financial data corrected or recomposed internally upon the notice of the competent authorities, the corrected or recomposed amount should be applied to prepare the financial report with the fact and reason for correction or re-composition noted.

(II) Condensed income statement – International Financial Reporting Standards (individual financial statements)

Unit: NT\$1,000

Item \ Year	Financial information for the last 5 years (Note 1)					The financial data as of March 31, 2018 (Note 3)
	2013	2014	2015	2016	2017	
Operating revenues	3,191,006	3,641,492	3,038,008	3,250,976	2,888,796	-
Operating margin	595,921	799,057	668,238	749,940	692,930	-
Operating gains and losses	280,864	440,551	318,006	373,210	339,415	-
Non-operating revenues and expenses	124,031	221,565	273,273	323,520	185,264	-
Earnings before tax	404,895	662,116	591,279	696,730	524,679	-
Net income of continued operation segments.	341,832	541,272	504,834	600,188	455,442	-
Gain(loss) from discontinued operations	0	0	0	0	0	-
Current period net profit (loss)	341,832	541,272	504,834	600,188	455,442	-
Other comprehensive income for the period (post-tax profit or loss)	76,740	49,621	(36,593)	(140,122)	(33,705)	-
Total comprehensive income for the period	418,572	590,893	468,241	460,066	421,737	-
Net income attributable to owners of the parent company	341,832	541,272	504,834	600,188	455,442	-
Net income attributable to non-controlling interests	0	0	0	0	0	-
Total comprehensive income attributable to owners of the parent company	418,572	590,893	468,241	460,066	421,737	-
Total comprehensive income attributable to non-controlling interests	0	0	0	0	0	-
Earnings per share	2.85	4.52	4.22	5.01	3.80	-

Note 1: The financial data within the last five years in the preceding paragraph were with the auditing and attestation performed by the CPAs (using International Financial Reporting Standards).

Note 2: The Company did not prepare individual financial statements on March 31, 2018; therefore, the data of this form is not applicable.

Note 3: The profit and loss of the discontinued department is booked for an amount net of income tax.

Note 4: For the financial data corrected or recomposed internally upon the notice of the competent authorities, the corrected or recomposed amount should be applied to prepare the financial report with the fact and reason for correction or re-composition noted.

**Condensed comprehensive income statement - International Financial Reporting Standards
(consolidated financial statements)**

Unit: NT\$1,000

Item \ Year	Financial information for the last 5 years (Note 1)					The financial data as of March 31, 2018 (Note 3)
	2013	2014	2015	2016	2017	
Operating revenues	3,723,563	4,472,988	4,439,229	5,209,967	5,513,754	1,389,407
Operating margin	1,048,474	1,363,180	1,290,795	1,550,182	1,469,319	321,810
Operating gains and losses	420,930	652,376	593,209	778,456	683,190	127,960
Non-operating revenues and expenses	34,006	57,518	71,698	37,819	(67,953)	(31,867)
Earnings before tax	454,936	709,894	664,907	816,275	615,237	96,093
Continuing business units Current period net profit	341,832	541,272	504,834	600,188	455,442	54,077
gain(loss) from discontinued operations	0	0	0	0	0	0
Current period net profit (loss)	341,832	541,272	504,834	600,188	455,442	30,618
Other comprehensive income for the period (post-tax profit or loss)	76,740	49,621	(36,593)	(140,122)	(33,705)	84,695
Total comprehensive income for the period	418,572	590,893	468,241	460,066	421,737	54,077
Net income attributable to owners of the parent company	341,832	541,272	504,834	600,188	455,442	84,695
Net income attributable to non-controlling interests	0	0	0	0	0	0
Total comprehensive income attributable to owners of the parent company	418,572	590,893	468,241	460,066	421,737	54,077
Total comprehensive income attributable to non-controlling interests	-	-	0	0	0	0
Earnings per share	2.85	4.52	4.22	5.01	3.80	0.45

Note 1: The financial data within the last five years in the preceding paragraph were with the auditing and attestation performed by the CPAs (using International Financial Reporting Standards).

Note 2: The financial data of the most recent quarter has been reviewed by the CPAs. In addition, the said financial data complied with the International Financial Reporting Standards.

Note 3: The profit and loss of the discontinued department is booked for an amount net of income tax.

Note 4: For the financial data corrected or recomposed internally upon the notice of the competent authorities, the corrected or recomposed amount should be applied to prepare the financial report with the fact and reason for correction or re-composition noted.

(III) Names of financial statement auditors in the last 5 years, and their audit opinions

Year	Name of auditor	Name of firm	Audit opinion
2013	Kwong-Wen Yeh and Huiling Pan	PwC Taiwan	Modified unqualified opinion
2014	Huiling Pan and Bingjun Tzi	PwC Taiwan	Modified unqualified opinion
2015	Huiling Pan and Bingjun Tzi	PwC Taiwan	Modified unqualified opinion
2016	Huijin Tseng and Bingjun Tzi	PwC Taiwan	Unqualified opinion
2017	Huijin Tseng and Bingjun Tzi	PwC Taiwan	Unqualified opinion (points of special attention or others)

II. Financial analysis for the latest 5 years

Financial Analysis - International Financial Reporting Standards (individual financial statements)

Analysis items (Note 3)		Year	Financial analysis for the latest 5 years (Note 1)					As of March 31, 2018 (Note 2)
			2013	2014	2015	2016	2017	
Financial structure (%)	Debt to assets ratio		27.90	30.96	27.29	29.46	25.76	-
	Ratio of long-term capital to property, plant and equipment		867.56	1002.07	1023.28	1109.93	1213.77	-
Solvency %	Current ratio		98.88	136.87	130.50	119.36	110.92	-
	Liquid ratio		84.85	114.94	114.16	104.14	96.21	-
	Interest coverage ratio		1294.59	251.60	447.59	763.29	273.28	-
Operating efficiency	Account receivable turnover (times)		7.2	6.43	4.66	4.35	4.20	-
	Days sales in account receivable		50.66	56.80	78.25	83.88	86.93	-
	Inventory turnover (times)		14.71	15.81	11.81	16.14	15.20	-
	Account payable turnover (times)		4.31	4.58	3.54	3.51	3.57	-
	Average days in sales		24.81	23.09	30.92	22.61	24.01	-
	property, plant, and equipment Turnover ratio (times)		13.27	13.43	11.18	12.10	11.35	-
	Total asset turnover (times)		1.01	1.05	0.81	0.84	0.72	-
Profitability	Return on assets (%)		10.81	15.60	13.51	15.46	11.45	-
	Return on shareholders' equity (%)		15.16	22.06	19.03	21.57	15.77	-
	Ratio of net income before tax to paid-in capital Ratio (%)		33.71	53.72	49.22	58.19	43.82	-
	Net profit margin (%)		10.71	14.86	16.62	18.46	15.77	-
	Earnings per share (\$)		2.85	4.52	4.22	5.01	3.80	-
Cash flow	Cash flow ratio (%)		11.78	70.96	14.46	27.69	25.90	-
	Cash flow adequacy ratio (%)		117.92	310.75	321.34	294.01	333.28	-
	Cash re-investment ratio (%)		3.8	26.13	4.30	9.71	7.50	-
Leverage	Operating leverage		1.88	1.64	1.71	1.75	1.59	-
	Financial leverage		1.00	1.01	1.01	1.00	1.01	-
Please explain the reasons for the changes in financial ratios within the last two years. (If such changes are less than 20%, it needs not be analyzed). 1.Decrease of times interest earned ratio: Mainly due to the decrease of interest expense arising from the decrease of loan. 2.Decline of ROA, ROE, EBT in proportion to paid-in capital, EPS: mainly because of the decline of profit in current period. 3.Decline in cash reinvestment ratio: mainly because of the decline of profit in the current period, to the extent that cash flow from operation declined.								

Note 1: The financial data within the last five years in in the preceding paragraph were with the auditing and attestation performed by the CPAs.

Note 2: The Company did not prepare individual financial statements on March 31, 2018; therefore, the data of this form is not applicable.

Note 3: Please refer to the table as follows for the related formula.

Financial Analysis - International Financial Reporting Standards (consolidated financial statements)

Analysis items (Note 3)		Year	Financial analysis for the latest 5 years (Note 1)					As of March 31, 2018 (Note 2)
			2013	2014	2015	2016	2017	
Financial structure (%)	Debt to assets ratio		40.19	43.22	41.47	42.73	45.70	43.92
	Ratio of long-term capital to property, plant and equipment		231.57	230.09	246.19	197.26	187.29	191.21
Solvency %	Current ratio		191.61	182.25	187.05	170.18	156.61	161.16
	Liquid ratio		159.25	144.21	151.37	132.12	125.25	126.35
	Interest coverage ratio		96.29	71.08	74.07	104.81	7,739.85	4,393.70
Operating efficiency	Account receivable turnover (times)		6.73	6.77	4.99	4.80	4.19	4.23
	Days sales in account receivable		54.27	53.94	73.14	76.01	87.11	86.29
	Inventory turnover (times)		6.00	5.14	5.63	6.27	6.40	6.65
	Account payable turnover (times)		3.67	3.98	3.38	3.49	3.40	3.41
	Average days in sales		60.79	71.07	64.83	58.21	57.03	54.89
	property, plant, and equipment Turnover ratio (times)		3.89	3.81	3.62	3.75	3.40	3.31
	Total asset turnover (times)		0.98	1.06	0.96	1.08	1.06	1.04
Profitability	Return on assets (%)		9.08	13.03	11.00	12.62	8.92	4.16
	Return on shareholders' equity (%)		15.16	22.06	19.00	21.57	15.77	7.30
	Ratio of net income before tax to paid-in capital Ratio (%) (Note 6)		37.87	59.10	55.35	68.18	51.39	32.10
	Net profit margin (%)		9.18	12.10	11.37	11.52	8.26	3.89
	Earnings per share (\$)		2.85	4.52	4.22	5.01	3.80	0.45
Cash flow	Cash flow ratio (%)		22.30	37.80	28.68	38.31	20.45	12.88
	Cash flow adequacy ratio (%)		142.29	200.97	199.88	167.78	132.61	173.11
	Cash re-investment ratio (%)		9.14	17.81	11.64	17.28	10.59	6.17
Leverage	Operating leverage		1.94	1.67	1.77	1.59	1.72	1.95
	Financial leverage		1.01	1.02	1.02	1.01	1.01	1.02
Please explain the reasons for the changes in financial ratios within the last two years. (If such changes are less than 20%, it needs not be analyzed.)								
1. Decrease of times interest earned ratio: Mainly due to the decrease of interest expense arising from the decrease of loan.								
2. Decline of ROA, ROE, EBT in proportion to paid-in capital, net profit rate, EPS: mainly because of the decline of profit in current period.								
3. Decline in cash flow ratio, cash flow adequacy ratio, cash reinvestment ratio: mainly because of the decline of profit in the current period.								

Note 1: The financial data within the five years in the preceding paragraph were with the auditing and attestation performed by the CPAs (using International Financial Reporting Standards).

Note 2: The 2018Q1 financial statements were reviewed by the CPAs.

Note 3: The formula is as follow:

1. Financial structure

(1) The ratio of total liabilities to total assets = total liabilities/total assets

(2) Ratio of long-term capital to property, plant and equipment = (Total equities + noncurrent liabilities) /property, plant and equipment.

2. Solvency

(1) Current ratio = current assets / current liabilities.

(2) Quick ratio = (current assets - inventories - prepaid expense) /current liabilities.

(3) Interest coverage ratio = net profit before interest and tax / interest expenses for the current period.

3. Operating efficiency

(1) Receivable (including accounts receivable and notes receivable arising from business operation) Turnover = Net sales / average receivable (including accounts receivable and notes receivable arising from business operation) balance.

- (2) Days sales in account receivable = $365 / \text{Account receivable turnover (times)}$.
- (3) Inventory turnover (times) = $\text{Cost of goods sold} / \text{average inventory amount}$
- (4) Payable (including accounts payable and notes payable arising from business operation) Turnover = $\text{Cost of goods sold} / \text{Average payable (including accounts payable and notes payable arising from business operation) balance}$.
- (5) Average days in sales = $365 / \text{Inventory turnover (times)}$.
- (6) Property, plant, and equipment turnover (times) = $\text{Net sales} / \text{Net average property, plant, and equipment}$
- (7) T Total assets turnover (times) = $\text{Net sales} / \text{Average total assets}$
4. Profitability
 - (1) Return on assets = $(\text{after tax net profit} + \text{interest expenses} \times (1 - \text{tax rate})) / \text{average asset balance}$.
 - (2) Return on shareholders' equity = $\text{after tax net profit} / \text{total average equity}$.
 - (3) Profit ratio = $\text{net income} / \text{net sales}$.
 - (4) Earnings per share = $(\text{profits or loss attributable to owners of the parent company} - \text{preferred stock dividend}) / \text{weighted average stock shares issued}$.
5. Cash flow
 - (1) Cash flow ratio = $\text{net cash flow from operating activities} / \text{current liabilities}$.
 - (2) Cash flow adequacy ratio = $\text{net cash flow from operating activities within five years} / (\text{capital expenditure} + \text{inventory increase} + \text{cash dividend}) \text{ within five years}$.
 - (3) Cash re-investment ratio = $(\text{net cash flow from operating activity} - \text{cash dividend}) / (\text{gross property, plant, and equipment} + \text{long-term investment} + \text{other noncurrent assets} + \text{working capital})$.
6. Leverage:
 - (1) Operating leverage = $(\text{Net operating income} - \text{Changes in operating cost and expense}) / \text{Operating profit}$.
 - (2) Financial leverage = $\text{Operating profit} / (\text{Operating profit} - \text{interest expense})$.

Note 4: The calculation of earnings per share in the preceding paragraph should be with the following matters taken into consideration for measurement:

1. It is based on the weighted average number of common stock shares outstanding instead of the yearend outstanding stock shares.
2. If there is cash capitalization or Treasury stock trade, the calculation of the weighted average stock share should be with the outstanding period included for consideration.
3. If there is capitalization from earnings or additional paid-in capital, for the calculation of earnings per share annually and semi-annually, retroactive adjustment should be performed proportionally to the capitalization amount without considering the issue period of the capitalization.
4. If the prefer stock is inconvertible cumulative preferred stock, the current stock divided (regardless distributed or not) should be deducted from the net income or added to the net loss. If the prefer stock is not cumulative, the current stock divided should be deducted from the net income, if any, but without the need of making any adjustment if there is net loss instead of net income.

Note 5: The cash flow analysis must take into account the following:

1. Net cash flow from operating activities refers to the net cash inflow from the operating activities in the Statement of Cash Flow.
2. Capital expenditure refers to the cash outflows from annual capital investment.
3. Increase in inventory will be counted only when the ending inventory amount exceeding the beginning inventory amount. The decrease in inventory at yearend will be treated as zero change.
4. Cash dividend includes the cash dividend of common stock and preferred stock.
5. The gross property, plant, and equipment refer to the total amount of property, plant, and equipment before deducting the accumulated depreciation.

Note 6: The issuer should have the operating cost and operating expense classified as fixed and variable by the nature of operation. If it involves estimates or subjective judgments made, please pay attention to its rationality and consistency.

Note 7: If the Company's stock is without a face value or without a NT\$10 par value, the ratio to paid-in capital in the preceding paragraph is then based on the shareholder's equity ratio of the parent company in the balance sheet instead.

III. Supervisor's report on the review of the latest financial reports

Please refer to [Appendix II] Page 127

IV. Most recent annual financial statements including Independent Auditor's Report

Please refer to [Appendix III] Page 128

V. The Company's individual financial statements audited and certified by a certified public accountant in the most recent fiscal year.

Please refer to [Appendix IV] Page 192

VI. If the company or any of its affiliated companies had, in the recent years up until the publishing of this annual report, experienced financial distress, the impacts to the company's financial status must be disclosed

None.

Seven.

The review and analysis of financial position and financial performance, and the risk matters

- I. Financial status**
- II. Financial Performance**
- III. Cash flow**
- IV. Material capital expenditures in the latest year and impacts on business performance**
- V. The major causes for profits or losses incurred by investments during the most recent year; rectifications and investment plans for the next year**
- VI. Risk analysis and assessment**
- VII. Other Material Issues**

Seven. The review and analysis of financial position and financial performance, and the risk matters

I. Financial status

Consolidated Financial Statements

Unit: NT\$1,000

Item \ Year	December 31, 2017	December 31, 2016	Difference		Remarks
			Amount	%	
Current assets	3,504,349	3,221,308	283,041	8.79	1
property , plant, and equipment	1,675,691	1,569,099	106,592	6.79	1
Other assets	195,953	197,739	(1,786)	(0.90)	1
Total assets	5,375,993	4,988,146	387,847	7.78	1
Current liabilities	2,237,570	1,892,895	344,675	18.21	1
Long term liabilities	219,070	238,457	(19,387)	(8.13)	1
Total liabilities	2,456,640	2,131,352	325,288	15.26	1
Share capital	1,197,260	1,197,260	0	0	1
Capital reserve	48,209	48,209	0	0	1
Retained earnings	1,783,465	1,688,376	95,089	5.63	1
Total shareholders' equity	2,919,353	2,856,794	62,559	2.19	1

Explanations:

1. If the increase or decrease ratio is less than 20% and it is for an amount less than NT\$10 million, an analysis is not necessary.

II. Financial Performance

(I) Comparative analysis of operating results

Consolidated Financial Statements

Unit: NT\$1,000

Item \ Year	2017	2016	Increase (decrease) amount	Variation
Net operating revenue	5,513,754	5,209,967	303,787	5.83
Operating cost	(4,044,435)	(3,659,785)	384,650	10.51
Operating margin	1,469,319	1,550,182	(80,863)	(5.22)
Operating expenses	(786,129)	(771,726)	14,403	1.87
Operating profit	683,190	778,456	(95,266)	(12.24)
Non-operating revenues and expenses	(67,953)	37,819	(105,772)	(279.68)
Earnings before tax	615,237	816,275	(201,038)	(24.63)
Income tax expense	(159,795)	(216,087)	(56,292)	(26.05)
Net income	455,442	600,188	(144,746)	(24.12)
Other comprehensive profit and loss (net)	(33,705)	(140,122)	(106,417)	(75.95)
Total comprehensive income for the period	421,737	460,066	(38,329)	(8.33)

Analysis and description of increase and decrease ratio change: (ratio change between two terms exceeds 20% and for an amount more than NT\$10 million)

1. Decrease of non-operating income and expenses: mainly because of the appreciation of CNY and TWD against the USD in the current period, to the extent that exchange loss amounting to NT\$78,137 thousand resulted.
2. Decrease of EBT, income tax expense, and net income: mainly because of the decline of profit in the current period.
3. Decrease of other comprehensive income mainly because of the fluctuation of exchange rates that resulted in the shrinking of the difference from foreign exchange as stated in the financial statements of the foreign operation segments.

(II) Expected sales and the basis of estimation, the likely impacts on The Company's future financial position, and responsive plans

Main products	Sales volume (thousand units)
PC chassis	285
Server Chassis	1,800
Components and others	10,000

The expected sales volume in the preceding paragraph, according to the industrial environment and market demand and supply, is estimated by the salespersons in accordance with the actual business contact with the customers, the industrial environment, and market supply and demand; also, it is estimated by the sales manager by taking into account the overall industrial economy and regional differences.

III. Cash flow

(I) Changes of cash flow in recent years analysis (Consolidated Financial Statements)

Unit: NT\$1,000

Opening cash balance	Annual net cash flow from operating activities	Annual cash outflow	Cash surplus (deficit)	Financing of cash deficits	
				Investment plans	Finance plans
1,298,218	457,527	628,392	1,127,353	0	0
1. Changes of cash flow in current year analysis: (1) Operating activities: NT\$457,527, mainly arising from the operating profit. (2) Investment: (\$446,745) mainly for the procurement of property and related equipment, and the acquisition of debt instruments without an active market. (3) Financing activities: (NT\$164,414), mainly due to the payment of cash dividends and increase of bank loan. (4) Others: (\$17,233) mainly because of the influence of exchange rates. 2. Responsive measures and liquidity analysis on cash flow deficits: Not applicable.					

(II) Analysis of cash flow within one year (Consolidated Financial Statements)

Unit: NT\$1,000

Opening cash balance	Annual net cash flow from operating activities	Annual cash outflow	Cash surplus (deficit)	Financing of cash deficits	
				Investment plans	Finance plans
1,127,353	693,000	315,000	1,505,353	0	0
1. Changes of cash flow in current year analysis: (1) Operating activities: \$693,000, mainly because that the operating income in this year is expected to grow and cash inflow will be increased. (2) Investing activities: (\$348,000), mainly because that there is a net cash outflow expected in this year for the purchase of fixed assets. (3) Financing activities: NT\$33,000, mainly for paying cash dividend to shareholders and increase of loan. 2. Responsive measures and liquidity analysis on cash flow deficits: Not applicable.					

IV. Material capital expenditures in the latest year and impacts on business performance

(I) Significant capital expenditures and fund sources:

Unit: NT\$1,000

Plans	Actual or expected source of funds	Actual or expected date of completion	Total funds required	Actual or expected uses of funds				
				2017	2018	2019	2020	2021
Plant expansion of Chenbro Technology (Kunshan) Co., Ltd.,	Proprietary funds and bank loans	2018.12	350,000	111,308	42,650	0	0	0
Mold equipment	Proprietary funds and bank loans	2018.12	255,772	47,370	208,402	0	0	0
Manufacturing and other equipment	Proprietary funds and bank loans	2017.12	161,068	161,068	73,561	0	0	0
Information equipment	Proprietary funds and bank loans	2018.12	4,350		4,350			

(II) Expected effects:

- 1.The plant expansion of Chenbro Technology (Kunshan) Co., Ltd. is in response to the emerging of the cloud industry, the steady growth of purchase orders, and increasing production capacity to meet future market demand.
- 2.Additional purchase of mold equipment
In response to business development and meeting consumer demand, the Company intends to increase new products related mold equipment. Allow the Company to develop new products continuously by retiring or replacing the production line so that the products will be more competitive with higher market share cornered.
- 3.Additional procurement of equipment for the manufacturing segment
The production capacity at present can only satisfy 60% of the quantity of the research and development of new products. The development of business also dictated a higher production capacity and upgrading of automated production, flexible production scheduling, upgrading of management performance and saving labor cost so that products could be more competitive and a larger market share is possible.
- 4.Additional purchase of information equipment
Replacement of obsolete servers, Internet equipment and backup equipment for the upgrade of the flexibility of the data warehouse of the corporate HQ and the subsidiaries, security management, multilateral control and the upgrade of the efficiency of materials consumption. For enhancement of the communication between the corporate HQ and the subsidiaries and the timeliness of the group in information processing, the projection equipment and videoconferencing equipment of the conference room was upgraded.

V. The major causes for profits or losses incurred by investments during the most recent year; rectifications and investment plans for the next year

(I) Investment policy in the most recent year

The investment policy of the Company will be made in supporting the scale of operation, development of overseas markets, and in-depth cultivation of the markets in major countries so as to increase the revenue from overseas and the market share.

(II) Main reason for profit or loss from direct investment, and the plan for improvement

The investment of the Company in 2017 yielded a return of NT\$193,213 thousand mainly because of the slowdown in the demand of the markets in Europe and the USA.

(III) Investment plan in the year ahead

The Company is cautious in reviewing and assessing its investment plans from the long-term strategic perspective to meet the needs of the market and capacity expansion so as to sustain its competitive power worldwide.

VI. Risk analysis and assessment

(I) The impact of changes in interest rate, exchange rate, and inflation on the Company's profit or loss in recent years, and future response measures

The Company's 2017 interest and foreign exchange gains and losses are listed as follows:

Consolidated Financial Statements

Unit: NT\$1,000

Item	Year
	2017
Net exchange gain (loss)	(78,137)
Net operating revenue	5,513,754
Earnings before tax	615,237
Ratio of net exchange gain (loss) to net operation income	1.42%
Ratio of net exchange gain (loss) to net income before tax	12.70%
Interest income	10,109
Ratio of net interest income to net operating income	0.18%
Ratio of net interest income to net income before tax	1.64%
Interest expenses	(8,053)
Ratio of interest expense to net operating income	0.15%
Ratio of interest expense to net income before tax	1.31%

Data source: Financial statements with the auditing and attestation performed by the CPAs.

Since the Company's products are mostly for export, so the changes in the exchange rate of Taiwan Dollar against the US dollar will influence the Company's profit and loss to some extent. The 2017 exchange gain and loss was accounted for less than 1.42% of the consolidated net operating income. In terms of interest rate, since the market interest rates continue to drop, deposit interest rates and loan rates are also declining synchronously. The ratio of interest income and expenses to net income before tax is not high; therefore, the impact of changes in interest rates on the Company's profit and loss is limited. The global economy is beginning to grow this year and the market demand remains high; therefore, the inflation risk of the world's major economies, such as, the US, Europe, and China, is increasing.

In addition, the Company's main purchase items include plastic injection products, metal stamping products, and electronic components. In recent years, the acquisition cost is constantly growing, so the impact of inflation is worsening along with the increasing cost of raw material worldwide.

The Company's profit and loss is affected by exchange rate and inflation to some extent; therefore, the future response measures for changes in exchange rate are as follows:

1. The Finance and Accounting Department is to maintain a close contact with the foreign exchange sector of each financial institution in order to collect information about changes in the exchange rates at any time and to fully grasp the information of the domestic and foreign exchange rate movements and changes in order to reduce the negative impact arising from the changes in exchange rate.
2. Maintain the foreign currency positions in the foreign currency deposit bank accounts in response to the foreign exchange fund demand; also, adjust the foreign exchange positions in a timely manner

depending on the changes in foreign exchange rate in order to reduce the impact of changes in exchange rates.

3. For a significant change in exchange rate, adopt other instruments to hedge foreign exchange risks, for example, the strategies of borrowing in US dollars, the trade of forward foreign exchange, and natural hedging.
4. The Company should have the procedures for derivatives trading stipulated in accordance with the “Procedures for the Acquisition or Disposal of Assets” and strengthen the risk control and management system.
5. Inject working capital into the subsidiaries so that each subsidiary will be able to hedge changes in exchange rate in a natural and balanced way.

(II) The policy of engaging in high-risk, highly leveraged investments, loaning of funds, endorsements and guarantee, and derivatives trading, the main reason for profit or loss, and future response measures:

The Company is not engaged in any high-risk and highly leveraged investment activities. The Company had engaged in the borrowing in US dollars, pre-sale of forward foreign exchange contracts or natural hedging to hedge the risk of changes in exchange rate in recent years.

The Company had made endorsement and guarantee for the related party, PROCASE & MOREX CORP, Cloudwell Holdings, LLC, and Chenbro Micom (USA) Incorporation directly for an amount of NT\$208,320 thousand, NT\$166,656 thousand, and NT\$119,040 thousand in recent years, respectively; however, the actual amount applied was for NT\$198,308 thousand. If the related party fails to perform the contract, the maximum possible loss amount is equivalent to the guarantee and endorsement provided.

The directly-related parties of the Company in the most recent year --Chenbro GmbH and ADEPT International Company-- received financing from the Company amounting to NT\$35,700 thousand and NT\$89,280 thousand. The actual amount of drawdown totaled NT\$0. If the related parties cannot perform, the maximum possible loss shall be equal to the amount of financing as mentioned.

(III) Future R&D plans and expected R&D expense in recent years:

Chenbro will continue to develop new products on the basis of modularized system architecture and further extend into 4U servers and the casing of storage devices. The modularized system architecture of Chenbro allows for flexible support of a diversity of systems and modules and customization needs. We will continue to closely collaborate with mainstream motherboard business partners like Intel, ASRock, Tyan Computer, MSI, and Gigabyte, and OEM/ODM customers to develop products compatible with the latest generation of motherboards. At the same time, the Intel System Test accreditation process will effectively help us to eliminate the hidden problems inherent to computer cases and quasi system servers, and will continue to upgrade product quality. Chenbro will launch more products as solutions for supporting NVMe and GPBPU to satisfy market needs. Chenbro will also launch more concept products as solutions for the needs of data centers in further developments for the future. The engineering capacity of Chenbro has extended to rack solutions – similar to the OCP of Facebook or RSD of Intel. We are capable of providing a wide array of products from conventional data centers (19” cabinet) to the installation of big data centers. Chenbro will commit further efforts in new materials and research and development to make our products oriented to higher economic efficiency.

R&D plan in the future and projected investment in R&D

Item	Product specification
High-density 2U storage	2U modularized structure, 24 x3.5” HDD, removable HDD maintenance, ATX motherboard, hot swap fans, CRPS power, independent OS HDD.
High-density 4U storage	4U modularized structure, 24x or 36x 3.5” HDD, EEB motherboard, hot swap fans, CRPS power, independent OS HDD.
4U GPGPU vertical server	4U modularized structure, frame and desktop convertible, support 4-8 GPGPU, EEB motherboard, hot swap fans, CRPS power, independent OS HDD.
4U high-density GPGPU server	4U modularized structure, frame and desktop convertible, support up to 10 GPGPU, EEB motherboard, hot swap fans, CRPS power, independent OS HDD.

Item	Product specification
1U/2U Intel Whitley platforms	1U and 2U modularized structure, 1U (4x3.5"/12x2.5" HDD), 2U (12x3.5"/24x2.5"HDD), Whitley platform big size T type, L type or other non-standard motherboard, hot swap fans, CRPS power, Independent OS HDD, multiple I/O expansion (up to 10 x expansion cards).
Hyper-Converged platform	2U/4U modularized multiple-node structure, 2U (2-4 nodes, 12/24x3.5" HDD), 4U (4-8 nodes, 24/48x2.5" HDD), semi-width single-way or double-way motherboard, EEB or big size double-way motherboard, hot swap fans, CRPS power, GPGPU support.
R&D is projected at 3-4% of the revenue in 2018, which is consistent with the previous year.	

(IV) The impact of the changes in domestic and foreign major policies and law on the Company's finance and business in the most recent years, and the response measures:

The changes in domestic and foreign major policies and law in the most recent year have no significant impact on the Company. In addition to occasionally collecting and evaluating the impact of changes in domestic and foreign major policies on the Company's finance and business in the future, the Company will also consult relevant professionals to take response measures in a timely manner.

(V) The impact of the changes in technology and industry on the Company's finance and business in the most recent years, and the response measures:

The strategy of a full series of server products in the previous year will be continued, echoed with the Intel new platform (PURLEY), which has been announced in 2017 and the anticipated wave of demand for replacement for new machine in 2018. Under the stable growth in the demand in the market of China and North America, and with the advantage of high flexibility and modularization, standard items will be expanded into different types of markets for application for maximizing the production efficiency under the shared use of objects. Due to the increasing popularity of SDS (Software Define Storage), flash memories (NVMe and SSD) are changing the ways data centers are structured. Furthermore, users' increasing demand for virtual servers and enterprise-grade applications are giving rise to more sophisticated demands for system performance. As a result, designs for customized data center are shifting towards features such as high-density and high-capacity flash memories, online maintenance, and PCIe expansions. With respect to high performance applications, the Company will continue developing multi-node server series, while at the same time optimize GPU layout in new chassis and aim to reach potential customers through the JDM approach. In the mass storage segment, the Company will be focusing on the development of ultra high density servers and JBOD products to give high-end customers more selections on applications such as cloud database and backup. In the PC segment, the Company will be introducing a compatible chassis for the new-generation mini-STX form factor, targeting both the DIY market and existing customers. This new form factor may also be adopted for IPC applications, in which different materials can be incorporated to build small, fan-less systems.

(VI) The impact of changes in corporate image on the Company's crisis management and the response measures:

The Company is with a good corporate image and there is no significant change that will require the Company to perform crisis management in recent years.

(VII) The expected benefits from mergers and acquisitions, the potential risks associated, and the responsive measures:

The Company is without any merger plan; therefore, it is not applicable.

(VIII) The expected effect and possible risk of the plant expansion, and the response measures:

(1) Plant expansion effect

The Company has gradually started Chin-Qin Stage III plant expansion plan this year, mainly due to the high expectation in cloud industry development and the stable growth of purchase order. The Company focuses on the production of chassis for server and related cloud products with productivity increased to meet market demand and to help the Company grow.

(2) Possible risks and response measures

The Company's investment in plant expansion is a capital-intensive project with the potential risks of declining economy, purchase order less than expected, and low capacity utilization causing burdens to the Company and resulting in low profit. The Company will actively develop purchase orders from global customers and grasp industrial trend and pulsation in order to reduce the risk of low capacity utilization.

(IX) The risk of concentrated purchase or sales and the response measures:

The transaction value of the Company's largest customer accounted for only 27% of the consolidated net operating income. There is no single customer sale amount exceeding 50% of the total sale amount. Therefore, there is no risk of concentrated sales. In addition, the transaction value of the Company's largest supplier accounted for 7% of the consolidated net purchase amount; therefore, there is no risk of concentrated purchase.

(X) The risks and impacts of significant shareholding transfers by directors, supervisors, or major shareholders with more than 10% ownership interest, and the responsive measures to such risks:

The Company's Directors, Supervisors, or shareholders with more than 10% shareholding are without any material equity transfer or replacement; therefore, it is not applicable.

(XI) The effects, risks and responsive measures associated with changes in management:

The Company did not experience any change in management right; therefore, it is not applicable.

(XII) If the result of the material litigation, non-litigation, or administrative dispute that is sentenced or in proceeding faced by the Company and the Company's Directors, Supervisors, President, the real person in charge, the major shareholder with more than 10% shareholding, and the invested company may have a significant impact on shareholders' equity or securities price, the content of such incident, the amount, litigation starting date, the main litigant, and the process up to the printing date of the annual report should be disclosed: None.

(XIII) Other important risks and response measures: None.

VII. Other Material Issues

None.

Eight.

Special remarks

- I. Affiliated companies
- II. Private placement of securities during the latest year up till the publication date of this annual report
- III. The disposal of the Company's shares by its subsidiaries during the latest financial year, up to the publication date of this annual report
- IV. Other necessary supplementary information
- V. Had there had any of the events defined in Article 36 Paragraph 3 Section 2 of the Act that would have significant impact on the shareholders' equity or securities price occurred in the most recent year and up to the printing date of the annual report

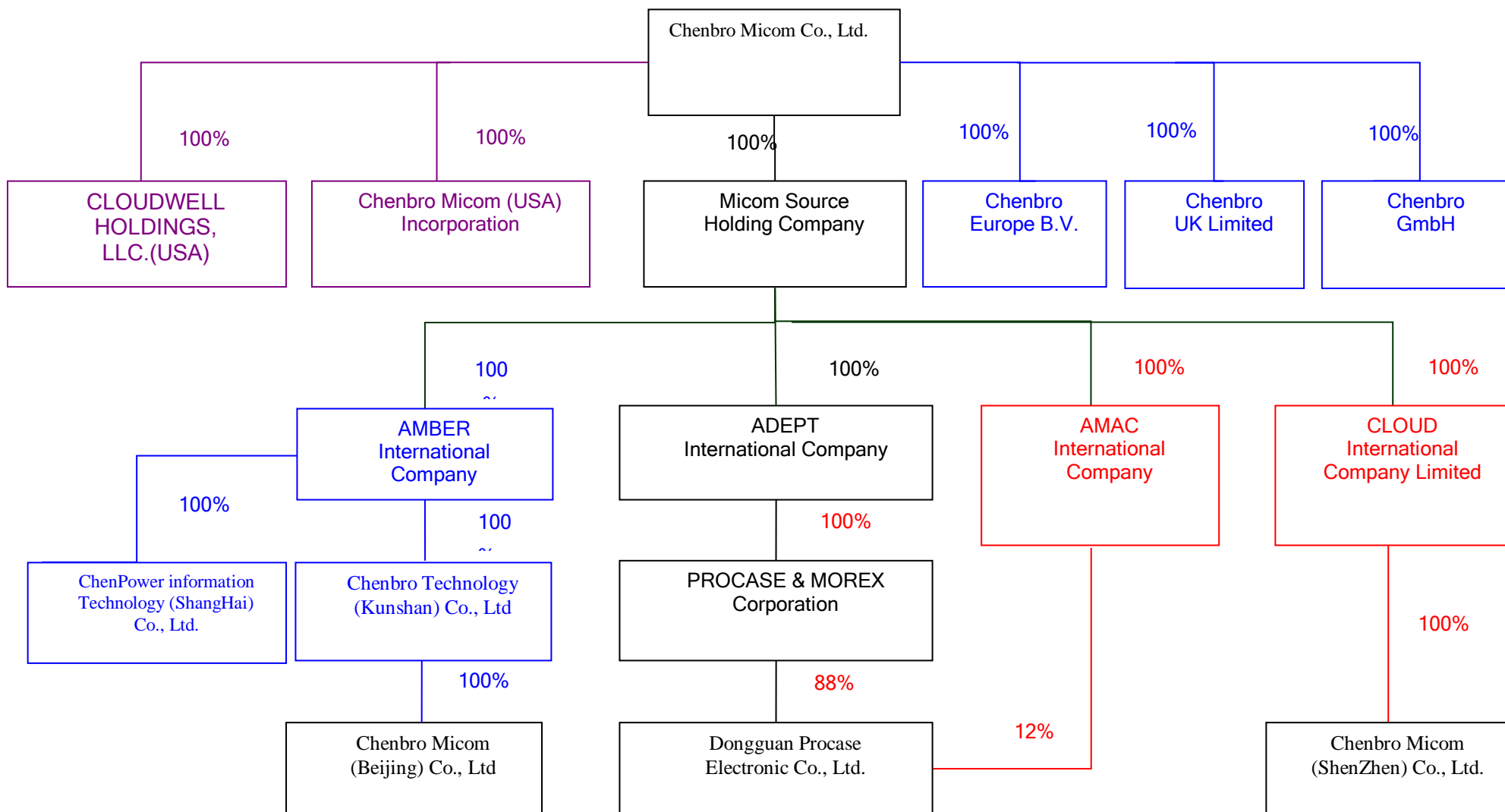
Eight. Special remarks

I. Affiliated companies

(I) Affiliates consolidated business report

1. Related party overview

(1) Affiliates organization chart



(2)Basic information of each affiliated company

Name of enterprise	Date of foundation	Address	Paid-in capital	Main business operation
Chenbro Micom Co., Ltd.	1983.12.05	15F, No. 150, Jen-Yi Road, Chunghe District, New Taipei City	NT\$1,197,260 thousand	The R&D, production, processing, and trade of computer chassis and server
Chenbro Europe B.V.	1998.07.24	Avignonlaan 35, 5627 GA Eindhoven, The Netherlands	EUR 91 thousand	Trade of computer chassis and server
Chenbro Micom (USA) INC.	2000.01.25	2800 E. JURUPA STREET, ONTARIO CA 91761	US\$1,000 thousand	Trade of computer chassis and server
Cloudwell Holdings, LLC.	2013.7.12	2800 E. JURUPA STREET, ONTARIO CA 91761	US\$3,600 thousand	Real estate leasing company
Micom-Source Holding Co.	1999.01.19	Cayman Islands	US\$20,450 thousand	Holdings
AMAC International Co.	2001.12.07	Cayman Islands	US\$6,453 thousand	Holdings
AMBER International Company	2005.12.07	Cayman Islands	US\$8,240 thousand	Holdings
Chenbro Technology (Kunshan) Co., Ltd	2003.09.08	Technology and Science Industrial Park in the Development Zone, Kunshan City, Jiangsu Province	US\$10,000 thousand	Production and processing of computer chassis and server
Chenbro UK Limited	2008.08.24	Suite 11B, Crossford Court, Dane Road, Sale, Manchester, M33 7BZ, U.K.	GBP 20 thousand	Marketing Services Company
Dongguan Procace Electronic Co., Ltd.	1995.12.18	Hong Yeh Industrial District, Tang Xia Town, Dongguan City	HK\$85,600 thousand	Production and processing of computer chassis and server
ADEPT International Company LTD.	2007.02.22	The British Virgin Islands	US\$15,800 thousand	Holdings
PROCASE & MOREX Corporation	1997.10.03	The British Virgin Islands	US\$17,751 thousand	Trade of computer chassis and server
CLOUD INTERNATIONAL COMPANY LIMITED	2012.04.23	Samoa	US\$550 thousand	Holdings
Chenbro Micom (ShenZhen) Co., Ltd.	2012.05.24	Futian Center,Shenzhen City, Guangdong Province	US\$500 thousand	Trade of computer chassis and server
Chenbro Micom (Beijing) Co., Ltd	2014.06.06	Changping District, Beijing City	RMB 6,000 thousand	Technology R&D
Chenbro GmbH	2015.02.10	Carl-Friedrich-Benz-Str. 13, 47877 Willich, Germany	EUR 250 thousand	Trade of computer chassis and server
ChenPower information Technology (ShangHai) Co., Ltd.	2016.10.08	Room 150, Zone J, 1 st Floor, Building No. 1, No. 1362, Huqingping Highway, Qingpu District, Shanghai.	US\$2,100 thousand	Trade of computer chassis and server

(3) **The reason for the presumption of a control and subordination relationship and the relevant information of the personnel:** None

(4) **Business contact and the division of labor between the affiliated companies**

Name of enterprise	Business contact and division of labor
Chenbro Micom Co., Ltd.	Parent Company, it controls the business operation of all subsidiaries.
Chenbro Europe B.V.	It is a subsidiary with independent sales ability.
Chenbro Micom (USA) INC.	It is a subsidiary with independent sales ability.
Micom-Source Holding Co.	It is a holding company incorporated in a third country lawfully.
Cloudwell Holdings, LLC.	It is a subsidiary with independent real estate leasing.
AMAC International Co.	It is a holding company incorporated in a third country lawfully.
AMBER International Co.	It is a holding company incorporated in a third country lawfully.
ADEPT International Company LTD.	It is a holding company incorporated in a third country lawfully.
PROCASE & MOREX Corporation	It is a trading company setup in a third country lawfully.
Chenbro UK Limited	It is a subsidiary with independent marketing service.
Chenbro Technology (Kunshan) Co., Ltd	It is a subsidiary of the sub-subsidiary with independent production and sales.
Dongguan Procace Electronic Co., Ltd.	It is a sub-subsidiary of the sub-subsidiary with independent production and sales.
Cloud International Company Limited	It is a holding company incorporated in a third country lawfully.
Chenbro Micom (ShenZhen) Co., Ltd.	It is a subsidiary of the sub-subsidiary with independent sales ability.
Chenbro Micom (Beijing) Co., Ltd	It is a sub-subsidiary of the sub-subsidiary of a technology R&D Center.
Chenbro GmbH	It is a subsidiary with independent sales ability.
ChenPower information Technology (ShangHai) Co., Ltd.	It is a subsidiary of the sub-subsidiary with independent sales ability.

(5) **The Directors, Supervisors, and President of the affiliated companies**

Name of enterprise	Title	Name
Chenbro Europe B.V.	Director	CHEN MEI CHI and Zhifen Chen
Chenbro Micom (USA) INC.	Director	CHEN MEI CHI, Ya-Mi Li, Yun-Peng Chen
Micom- Source Holding Co.	Director	CHEN MEI CHI
Cloudwell Holdings, LLC.	Director	Yun-Peng Chen
AMAC International Co.	Director	CHEN MEI CHI
AMBER International Company	Director	CHEN MEI CHI
Chenbro Technology (Kunshan) Co., Ltd	Director	CHEN MEI CHI, Zhifen Chen, TSOU KE TI
Chenbro UK Limited	Director	CHEN MEI CHI and CHEN FENG MING
Dongguan Procace Electronic Co., Ltd.	Director	Zhifen Chen
ADEPT International Company LTD.	Director	CHEN MEI CHI
PROCASE & MOREX CORPORATION	Director	CHEN MEI CHI
CLOUD INTERNATIONAL COMPANY LIMITED	Director	CHEN MEI CHI
Chenbro Micom (ShenZhen) Co., Ltd.	Director	Fengzheng Chen
Chenbro Micom (Beijing) Co., Ltd	Director	Fengzheng Chen
Chenbro GmbH	Director	CHEN MEI CHI
ChenPower information Technology (ShangHai) Co., Ltd.	Director	CHEN MEI CHI

(6) The business operations of each affiliated company

Unit: NT\$1,000

Name of enterprise	Share capital	Total assets	Total liabilities	Net value	Operating revenues	Operating profit	Current period profit (after tax)
Chenbro Europe B.V.	3,556	69,975	4,213	65,762	92,309	3,375	2,429
Chenbro Micom (USA) INC.	30,280	483,241	347,959	135,282	1,926,458	47,005	32,667
Cloudwell Holdings, LLC.	109,365	253,025	140,829	112,196	0	(5,013)	1,531
Micom- Source Holding Co.	619,223	2,317,607	41,510	2,276,097	0	(38,162)	141,648
AMAC International Co.	195,389	62,124	0	62,124	0	0	3,888
Chenbro Technology (Kunshan) Co., Ltd	383,754	2,234,678	586,911	1,647,767	2,054,881	195,316	120,113
AMBER International Company	249,504	1,725,642	81,671	1,643,971	0	(10)	124,047
ADEPT International Company LTD.	474,044	530,450	78,120	452,330	0	(25)	25,674
PROCASE & MOREX Corporation	537,500	748,164	219,250	528,914	952,297	(6,673)	19,289
Dongguan Procace Electronic Co., Ltd.	483,589	1,349,359	832,616	516,743	1,754,303	37,542	32,480
Chenbro UK Limited	778	2,649	687	1,962	3,338	159	129
CLOUD INTERNATIONAL COMPANY LIMITED	16,233	23,762	0	23,762	0	(35)	(5,395)
Chenbro Micom (ShenZhen) Co., Ltd.	14,975	24,307	1,902	22,405	16,701	(5,373)	(5,247)
Chenbro Micom (Beijing) Co., Ltd	30,540	736	212	524	5,850	(4,203)	(4,233)
Chenbro GmbH	9,019	63,343	52,645	10,698	67,979	2,071	1,675
ChenPower information Technology (ShangHai) Co., Ltd.	66,906	544,202	468,162	76,040	563,781	14,450	8,006

(II) The companies that are to be included in the Company's affiliates consolidated financial report are same as the companies included in the parent-subsidiary consolidated financial report in accordance with International Financial Reporting Standards No. 10; therefore, an affiliate consolidated financial report will not be prepared separately. The declaration is made as follows:

Chenbro and its subsidiaries

The Affiliate's Declaration of Consolidated Financial Statements

The companies that are to be included in the Company's 2017 (January 1 ~ December 31, 2017) affiliates consolidated financial report in accordance with the "Regulations governing the preparation of affiliates consolidated business report, affiliates consolidated financial statements, and relationship report" are the same as the companies included in the parent-subsiidiary consolidated financial report in accordance with Financial Reporting Standards No. 10. In addition, the information to be disclosed in the affiliates consolidated financial report has been disclosed in the parent-subsiidiary consolidated financial report referred to above; therefore, an affiliate consolidated financial report will not be prepared separately.

Declared by:

Company Name: Chenbro Micom Co., Ltd.

Person in charge: CHEN MEI CHI

March 20, 2018

(III) Relationship Report: Not applicable.

II. Private placement of securities during the latest year up till the publication date of this annual report

None.

III. The disposal of the Company's shares by its subsidiaries during the latest financial year, up to the publication date of this annual report

None.

IV. Other necessary supplementary information

None.

V. Had there had any of the events defined in Article 36 Paragraph 3 Section 2 of the Act that would have significant impact on the shareholders' equity or securities price occurred in the most recent year and up to the printing date of the annual report

None.

[Appendix I] Internal Control System Declaration

Chenbro Micom Co., Ltd. Declaration of Internal Control Policies

Date: March 20, 2018

The Company's 2017 Internal Control System Declaration is declared as follows in accordance with the self-assessment results:

- I. The Company is aware that the establishment, execution, and maintenance of its internal control policies are the responsibilities of the Company's board of directors and managers. These policies were implemented throughout The Company. The purpose is to provide reasonable assurance on the achievement of operating effectiveness and efficiency (including profits, performance, and assets safeguarding), reporting matters with reliability, timeliness, and transparency, and compliance with the relevant law and regulations.
- II. Internal control policies are prone to limitations. No matter how robustly designed, effective internal control policies merely provide reasonable assurance to the achievements of the three goals above. Furthermore, environmental and situational changes may affect the effectiveness of internal control policies. However, self-supervision measures were implemented within The Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.
- III. The Company has based on the criteria of the internal control system effectiveness in the "Regulations Governing the Establishment of Internal Control System by Public Companies" (referred to as the Regulations" hereinafter) to determine the effectiveness of the internal control system design and implementation. Regarding the internal control system criteria in the "Regulations," the internal control system is divided into five composing elements in accordance with the management and control process: 1. environment control, 2. risk assessment, 3. control operation, 4. information and communication, and 5. supervise operation.
Each element further contains several items. Please refer to "The Governing Principles" for details.
- IV. The Company has adopted the internal control system criteria in the preceding paragraph to assess the effectiveness of the internal control system design and implementation.
- V. The Company based on the assessment results in the preceding paragraph believes that the Company's internal control system (including the supervision and management of subsidiaries) as of December 31, 2017, including the achievement of operating effectiveness and efficiency, reporting matters with reliability, timeliness, transparency, and compliance with the relevant specifications, and the compliance with the relevant law and regulations, and the related internal control system design and implementation, is effective and is able to reasonably ensure achieving the above objectives.
- VI. The "Internal Control System Declaration" will be the main content of the Company' annual report and prospectus for the reference of the public. Any illegal misrepresentation or non-disclosure relating to the public statement above are subject to the legal consequences under Articles 20, 32, 171, and 174 of the Securities Exchange Act.
- VII. The "Internal Control System Declaration" was resolved in the Board of Directors meeting on March 20, 2018 without any objection from any of the seven (7) attending Board Directors. The attending Board Directors approved the "Internal Control System Declaration" unanimously.

Chenbro Micom Co., Ltd.
Chairman and President: CHEN MEI CHI

[Appendix II] Supervisor Review Report

Supervisor's Review Report

The Supervisors have duly audited the Business Report, Financial Statements, and Schedule of Earnings Distribution prepared by the Board of Directors for the year of 2017, and found the same to be true and correct. Therefore, the Supervisors' Report is hereby issued in accordance with Article 219 of the Company Law. The Supervisor Report is hereby enclosed for reference.

Sincerely yours,

The Company's 2018 Shareholders' Meeting

Chenbro Micom Co., Ltd.

Supervisor: Li-Jung Huang

Supervisor: Chen-Hsiang Chen

Supervisor: Ya-Mi Li

March 20, 2018

**CHENBRO MICOM CO., LTD. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016**

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

(17)PWCR17003496

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

Opinion

We have audited the accompanying consolidated balance sheets of Chenbro Micom Co., Ltd. and subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in

the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

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

Valuation of accounts receivable

Description

Refer to Note 4(9) for accounting policy on allowance for uncollectible accounts, Note 5 for key estimates and assumptions, and Note 6(3) for details of allowance for uncollectible accounts. As of December 31, 2017, the balances of accounts receivable and allowance for uncollectible accounts are NT\$1,495,199 thousand and NT\$23,751 thousand, respectively.

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

How our audit addressed the matter

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

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

Valuation of inventories

Description

Refer to Note 4(11) for accounting policy on inventory valuation, Note 5 for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(5) for description of allowance

for inventory valuation losses. As of December 31, 2017, the Group's inventory and allowance for market value decline and obsolete and slow-moving inventories amounted to NT\$737,243 thousand and NT\$120,137 thousand, respectively.

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

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

How our audit addressed the matter

Our procedures in relation to valuation of inventories included:

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

Other matter – Scope of the Audit

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets amounting to NT\$252,449 thousand and NT\$359,305 thousand, representing 5% and 7% of the consolidated total assets as of December 31, 2017 and 2016, respectively, and total operating

revenue amounting to NT\$0 and NT\$205,204 thousand, representing 0% and 4% of the consolidated total operating revenue for the years then ended, respectively. Those statements were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in these financial statements and the information disclosed in Note 13 are based solely on the audits of the other independent accountants.

Other matter – Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of Chenbro Micom Co., Ltd. as at and for the years ended December 31, 2017 and 2016.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance, including the supervisors, are responsible for overseeing the Group’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

Audrey Tseng

Chih, Ping-Chiun

For and on behalf of PricewaterhouseCoopers, Taiwan

March 20, 2018

The accompanying 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 audit 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 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
DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	2017		2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 1,127,353	21	\$ 1,298,218	26
1147	Investments in debt instrument	6(2)				
	without active market - current		144,097	3	-	-
1150	Notes receivable, net		-	-	1,355	-
1170	Accounts receivable, net	6(3)	1,471,448	27	1,138,981	23
1180	Accounts receivable - related parties	7				
			1,094	-	1,449	-
1200	Other receivables	6(4) and 7	52,996	1	55,973	1
1220	Current income tax assets		5,499	-	4,865	-
130X	Inventories	6(5)	617,106	12	647,505	13
1410	Prepayments		73,205	1	60,684	1
1470	Other current assets	8	11,551	-	12,278	1
11XX	Total current assets		3,504,349	65	3,221,308	65
Non-current assets						
1543	Non-current financial assets	6(6)				
	measured at cost		31,625	1	31,625	1
1600	Property, plant and equipment	6(7) and 8	1,675,691	31	1,569,099	31
1780	Intangible assets	6(8)	7,732	-	10,002	-
1840	Deferred income tax assets	6(21)	56,693	1	76,726	1
1900	Other non-current assets	6(7)(9) and 8	99,903	2	79,386	2
15XX	Total non-current assets		1,871,644	35	1,766,838	35
1XXX	Total assets		\$ 5,375,993	100	\$ 4,988,146	100

(Continued)

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

Liabilities and Equity			2017		2016	
Notes			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(10)	\$ 296,883	6	\$ 94,500	2
2170	Accounts payable		1,242,231	23	1,122,894	22
2180	Accounts payable - related parties	7	8,779	-	6,769	-
2200	Other payables	6(12) and 7	594,740	11	532,453	11
2230	Current income tax liabilities		72,589	1	105,528	2
2300	Other current liabilities	6(11)	22,348	1	30,751	1
21XX	Total current liabilities		2,237,570	42	1,892,895	38
Non-current liabilities						
2540	Long-term borrowings	6(11)	132,190	2	150,318	3
2570	Deferred income tax liabilities	6(21)	58,767	1	60,147	1
2600	Other non-current liabilities	6(13)	28,113	1	27,992	1
25XX	Total non-current liabilities		219,070	4	238,457	5
2XXX	Total liabilities		2,456,640	46	2,131,352	43
Equity						
Share capital		6(14)				
3110	Share capital - common stock		1,197,260	22	1,197,260	24
Capital surplus		6(15)				
3200	Capital surplus		48,209	1	48,209	1
Retained earnings		6(16)(21)				
3310	Legal reserve		518,907	9	458,888	9
3320	Special reserve		142,624	3	65,573	1
3350	Unappropriated retained earnings		1,121,934	21	1,163,915	23
Other equity interest		6(17)				
3400	Other equity interest		(109,581)	(2)	(77,051)	(1)
3XXX	Total equity		2,919,353	54	2,856,794	57
Significant contingent liabilities and unrecorded contract commitments		9				
Significant events after the balance sheet date		6(16) and 11				
3X2X	Total liabilities and equity		\$ 5,375,993	100	\$ 4,988,146	100

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

CHENBRO MICOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

	Items	Notes	2017		2016	
			AMOUNT	%	AMOUNT	%
4000	Operating revenue	7	\$ 5,513,754	100	\$ 5,209,967	100
5000	Operating costs	6(5)(20) and 7	(4,044,435)	(74)	(3,659,785)	(70)
5950	Net operating margin		<u>1,469,319</u>	<u>26</u>	<u>1,550,182</u>	<u>30</u>
	Operating expenses	6(20) and 7				
6100	Selling expenses		(295,153)	(5)	(309,354)	(6)
6200	General and administrative expenses		(312,851)	(6)	(284,557)	(6)
6300	Research and development expenses		(178,125)	(3)	(177,815)	(3)
6000	Total operating expenses		<u>(786,129)</u>	<u>(14)</u>	<u>(771,726)</u>	<u>(15)</u>
6900	Operating profit		<u>683,190</u>	<u>12</u>	<u>778,456</u>	<u>15</u>
	Non-operating income and expenses					
7010	Other income	6(18)	21,729	-	22,320	-
7020	Other gains and losses	6(19)	(81,629)	(1)	23,362	1
7050	Finance costs		(8,053)	-	(7,863)	-
7000	Total non-operating income and expenses		<u>(67,953)</u>	<u>(1)</u>	<u>37,819</u>	<u>1</u>
7900	Profit before income tax		<u>615,237</u>	<u>11</u>	<u>816,275</u>	<u>16</u>
7950	Income tax expense	6(21)	(159,795)	(3)	(216,087)	(4)
8200	Profit for the year		<u>\$ 455,442</u>	<u>8</u>	<u>\$ 600,188</u>	<u>12</u>
	Other comprehensive income					
	Components of other comprehensive loss that will not be reclassified to profit or loss					
8311	Loss on remeasurement of defined benefit plan	6(13)	(\$ 1,415)	-	(\$ 9,896)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(21)	<u>240</u>	<u>-</u>	<u>1,682</u>	<u>-</u>
8310	Components of other comprehensive loss that will not be reclassified to profit or loss		<u>(1,175)</u>	<u>-</u>	<u>(8,214)</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations	6(17)	(36,095)	-	(157,552)	(3)
8399	Income tax relating to the components of other comprehensive income	6(17)(21)	<u>3,565</u>	<u>-</u>	<u>25,644</u>	<u>-</u>
8360	Components of other comprehensive loss that will be reclassified to profit or loss		<u>(32,530)</u>	<u>-</u>	<u>(131,908)</u>	<u>(3)</u>
8300	Other comprehensive loss for the year		<u>(\$ 33,705)</u>	<u>-</u>	<u>(\$ 140,122)</u>	<u>(3)</u>
8500	Total comprehensive income for the year		<u>\$ 421,737</u>	<u>8</u>	<u>\$ 460,066</u>	<u>9</u>
	Profit attributable to:					
8610	Owners of the parent		<u>\$ 455,442</u>	<u>8</u>	<u>\$ 600,188</u>	<u>12</u>
	Comprehensive income attributable to:					
8710	Owners of the parent		<u>\$ 421,737</u>	<u>8</u>	<u>\$ 460,066</u>	<u>9</u>
	Earnings per share (in dollars)	6(22)				
9750	Basic earnings per share		<u>\$ 3.80</u>		<u>\$ 5.01</u>	
9850	Diluted earnings per share		<u>\$ 3.77</u>		<u>\$ 4.95</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
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars)

Notes	Equity attributable to owners of the parent								
	Capital Reserves			Retained Earnings			Financial statements translation differences of foreign operations	Treasury stocks	Total equity
	Share capital - common stock	Total capital surplus, additional paid-in capital	Treasury stock transactions	Legal reserve	Special reserve	Unappropriated retained earnings			
Balance at January 1, 2016	\$ 1,201,260	\$ 42,127	\$ 14,622	\$ 408,404	\$ 65,573	\$ 933,712	\$ 54,857	(\$ 12,540)	\$ 2,708,015
Distribution of 2015 earnings	6(16)								
Legal reserve	-	-	-	50,484	-	(50,484)	-	-	-
Cash dividends	-	-	-	-	-	(311,287)	-	-	(311,287)
Retirement of treasury shares	6(14)	(4,000)	(140)	(8,400)	-	-	-	12,540	-
Profit for the year	-	-	-	-	-	600,188	-	-	600,188
Other comprehensive loss for the year	6(17)	-	-	-	-	(8,214)	(131,908)	-	(140,122)
Balance at December 31, 2016	<u>\$ 1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 458,888</u>	<u>\$ 65,573</u>	<u>\$ 1,163,915</u>	<u>(\$ 77,051)</u>	<u>\$ -</u>	<u>\$ 2,856,794</u>
Balance at January 1, 2017	\$ 1,197,260	\$ 41,987	\$ 6,222	\$ 458,888	\$ 65,573	\$ 1,163,915	(\$ 77,051)	\$ -	\$ 2,856,794
Distribution of 2016 earnings	6(16)								
Legal reserve	-	-	-	60,019	-	(60,019)	-	-	-
Special dividends	-	-	-	-	77,051	(77,051)	-	-	-
Cash dividends	-	-	-	-	-	(359,178)	-	-	(359,178)
Profit for the year	-	-	-	-	-	455,442	-	-	455,442
Other comprehensive loss for the year	6(17)	-	-	-	-	(1,175)	(32,530)	-	(33,705)
Balance at December 31, 2017	<u>\$ 1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 518,907</u>	<u>\$ 142,624</u>	<u>\$ 1,121,934</u>	<u>(\$ 109,581)</u>	<u>\$ -</u>	<u>\$ 2,919,353</u>

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

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

	Notes	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 615,237	\$ 816,275
Adjustments			
Adjustments to reconcile profit (loss)			
Provision for doubtful accounts	6(3)	3,406	2,003
Depreciation	6(7)(20)	135,169	110,059
Amortisation	6(8)(20)	5,042	5,228
Interest expense		8,053	7,863
Interest income	6(18)	(10,109)	(10,163)
Loss on disposal of property, plant and equipment	6(19)	1,225	660
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		1,355	2,315
Accounts receivable		(335,916)	(127,861)
Accounts receivable - related parties		355	68
Other receivables		3,418	(14,514)
Inventories		30,399	(127,760)
Prepayments		(12,521)	638
Other current assets		727	(4,633)
Changes in operating liabilities			
Notes payable		-	(656)
Accounts payable		119,337	171,382
Accounts payable - related parties		2,010	(6,108)
Other payables		68,490	50,264
Other current liabilities		(6,933)	(3,643)
Other non-current liabilities		(1,294)	(20,874)
Cash inflow generated from operations		627,450	850,543
Interest received		9,668	12,447
Interest paid		(8,014)	(8,079)
Income tax paid		(171,577)	(129,741)
Net cash flows from operating activities		<u>457,527</u>	<u>725,170</u>

(Continued)

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

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets measured at cost	6(6)	\$ -	(\$ 31,625)
Acquisition of property, plant and equipment	6(7)(23)	(311,002)	(380,574)
Proceeds from disposal of property, plant and equipment	6(7)	2,505	1,034
Acquisition of intangible assets	6(8)	(2,795)	(4,710)
Acquisition of investments in debt instrument without active market-current	6(2)	(144,097)	-
Decrease in other non-current assets	6(9)	<u>8,644</u>	<u>7,930</u>
Net cash flows used in investing activities		(<u>446,745</u>)	(<u>407,945</u>)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in short-term borrowings		202,383	(36,850)
Decrease in guarantee deposits received		(1,178)	(13,293)
Repayment of long-term borrowings (including current portion)		(6,441)	(6,552)
Payment of cash dividends	6(16)	(<u>359,178</u>)	(<u>311,287</u>)
Net cash flows used in financing activities		(<u>164,414</u>)	(<u>367,982</u>)
Effect on foreign exchange difference		(<u>17,233</u>)	(<u>85,102</u>)
Net decrease in cash and cash equivalents		(170,865)	(135,859)
Cash and cash equivalents at beginning of year	6(1)	<u>1,298,218</u>	<u>1,434,077</u>
Cash and cash equivalents at end of year	6(1)	<u>\$ 1,127,353</u>	<u>\$ 1,298,218</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
YEARS ENDED DECEMBER 31, 2017 AND 2016

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

1. HISTORY AND ORGANISATION

Chenbro Micom Co., Ltd. was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) in December 1983. The Company 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 authorised for issuance by the Board of Directors on March 20, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

- A. In accordance with IFRS 9, the Group expects to reclassify investment in debt instruments without active market as financial assets at amortised cost.
- B. In accordance with IFRS 9, the Group expects to reclassify financial assets at cost as financial assets at fair value through other comprehensive income and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose.

Except for the aforementioned effect, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance 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 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (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. The Group has assessed the contract for the year ended December 31, 2017 in accordance with the standard. The Group expects to recognise right-of-use

asset of \$71,037 and lease liabilities of \$12,158, by decreasing retained earnings by \$324 and other non-current assets by \$59,203.

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”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

- A. Except for the defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, the consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment 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 (%)		Description
			December 31, 2017	2016	
Chenbro Micom Co., Ltd.	Micom Source Holding Company	Holding company	100	100	
Chenbro Micom Co., Ltd.	Chenbro Micom (USA) Incorporation	General trading company	100	100	
Chenbro Micom Co., Ltd.	Chenbro Europe B.V.	General trading company	100	100	Notes 2 and 4
Chenbro Micom Co., Ltd.	CLOUDWELL HOLDINGS, LLC.	Real estate leasing company	100	100	Note 2
Chenbro Micom Co., Ltd.	Chenbro GmbH	General trading company	100	100	
Chenbro Micom Co., Ltd.	Chenbro UK Limited	Marketing services	100	-	Notes 2 and 5
Micom Source Holding Company	Cloud International Company Limited	Holding company	100	100	
Micom Source Holding Company	AMAC International Company	Holding company	100	100	
Micom Source Holding Company	AMBER International Company	Holding company	100	100	
Micom Source Holding Company	ADEPT International Company	Holding company	100	100	

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2017	2016	
Chenbro Europe B.V.	Chenbro UK Limited	Marketing services	-	100	Notes 2 and 5
Cloud International Company Limited	Chenbro Micom (Shenzhen) Co., Ltd.	General trading company	100	100	Note 3
AMBER International Company	Chenbro Technology (Kunshan) Co., Ltd.	Manufacturing of computer cases	100	100	
AMBER International Company	ChenPower Information Technology (Shanghai) Co., Ltd.	General trading company	100	100	Note 1
Chenbro Technology (Kunshan) Co., Ltd.	Chenbro Micom (Beijing) Co., Ltd.	Research and development of technical skills	100	100	Note 3
ADEPT International Company	PROCASE & MOREX Corporation	Trading / Order taking company	100	100	
PROCASE & MOREX Corporation	Dongguan Procace Electronic Co., Ltd.	Manufacturing of computer cases	88	88	
AMAC International Company	Dongguan Procace Electronic Co., Ltd.	Manufacturing of computer cases	12	12	

Note 1: The subsidiary was established on October 8, 2016.

Note 2: Except for the 2017 financial statements of Chenbro Europe B.V. which were audited by the Company's appointed independent accountants, the financial statements of other subsidiaries were audited by its appointed independent accountants. The financial statement of these subsidiaries whose statements reflect total assets of \$252,449 and \$359,305, constituting 5% and 7% of the consolidated total assets as of December 31, 2017 and 2016, respectively, and net operating revenues of \$0 and \$205,204, constituting 0% and 4% of the consolidated total net operating revenue for the years then ended, respectively.

Note 3: On January 19, 2017, Chenbro Micom (Shenzhen) Co., Ltd. and Chenbro Micom

(Beijing) Co., Ltd. were dissolved under the resolution of the Board of Directors.

Note 4: On May 9, 2017, Chenbro Europe B. V. was dissolved under the resolution of the Board of Directors.

Note 5: In accordance with the resolution made by the Board of Directors on May 9, 2017, the Company directly held the shares of Chenbro UK Limited. The registration of such share transfer was completed in August 2017.

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) Accounts receivable

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

(8) Investments in debt instruments without active market

Investments in debt instruments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

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

decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) 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.

(11) 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.

(12) Financial assets measured at cost

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

(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	2~5 years
Computer communication equipment	3~5 years
Testing equipment	2~10 years
Transportation equipment	5~7 years
Office equipment	3~10 years
Other equipment	3~5 years

(14) 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 1 to 5 years.

(15) 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 recognizing 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.

(16) 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.

(17) Notes and accounts payable

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

(18) 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.

(19) 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.

(20) 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.

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.

(21) 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 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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.

(22) 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.

(23) 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.

(24) Revenue recognition

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

(25) 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:

A. Evaluation of accounts receivable

The Group assesses bad debts based on historical experience, known reason or existing objective evidences. A provision for impairment is recognised for those accounts which are considered uncollectible. As the estimation of allowance for uncollectible accounts was based on the possibility

of accounts recovery, the change in estimates may be material.

As of December 31, 2017, the carrying amount of accounts receivable was \$1,471,448.

B. 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 December 31, 2017, the carrying amount of inventories was \$617,106.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Petty cash and cash on hand	\$ 437	\$ 600
Demand deposits	24,052	38,614
Checking account deposits	73,639	71,096
Time deposits (including foreign currencies)	306,306	763,891
Foreign currency deposits	722,919	424,017
	<u>\$ 1,127,353</u>	<u>\$ 1,298,218</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) Investments in debt instruments without active market

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current items:		
Time deposits	<u>\$ 144,097</u>	<u>\$ -</u>

The Group has no investment in debt instruments without active market pledged as collateral. The Group associates with financial institutions all with high credit quality, so it expects that the probability of counterparty default is remote.

(3) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 1,495,199	\$ 1,159,414
Less: Allowance for bad debts	(23,751)	(20,433)
	<u>\$ 1,471,448</u>	<u>\$ 1,138,981</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Level 2	\$ 1,214,531	\$ 911,233
Level 3	19,856	5,232
	<u>\$ 1,234,387</u>	<u>\$ 916,465</u>

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

Level 2: Accounts receivable are insured so that the Group only bears 10% of the risk of default and insurance companies bear the remaining 90%. Because of the financial transparency, the domestic and foreign listed customers that are not insured are listed in level 2.

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

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 166,234	\$ 137,224
31 to 90 days	68,229	57,335
91 to 180 days	4,723	28,358
Over 181 days	7,332	5,515
	<u>\$ 246,518</u>	<u>\$ 228,432</u>

The above ageing analysis was based on past due date.

- D. Movement analysis of accounts receivable that were impaired is as follows:

- (a) As of December 31, 2017 and 2016, all of the Group's accounts receivable that were individually determined to be impaired amounted to \$14,294 and \$14,517, respectively.

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

2017			
	Individual provision	Group provision	Total
At January 1	\$ 14,517	\$ 5,916	\$ 20,433
(Reversal of) Provision for impairment	(92)	3,498	3,406
Write-offs during the year	(131)	-	(131)
Effects of foreign exchange	-	43	43
At December 31	<u>\$ 14,294</u>	<u>\$ 9,457</u>	<u>\$ 23,751</u>

2016			
	Individual provision	Group provision	Total
At January 1	\$ 14,517	\$ 4,101	\$ 18,618
Provision for impairment	-	2,003	2,003
Effects of foreign exchange	-	(188)	(188)
At December 31	<u>\$ 14,517</u>	<u>\$ 5,916</u>	<u>\$ 20,433</u>

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

(4) 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 December 31, 2017 and 2016, the related information is as follows:

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

December 31, 2016

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

Note: Shown as 'other receivables'.

(5) Inventories

December 31, 2017			
	Cost	Allowance for valuation loss and obsolete and slow- moving inventories	Book value
Raw materials	\$ 234,833	(\$ 19,670)	\$ 215,163
Semi-finished goods	75,669	(14,015)	61,654
Work in process	82,812	(971)	81,841
Finished goods	343,929	(85,481)	258,448
	<u>\$ 737,243</u>	<u>(\$ 120,137)</u>	<u>\$ 617,106</u>

December 31, 2016			
	Cost	Allowance for valuation loss and obsolete and slow- moving inventories	Book value
Raw materials	\$ 242,789	(\$ 33,022)	\$ 209,767
Semi-finished goods	49,245	(3,763)	45,482
Work in process	79,585	(586)	78,999
Finished goods	403,970	(90,713)	313,257
	<u>\$ 775,589</u>	<u>(\$ 128,084)</u>	<u>\$ 647,505</u>

The cost of inventories recognised as expense for the year:

	Years ended December 31,	
	2017	2016
Cost of goods sold	\$ 4,030,335	\$ 3,615,780
Sale of scraps	(10,251)	(8,651)
Loss on decline in market value	24,959	53,386
Gain on physical inventory	(608)	(730)
	<u>\$ 4,044,435</u>	<u>\$ 3,659,785</u>

(6) Financial assets measured at cost

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

- A. According to the Group's intention, its investment in the unlisted stocks should be classified as available-for-sale financial assets. However, as the unlisted stocks are not traded in active market, and no sufficient industry information of companies similar to the unlisted company's financial information can be obtained, the fair value of the investment in the unlisted stocks cannot be measured reliably. Accordingly, the Group classified those stocks as 'financial assets measured at cost'.
- B. As of December 31, 2017 and 2016, no financial assets measured at cost held by the Group were pledged to others.

(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, 2017</u>												
Cost	\$ 215,971	\$ 1,294,693	\$ 510,324	\$ 262,272	\$ 33,270	\$ 28,543	\$ 20,232	\$ 53,113	\$ 41,627	\$ 240,888	\$ 2,700,933	\$ 2,069
Accumulated depreciation and impairment	-	(428,607)	(345,735)	(234,127)	(23,981)	(21,196)	(15,003)	(35,534)	(27,651)	-	(1,131,834)	-
	<u>\$ 215,971</u>	<u>\$ 866,086</u>	<u>\$ 164,589</u>	<u>\$ 28,145</u>	<u>\$ 9,289</u>	<u>\$ 7,347</u>	<u>\$ 5,229</u>	<u>\$ 17,579</u>	<u>\$ 13,976</u>	<u>\$ 240,888</u>	<u>\$ 1,569,099</u>	<u>\$ 2,069</u>
<u>2017</u>												
Opening net book amount	\$ 215,971	\$ 866,086	\$ 164,589	\$ 28,145	\$ 9,289	\$ 7,347	\$ 5,229	\$ 17,579	\$ 13,976	\$ 240,888	\$ 1,569,099	\$ 2,069
Additions	-	106,867	77,906	48,095	2,450	2,714	5,053	3,057	5,674	22,312	274,128	30,632
Disposals	-	(76)	(1,078)	(48)	(339)	(26)	(2,021)	(123)	(19)	-	(3,730)	-
Transfers	-	170,733	34,948	-	-	20	1,203	1,598	26	(206,709)	1,819	(2,886)
Effects of foreign exchange	(5,810)	(18,007)	(728)	454	(375)	(68)	(130)	(644)	(88)	(5,060)	(30,456)	347
Depreciation charges	-	(62,021)	(31,778)	(26,543)	(4,316)	(1,603)	(965)	(4,561)	(3,382)	-	(135,169)	-
Closing net book amount	<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>At December 31, 2017</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>

Note: Pepayments for business facilities are shown as 'other non-current assets'. Details are provided in Note 6(9).

- 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 other current assets of \$1,018 and expenses of \$49.

	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, 2016</u>												
Cost	\$ 217,323	\$ 1,092,251	\$ 537,637	\$ 253,656	\$ 32,266	\$ 25,285	\$ 20,070	\$ 51,829	\$ 33,523	\$ 35,170	\$ 2,299,010	\$ 158,856
Accumulated depreciation and impairment	-	(410,405)	(343,682)	(218,575)	(20,295)	(20,804)	(14,824)	(33,523)	(27,878)	-	(1,089,986)	-
	<u>\$ 217,323</u>	<u>\$ 681,846</u>	<u>\$ 193,955</u>	<u>\$ 35,081</u>	<u>\$ 11,971</u>	<u>\$ 4,481</u>	<u>\$ 5,246</u>	<u>\$ 18,306</u>	<u>\$ 5,645</u>	<u>\$ 35,170</u>	<u>\$ 1,209,024</u>	<u>\$ 158,856</u>
<u>2016</u>												
Opening net book amount	\$ 217,323	\$ 681,846	\$ 193,955	\$ 35,081	\$ 11,971	\$ 4,481	\$ 5,246	\$ 18,306	\$ 5,645	\$ 35,170	\$ 1,209,024	\$ 158,856
Additions	-	15,279	13,685	9,798	2,107	974	1,359	4,641	1,387	228,634	277,864	110,465
Disposals	-	(598)	(732)	-	(265)	-	-	(95)	(4)	-	(1,694)	-
Transfers	-	254,222	3,654	2,277	-	3,489	-	54	9,845	(10,542)	262,999	(262,999)
Effects of foreign exchange	(1,352)	(40,238)	(12,697)	(97)	(143)	(398)	(250)	(818)	(668)	(12,374)	(69,035)	(4,253)
Depreciation charges	-	(44,425)	(33,276)	(18,914)	(4,381)	(1,199)	(1,126)	(4,509)	(2,229)	-	(110,059)	-
Closing net book amount	<u>\$ 215,971</u>	<u>\$ 866,086</u>	<u>\$ 164,589</u>	<u>\$ 28,145</u>	<u>\$ 9,289</u>	<u>\$ 7,347</u>	<u>\$ 5,229</u>	<u>\$ 17,579</u>	<u>\$ 13,976</u>	<u>\$ 240,888</u>	<u>\$ 1,569,099</u>	<u>\$ 2,069</u>
<u>At December 31, 2016</u>												
Cost	\$ 215,971	\$ 1,294,693	\$ 510,324	\$ 262,272	\$ 33,270	\$ 28,543	\$ 20,232	\$ 53,113	\$ 41,627	\$ 240,888	\$ 2,700,933	\$ 2,069
Accumulated depreciation and impairment	-	(428,607)	(345,735)	(234,127)	(23,981)	(21,196)	(15,003)	(35,534)	(27,651)	-	(1,131,834)	-
	<u>\$ 215,971</u>	<u>\$ 866,086</u>	<u>\$ 164,589</u>	<u>\$ 28,145</u>	<u>\$ 9,289</u>	<u>\$ 7,347</u>	<u>\$ 5,229</u>	<u>\$ 17,579</u>	<u>\$ 13,976</u>	<u>\$ 240,888</u>	<u>\$ 1,569,099</u>	<u>\$ 2,069</u>

Note: Prepayments for business facilities are shown as 'other non-current assets'. Details are provided in Note 6(9)

- 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.

(8) Intangible assets

	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2017</u>				
Cost	\$ 532	\$ 31,481	\$ 600	\$ 32,613
Accumulated amortisation	(229)	(22,046)	(336)	(22,611)
	<u>\$ 303</u>	<u>\$ 9,435</u>	<u>\$ 264</u>	<u>\$ 10,002</u>
<u>2017</u>				
At January 1	\$ 303	\$ 9,435	\$ 264	\$ 10,002
Additions	29	2,766	-	2,795
Amortisation charge	(55)	(4,911)	(76)	(5,042)
Effects of foreign exchange	-	(23)	-	(23)
At December 31	<u>\$ 277</u>	<u>\$ 7,267</u>	<u>\$ 188</u>	<u>\$ 7,732</u>
<u>At December 31, 2017</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>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>At January 1, 2016</u>				
Cost	\$ 501	\$ 26,942	\$ 460	\$ 27,903
Accumulated amortisation	(189)	(16,793)	(259)	(17,241)
	<u>\$ 312</u>	<u>\$ 10,149</u>	<u>\$ 201</u>	<u>\$ 10,662</u>
<u>2016</u>				
At January 1	\$ 312	\$ 10,149	\$ 201	\$ 10,662
Additions	31	4,539	140	4,710
Amortisation charge	(40)	(5,111)	(77)	(5,228)
Effects of foreign exchange	-	(142)	-	(142)
At December 31	<u>\$ 303</u>	<u>\$ 9,435</u>	<u>\$ 264</u>	<u>\$ 10,002</u>
<u>At December 31, 2016</u>				
Cost	\$ 532	\$ 31,481	\$ 600	\$ 32,613
Accumulated amortisation	(229)	(22,046)	(336)	(22,611)
	<u>\$ 303</u>	<u>\$ 9,435</u>	<u>\$ 264</u>	<u>\$ 10,002</u>

Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2017	2016
Manufacturing cost	\$ 74	\$ -
Selling expenses	448	455
Administrative expenses	1,772	2,265
Research and development expenses	2,748	2,508
	<u>\$ 5,042</u>	<u>\$ 5,228</u>

(9) Other non-current assets

	December 31, 2017	December 31, 2016
Long-term prepaid rent - land use right (Note)	\$ 59,203	\$ 61,466
Prepayments for business facilities	30,162	2,069
Others	10,538	15,851
	<u>\$ 99,903</u>	<u>\$ 79,386</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 recognised rental expenses of \$987 and \$1,080 for the years ended December 31, 2017 and 2016, respectively.

(10) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Short-term borrowings	<u>\$ 296,883</u>	0.83%~3.75%	A promissory note of the same amount was issued as collateral.

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

(11) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2017
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	\$ 138,788
Less: Current portion (shown as 'other current liabilities')				(6,598)
				<u>\$ 132,190</u>

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2016
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	\$ 157,208
Less: Current portion (shown as 'other current liabilities')				(6,890)
				<u>\$ 150,318</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 December 31, 2017, the subsidiary, CLOUDWELL HOLDINGS, LLC., has not violated the requirements of the abovementioned secured borrowing contract.

(12) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Wages and bonus payable	\$ 191,763	\$ 142,298
Payables for investment	78,120	84,656
Remuneration due to directors and supervisors and employee bonus payable	52,378	67,566
Payables for mold	64,685	44,200
Payables for export freight and customs clearance charges	37,427	29,017
Payables for service fees	18,061	15,486
Payables for machinery and equipment	6,734	12,976
Payables for consumable goods	7,602	3,249
Others	137,970	133,005
	<u>\$ 594,740</u>	<u>\$ 532,453</u>

(13) Pensions

A. Defined benefit plan

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

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	\$ 49,425	\$ 49,447
Fair value of plan assets	(21,495)	(23,060)
Net liability recognised in the balance sheet (shown as 'other non-current liabilities')	<u>\$ 27,930</u>	<u>\$ 26,387</u>

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	\$ 49,447	(\$ 23,060)	\$ 26,387
Current service cost	362	-	362
Interest expense (income)	692	(323)	369
	<u>50,501</u>	<u>(23,383)</u>	<u>27,118</u>
Remeasurements:			
Return on plan assets	-	112	112
Change in financial assumptions	1,637	-	1,637
Experience adjustments	(334)	-	(334)
	<u>1,303</u>	<u>112</u>	<u>1,415</u>
Pension fund contribution	-	(603)	(603)
Benefits paid	(2,379)	2,379	-
Balance at December 31	<u>\$ 49,425</u>	<u>(\$ 21,495)</u>	<u>\$ 27,930</u>
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2016</u>			
Balance at January 1	\$ 41,496	(\$ 2,676)	\$ 38,820
Current service cost	383	-	383
Interest expense (income)	705	(46)	659
	<u>42,584</u>	<u>(2,722)</u>	<u>39,862</u>
Remeasurements:			
Return on plan assets	-	23	23
Change in financial assumptions	1,348	-	1,348
Experience adjustments	8,525	-	8,525
	<u>9,873</u>	<u>23</u>	<u>9,896</u>
Pension fund contribution	-	(23,371)	(23,371)
Benefits paid	(3,010)	3,010	-
Balance at December 31	<u>\$ 49,447</u>	<u>(\$ 23,060)</u>	<u>\$ 26,387</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed,

over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earning is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

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

Assumptions regarding future mortality experience for the years ended December 31, 2017 and 2016 are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 1,034)	\$ 1,069	\$ 923	(\$ 898)
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 1,127)	\$ 1,168	\$ 1,024	(\$ 995)

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

(f) Expected contributions to the defined benefit pension plan of the Group for the year ending December 31, 2018 are \$577.

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 years ended December 31, 2017 and 2016 were \$8,405 and \$7,582, 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 years ended December 31, 2017 and 2016 were \$32,899 and \$22,887, respectively.

(14) Ordinary shares

A. As of December 31, 2017, the Company’s authorised capital was \$1,500,000, consisting of 150 million shares of ordinary stock (including 1 million shares reserved for employee stock options), and the paid-in capital was \$1,197,260 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

B. Treasury shares

In 2013, the Company repurchased treasury stock to be reissued to employees totaling 400 thousand shares in the amount of \$12,540 thousand. The registration of retirement of shares has been completed on October 21, 2016.

(15) 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.

(16) 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 20, 2017 and June 23, 2016, the shareholders resolved the appropriations of 2016 and 2015 earnings as follows:

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

F. On March 20, 2018, the Board of Directors has proposed the appropriation of 2017 earnings as follows:

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

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

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

(17) Other equity items

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

(18) Other income

	Years ended December 31,	
	2017	2016
Interest income	\$ 10,109	\$ 10,163
Other income	11,620	12,157
	<u>\$ 21,729</u>	<u>\$ 22,320</u>

(19) Other gains and losses

	Years ended December 31,	
	2017	2016
Net currency exchange (loss) gain	(\$ 78,137)	\$ 26,809
Loss on disposal of property, plant and equipment	(1,225)	(660)
Other expenses	(2,267)	(2,787)
	<u>(\$ 81,629)</u>	<u>\$ 23,362</u>

(20) Employee benefit, depreciation and amortisation expenses

	Years ended December 31,	
	2017	2016
Wages and salaries	\$ 784,951	\$ 717,432
Labour and health insurance fees	38,711	36,498
Pension costs	42,035	31,511
Other personnel expenses	56,846	56,919
Employee benefit expense	<u>\$ 922,543</u>	<u>\$ 842,360</u>
Depreciation charges on property, plant and equipment	<u>\$ 135,169</u>	<u>\$ 110,059</u>
Amortisation charges on intangible assets	<u>\$ 5,042</u>	<u>\$ 5,228</u>

- A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 6% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration and will be distributed in the form of stock or cash as resolved by the Board of Directors. Employees who are entitled to receive employees' compensation include employees of subsidiaries of the company meeting certain specific requirements. Related regulations were set by the Board of Directors. The distribution of employees' compensation and directors' and supervisors' remuneration should be reported to the stockholders. However, if the Company has accumulated deficit, the Company should cover accumulated losses first, then distribute employees' compensation and directors' and supervisors' remuneration proportionately as described above.
- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$40,474 and \$52,210, respectively; while directors' and supervisors' remuneration was accrued at \$11,904 and \$15,356, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2016, employees' compensation and directors' and supervisors' remuneration amounted to \$51,972 and \$15,286 as resolved by the Board of Directors on February 23, 2017, respectively, and the differences with the amounts recognised in the current year's financial statements amounted to \$238 and \$70, respectively. The differences had been adjusted in the profit or loss for 2017. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the year	\$ 133,129	\$ 185,615
Tax on undistributed surplus earnings	9,573	14,306
Prior year income tax over estimation	(5,365)	(1,337)
Total current tax	<u>137,337</u>	<u>198,584</u>
Deferred tax:		
Origination and reversal of temporary differences	22,458	17,503
Income tax expense	<u>\$ 159,795</u>	<u>\$ 216,087</u>

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

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

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 176,122	\$ 226,500
10% tax on undistributed earnings	9,573	14,306
Prior year income tax over estimation	(5,365)	(1,337)
Effect from expenses disallowed by tax regulation	(20,535)	(23,382)
Tax expense	<u>\$ 159,795</u>	<u>\$ 216,087</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

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

	2017			
	<u>January 1</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
-Deferred tax assets:				
Allowance for inventory valuation loss and loss on obsolete and slow-moving inventories	\$ 23,544	(\$ 526)	\$ -	\$ 23,018
Unrealised gain on inter-affiliate accounts	41,171	(21,099)	-	20,072
Amount of allowance for bad debts that exceed the limit for tax purpose	1,634	14	-	1,648
Unused compensated absences	952	515	-	1,467
Pension expense payable	4,897	-	240	5,137
Pension expense that exceeds the limit for tax purpose	1,480	19	-	1,499
Unrealised exchange loss	-	661	-	661
Unrealised warranty provision	1,020	1,115	-	2,135
Others	<u>2,028</u>	<u>(972)</u>	<u>-</u>	<u>1,056</u>
	<u>76,726</u>	<u>(20,273)</u>	<u>240</u>	<u>56,693</u>
-Deferred tax liabilities:				
Investment income	(56,038)	(3,404)	3,565	(55,877)
Unrealised exchange gain	(1,298)	1,298	-	-
Book-tax difference of depreciation charges on fixed assets	(2,751)	(53)	-	(2,804)
Others	<u>(60)</u>	<u>(26)</u>	<u>-</u>	<u>(86)</u>
	<u>(60,147)</u>	<u>(2,185)</u>	<u>3,565</u>	<u>(58,767)</u>
	<u>\$ 16,579</u>	<u>(\$ 22,458)</u>	<u>\$ 3,805</u>	<u>(\$ 2,074)</u>

2016				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Allowance for inventory valuation loss and loss on obsolete and slow-moving inventories	\$ 25,790	(\$ 2,246)	\$ -	\$ 23,544
Unrealised gain on inter-affiliate accounts	38,880	2,291	-	41,171
Amount of allowance for bad debts that exceed the limit for tax purpose	3,247	(1,613)	-	1,634
Unused compensated absences	973	(21)	-	952
Pension expense payable	3,215	-	1,682	4,897
Pension expense that exceeds the limit for tax purpose	1,405	75	-	1,480
Unrealised warranty provision	1,020	-	-	1,020
Others	1,757	271	-	2,028
	<u>76,287</u>	<u>(1,243)</u>	<u>1,682</u>	<u>76,726</u>
-Deferred tax liabilities:				
Investment income	(65,319)	(16,363)	25,644	(56,038)
Unrealised exchange gain	(717)	(581)	-	(1,298)
Book-tax difference of depreciation charges on fixed assets	(3,470)	719	-	(2,751)
Others	(25)	(35)	-	(60)
	<u>(69,531)</u>	<u>(16,260)</u>	<u>25,644</u>	<u>(60,147)</u>
	<u>\$ 6,756</u>	<u>(\$ 17,503)</u>	<u>\$ 27,326</u>	<u>\$ 16,579</u>

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

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

F. Unappropriated retained earnings:

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

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

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

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

(22) Earnings per share

	Year ended December 31, 2017		
	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	<u>\$ 455,442</u>	119,726	<u>\$ 3.80</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 455,442		
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>1,156</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 455,442</u>	<u>120,882</u>	<u>\$ 3.77</u>

Year ended December 31, 2016			
	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	\$ 600,188	119,726	\$ 5.01
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 600,188		
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	1,423	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 600,188	121,149	\$ 4.95

(23) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31	
	2017	2016
Purchase of property, plant and equipment	\$ 304,760	\$ 388,329
Add: Opening balance of payable on equipment	12,976	5,221
Less: Ending balance of payable on equipment	(6,734)	(12,976)
Cash paid during the year	\$ 311,002	\$ 380,574

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

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

(2) Names of related parties and relationship

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

(3) Significant related party transactions

A. Operating revenue

	Years ended December 31,	
	2017	2016
Sales of goods:		
Other related parties	\$ 2,168	\$ 3,204

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

B. Purchases and other expenses

	Years ended December 31,	
	2017	2016
Purchase of goods:		
Other related parties	\$ 25,918	\$ 52,145
Other expenses:		
Other related parties (management service expense)	1,860	1,863
	\$ 27,778	\$ 54,008

(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) Management service expense: Management service expense arises from 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

	December 31, 2017	December 31, 2016
Accounts receivable:		
Other related parties	\$ 1,094	\$ 1,449
Other receivables-payment on behalf of others: (shown as 'other receivables')		
Other related parties	182	490
	\$ 1,276	\$ 1,939

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

D. Payables to related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable:		
Other related parties	\$ 8,779	\$ 6,769
Other payables-management service: (shown as 'other payables')		
Other related parties	570	545
	<u>\$ 9,349</u>	<u>\$ 7,314</u>

Accounts payable bear no interest.

(4) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 41,351	\$ 41,393
Post-employment benefits	345	345
Other long-term benefits	888	1,287
	<u>\$ 42,584</u>	<u>\$ 43,025</u>

8. PLEDGED ASSETS

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

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Time deposits (shown as 'other current assets')	<u>\$ 1,338</u>	<u>\$ 1,322</u>	Customs duty guarantee
Cash in banks (shown as 'other non-current assets')	<u>\$ 3,018</u>	<u>\$ 3,252</u>	Long-term borrowings (Note)
Land and buildings	<u>\$ 218,261</u>	<u>\$ 241,045</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

(1) The subsidiaries have signed land use contracts with local economic development authorities. The present values of estimated future lease payments for land management during the assignment of use period are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 2,503	\$ 2,458
Later than one year but not later than three years	5,042	5,014
Over three years	77,519	80,851
	<u>\$ 85,064</u>	<u>\$ 88,323</u>

- (2) The Group entered into equipment agreement, lease agreement and ERP maintenance agreement. Future lease payments and their present values are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 13,989	\$ 3,782
Later than one year but not later than three years	2,565	3,918
Over three years	-	920
	<u>\$ 16,554</u>	<u>\$ 8,620</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

A. Please refer to Note 6(16)F for the distribution of retained earnings.

B. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$4,254 and \$6,135, respectively, which will be adjusted in the first quarter of 2018.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Fair value information of financial instruments

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

The fair value information of financial instruments measured at fair value is provided in Note 12(3).

Financial liabilities: Long-term borrowings (including current portion)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Book value	\$ 138,788	\$ 157,208
Fair value risk	\$ 142,277	\$ 161,276

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:

December 31, 2017			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 40,101	29.76	\$ 1,193,406
USD:RMB	33,701	6.52	1,004,168
<u>Non-monetary items</u>			
USD:NTD	7,573	29.76	225,359
EUR:NTD	2,117	35.57	75,313
GBP:NTD	49	40.11	1,962
RMB:NTD	495,176	4.57	2,262,955
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 26,032	29.76	\$ 774,712
USD:RMB	11,090	6.52	330,442

December 31, 2016			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 45,599	32.25	\$ 1,470,568
USD:RMB	30,237	6.99	976,467
<u>Non-monetary items</u>			
USD:NTD	5,567	32.25	179,545
EUR:NTD	1,941	33.90	65,797
RMB:NTD	445,866	4.62	2,059,902
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 33,532	32.25	\$ 1,081,407
USD:RMB	14,991	6.99	484,116

- 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:

Year ended December 31, 2017			
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	\$ -	29.76	(\$ 10,699)
USD:RMB	(3,491)	6.52	(15,956)
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	29.76	\$ 6,403
USD:RMB	1,263	6.52	5,770
Year ended December 31, 2016			
Exchange gain (loss)			
	Foreign currency amount (in thousands)	Exchange rate	Book value
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	32.25	\$ 24,456
USD:RMB	2,674	6.99	12,352
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ -	32.25	(\$ 15,944)
USD:RMB	656	6.99	3,031

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

Year ended December 31, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 11,934	-
USD:RMB	1%	10,042	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	7,747	-
USD:RMB	1%	3,304	-
Year ended December 31, 2016			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 14,706	-
USD:RMB	1%	9,765	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	10,814	-
USD:RMB	1%	4,841	-

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 years ended December 31, 2017 and 2016, 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. 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. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only parties with optimal ratings are accepted.
- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of significant financial assets that are neither past due nor impaired is provided in Note 6(3) B.
- iv. The ageing analysis of financial assets that were past due is provided in Note 6(3) C.
- v. The group analysis of financial assets that had been impaired is provided in Note 6(3) D.

(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>December 31, 2017</u>				
Short-term borrowings	\$ 297,883	\$ -	\$ -	\$ -
Accounts payable	1,242,231	-	-	-
Accounts payable - related party	8,779	-	-	-
Other payables	594,740	-	-	-
Other current liabilities	15,312	-	-	-
Long-term borrowings (including current portion)	11,689	23,379	23,379	125,662
Guarantee deposits received	438	183	-	-
<u>December 31, 2016</u>				
Short-term borrowings	\$ 94,552	\$ -	\$ -	\$ -
Accounts payable	1,122,894	-	-	-
Accounts payable - related party	6,769	-	-	-
Other payables	532,453	-	-	-
Other current liabilities	22,244	-	-	-
Long-term borrowings (including current portion)	12,668	25,335	25,335	148,843
Guarantee deposits received	1,617	1,605	-	-

- 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

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

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more:
Please refer to table 5.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Counterparties' information are disclosed based on subsidiaries' audited financial statements. 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 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

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

<u>Name of company</u>	<u>Counterparty</u>	<u>Accounts</u>	<u>Amount of 2017</u>	<u>Percentage representing the account of the company (%)</u>	<u>Note</u>
PROCASE & MOREX Corporation	Dongguan Procace Electronic Co., Ltd.	Purchases	\$ 545,714	60	Note 1
PROCASE & MOREX Corporation	Dongguan Procace Electronic Co., Ltd.	Accounts payable	86,611	46	Note 1
Chenbro Micom Co., Ltd.	PROCASE & MOREX Corporation	Purchases	667,130	32	
Chenbro Micom Co., Ltd.	PROCASE & MOREX Corporation	Accounts payable	139,701	28	
Chenbro Micom Co., Ltd.	Dongguan Procace Electronic Co., Ltd.	Royalty revenue	29,531	100	Note 2
Chenbro Micom Co., Ltd.	Dongguan Procace Electronic Co., Ltd.	Other receivables	29,531	19	Note 2
Chenbro Micom Co., Ltd.	Chenbro Technology (Kunshan) Co., Ltd.	Purchases	1,111,269	53	
Chenbro Micom Co., Ltd.	Chenbro Technology (Kunshan) Co., Ltd.	Accounts payable	105,305	21	

Note 1: The Company purchased 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 (Procace) for manufacturing computer cases.

Note 2: The Company provided development technology to Dongguan Procace Electronic Co., Ltd., and charged the related royalties.

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 have 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) Measurement of segment information

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.

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

The Company and subsidiaries have only one reportable operating segment, thus, the reportable information is in agreement with those in the consolidated financial statements.

(4) 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.

(5) Information on product

Details of revenue balance is as follows:

	Years ended December 31,	
	2017	2016
Computer server cases	\$ 3,776,221	\$ 3,480,444
Peripheral products and components	1,434,591	1,371,021
Personal computer cases	243,390	302,432
Molds	59,552	56,070
	<u>\$ 5,513,754</u>	<u>\$ 5,209,967</u>

(6) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	Years ended December 31,			
	2017		2016	
	Sales revenue	Non-current assets	Sales revenue	Non-current assets
US	\$ 1,924,118	\$ 254,590	\$ 1,981,137	\$ 285,560
China	2,667,940	1,266,845	2,107,549	1,090,933
Taiwan	333,584	254,489	521,372	273,953
Others	588,112	2,317	599,909	621
	<u>\$ 5,513,754</u>	<u>\$ 1,778,241</u>	<u>\$ 5,209,967</u>	<u>\$ 1,651,067</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2017 and 2016 is as follows:

	Years ended December 31,			
	2017		2016	
	<u>Sales revenue</u>	<u>Percentage in the consolidated net operating income</u>	<u>Sales revenue</u>	<u>Percentage in the consolidated net operating income</u>
Company A	\$ 1,475,380	27%	\$ 1,486,109	29%
Company B	1,007,998	18%	675,400	13%
Company C	862,772	16%	898,885	17%

CHENBRO MICOM CO., LTD.
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2017 AND 2016

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATE FROM CHINESE

(17) PWCR17003323

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

Opinion

We have audited the accompanying balance sheets of Chenbro Micom Co., Ltd. (the “Company”) as at December 31, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

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

Valuation of accounts receivable

Description

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

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

How our audit addressed the matter

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

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

Valuation of inventories

Description

Refer to Note 4(9) for accounting policy on inventory valuation, Note 5 for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(4) for description of allowance for inventory valuation losses. As of December 31, 2017, the Company's inventory and allowance for market value decline and obsolete and slow-moving inventories amounted to NT\$154,512 thousand

and NT\$22,098 thousand, respectively.

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

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

How our audit addressed the matter

Our procedures in relation to valuation of inventories included:

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

Other matter – Scope of the Audit

As stated in Note 6(6), we did not audit the financial statements of certain investees accounted for using equity method. The balances of these long-term equity investments amounted to NT\$114,158 thousand and NT\$176,978 thousand as of December 31, 2017 and 2016, respectively, and the related investment income was NT\$1,552 thousand and NT\$8,614 thousand for the years then ended, respectively. Those statements were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts

included in these financial statements and the information disclosed in Note 13 relative to these investees is based solely on the audit reports of the other independent accountants.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Audrey Tseng

Chih, Ping-Chiun

For and on behalf of PricewaterhouseCoopers, Taiwan

March 20, 2018

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

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

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

(Continued)

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

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

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

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

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

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

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

Notes	Share capital - common stock	Capital Reserves		Retained Earnings			Financial statements translation differences of foreign operations	Treasury stocks	Total equity
		Total capital surplus, additional paid-in capital	Treasury stock transactions	Legal reserve	Special reserve	Unappropriated retained earnings			
2016									
Balance at January 1, 2016	\$ 1,201,260	\$ 42,127	\$ 14,622	\$ 408,404	\$ 65,573	\$ 933,712	\$ 54,857	(\$ 12,540)	\$ 2,708,015
Distribution of 2015 earnings (Note 1)	6(15)								
Legal reserve	-	-	-	50,484	-	(50,484)	-	-	-
Cash dividends	-	-	-	-	-	(311,287)	-	-	(311,287)
Retirement of treasury shares	6(13)	(4,000)	(140)	(8,400)	-	-	-	12,540	-
Other comprehensive loss for the year	6(16)	-	-	-	-	(8,214)	(131,908)	-	(140,122)
Profit for the year		-	-	-	-	600,188	-	-	600,188
Balance at December 31, 2016	<u>\$ 1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 458,888</u>	<u>\$ 65,573</u>	<u>\$ 1,163,915</u>	<u>(\$ 77,051)</u>	<u>\$ -</u>	<u>\$ 2,856,794</u>
2017									
Balance at January 1, 2017	\$ 1,197,260	\$ 41,987	\$ 6,222	\$ 458,888	\$ 65,573	\$ 1,163,915	(\$ 77,051)	\$ -	\$ 2,856,794
Distribution of 2016 earnings (Note 2)	6(15)								
Legal reserve	-	-	-	60,019	-	(60,019)	-	-	-
Special reserve	-	-	-	-	77,051	(77,051)	-	-	-
Cash dividends	-	-	-	-	-	(359,178)	-	-	(359,178)
Other comprehensive loss for the year	6(16)	-	-	-	-	(1,175)	(32,530)	-	(33,705)
Profit for the year		-	-	-	-	455,442	-	-	455,442
Balance at December 31, 2017	<u>\$ 1,197,260</u>	<u>\$ 41,987</u>	<u>\$ 6,222</u>	<u>\$ 518,907</u>	<u>\$ 142,624</u>	<u>\$ 1,121,934</u>	<u>(\$ 109,581)</u>	<u>\$ -</u>	<u>\$ 2,919,353</u>

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

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

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

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

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

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

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

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

1. HISTORY AND ORGANISATION

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

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

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

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

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

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

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

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

Except for the IFRS9, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

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

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

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

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

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

- A. Except for the defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, the financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and jointly controlled entities that have a functional currency different from the presentation currency

are translated into the presentation currency as follows:

- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Company retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(4) Classification of current and non-current items

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

(5) Cash equivalents

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

(6) Accounts receivable

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

(7) Impairment of financial assets

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

(8) Derecognition of financial assets

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

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

(9) Inventories

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

(10) Financial assets measured at cost

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

(11) Investments accounted for using equity method / subsidiaries

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

consolidated financial statements.

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

(13) Intangible assets

A. Trademarks

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

B. Computer software

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

(14) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where

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

(15) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(16) Notes and accounts payable

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

(17) Derecognition of financial liabilities

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

(18) Offsetting financial instruments

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

(19) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plan

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

(b) Defined benefit plan

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).
 - ii. Remeasurements arising on defined benefit plan are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- C. Employees' bonus and directors' and supervisors' remuneration
- Employees' bonus and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(20) Income tax

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

date, unrecognised and recognised deferred tax assets are reassessed.

(21) Share capital

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

(22) Dividends

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

(23) Revenue recognition

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

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

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

(1) Valuation of accounts receivable

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

As of December 31, 2017, the carrying amount of accounts receivable amounted to \$288,523.

(2) Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2017, the carrying amount of inventories was \$132,414.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Petty cash and cash on hand	\$ 162	\$ 131
Demand deposits	24,051	38,614
Checking accounts	628	574
Foreign currency deposits	148,712	117,690
	<u>\$ 173,553</u>	<u>\$ 157,009</u>

A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Company has reclassified pledged cash and cash equivalents to 'other current assets'. Details are provided in Note 8.

(2) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 303,664	\$ 283,218
Less: Allowance for bad debts	(15,141)	(17,628)
	<u>\$ 288,523</u>	<u>\$ 265,590</u>

A. The Company has insured most of its accounts receivable from primary clients and is entitled for 90% of compensation if bad debts occur.

B. The credit quality of accounts receivable that were neither past due nor impaired was in the

following categories based on the Company's Credit Quality Control Policy:

	December 31, 2017	December 31, 2016
Level 2	\$ 239,192	\$ 202,238

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

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

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

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

	December 31, 2017	December 31, 2016
Up to 30 days	\$ 24,259	\$ 16,564
31 to 90 days	25,596	33,028
91 to 180 days	290	16,741
Over 181 days	33	130
	<u>\$ 50,178</u>	<u>\$ 66,463</u>

The above ageing analysis was based on past due date.

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

(a) As of December 31, 2017 and 2016, all of the Company's accounts receivable that were individually determined to be impaired amounted to \$14,294 and \$14,517, respectively.

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

	2017		
	Individual provision	Group provision	Total
At January 1	\$ 14,517	\$ 3,111	\$ 17,628
Reversal of impairment	(92)	(2,264)	(2,356)
Write-offs during the year	(131)	-	(131)
At December 31	<u>\$ 14,294</u>	<u>\$ 847</u>	<u>\$ 15,141</u>
	2016		
	Individual provision	Group provision	Total
At January 1	\$ 14,517	\$ 1,428	\$ 15,945
Provision of impairment	-	1,683	1,683
At December 31	<u>\$ 14,517</u>	<u>\$ 3,111</u>	<u>\$ 17,628</u>

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

(3) Transfer of financial assets

The Company entered into a factoring agreement with banks to sell its accounts receivable. Under the agreement, the Company is not obligated to bear the default risk of the transferred accounts receivable, but is liable for the losses incurred on any business dispute. The financial assets meet the condition of derecognition. The Company decreased the estimated amount of business dispute and derecognised the transferred accounts receivable. As of December 31, 2017 and 2016, the related information is as follows:

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

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

Note: Shown as 'other receivables'.

(4) Inventories

December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 38,666	(\$ 18,857)	\$ 19,809
Finished goods	115,846	(3,241)	112,605
	<u>\$ 154,512</u>	<u>(\$ 22,098)</u>	<u>\$ 132,414</u>
December 31, 2016			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 55,397	(\$ 14,273)	\$ 41,124
Finished goods	135,339	(13,893)	121,446
	<u>\$ 190,736</u>	<u>(\$ 28,166)</u>	<u>\$ 162,570</u>

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

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

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

B. The Group has no inventories pledged to others.

(5) Financial assets measured at cost

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

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

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

(6) Investments accounted for using equity method

	2017	2016
At January 1	\$ 2,362,067	\$ 2,202,382
Addition of investments accounted for using equity method	1,882	31,625
Share of profit or loss of investments accounted for using equity method	193,213	297,761
Unrealised profit of inter-company transactions	46,267 (12,149)
Changes in other equity items (Note 6(16))	(36,095)	(157,552)
At December 31	<u>\$ 2,567,334</u>	<u>\$ 2,362,067</u>
	December 31, 2017	December 31, 2016
Micom Source Holding Company	\$ 2,264,700	\$ 2,116,725
CLOUDWELL HOLDINGS, LLC.	112,196	119,960
Chenbro Europe B.V.	65,553	57,018
Chenbro GmbH	9,760	8,779
Chenbro Micom (USA) Incorporation	113,163	59,585
Chenbro UK Limited	1,962	-
	<u>\$ 2,567,334</u>	<u>\$ 2,362,067</u>

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

- B. The financial statements of investees accounted for using equity method, CLOUDWELL HOLDINGS, LLC. and Chenbro Europe B.V., were audited by their appointed independent accountants. The Company recognised income of \$8,614 on investees accounted for using equity method based on such financial statements for the year ended December 31, 2016. As of December 31, 2016, the balance of the related investments accounted for using equity method was \$176,978.
- C. On May 9, 2017, the Board of Directors of Chenbro UK Limited resolved that the Company directly held its equity share, the transfer of equity and the registration was completed in August 2017.
- D. Details of the Company's subsidiaries are provided in Note 4(4) of the Company's consolidated financial statements as of and for the year ended December 31, 2017.

(7) Property, plant and equipment

	Land	Buildings	Machinery and equipment	Mold equipment	Computer communication equipment	Testing equipment	Transportation equipment	Office equipment	Others	Total
<u>January 1, 2017</u>										
Cost	\$ 140,737	\$ 126,268	\$ 4,766	\$ 255,702	\$ 15,758	\$ 17,761	\$ -	\$ 11,823	\$ 12,804	\$ 585,619
Accumulated depreciation	-	(41,608)	(1,493)	(228,040)	(12,006)	(16,718)	-	(11,569)	(10,807)	(322,241)
	<u>\$ 140,737</u>	<u>\$ 84,660</u>	<u>\$ 3,273</u>	<u>\$ 27,662</u>	<u>\$ 3,752</u>	<u>\$ 1,043</u>	<u>\$ -</u>	<u>\$ 254</u>	<u>\$ 1,997</u>	<u>\$ 263,378</u>
<u>2017</u>										
Opening net book amount as at January 1	\$ 140,737	\$ 84,660	\$ 3,273	\$ 27,662	\$ 3,752	\$ 1,043	\$ -	\$ 254	\$ 1,997	\$ 263,378
Additions	-	360	-	1,905	1,376	1,702	3,148	-	-	8,491
Disposals	-	-	-	(2,173)	-	-	-	-	-	(2,173)
Depreciation charge	-	(3,314)	(503)	(15,940)	(2,361)	(648)	(196)	(190)	(860)	(24,012)
Closing net book amount as at December 31	<u>\$ 140,737</u>	<u>\$ 81,706</u>	<u>\$ 2,770</u>	<u>\$ 11,454</u>	<u>\$ 2,767</u>	<u>\$ 2,097</u>	<u>\$ 2,952</u>	<u>\$ 64</u>	<u>\$ 1,137</u>	<u>\$ 245,684</u>
<u>December 31, 2017</u>										
Cost	\$ 140,737	\$ 126,628	\$ 4,766	\$ 253,745	\$ 13,427	\$ 14,006	\$ 3,148	\$ 11,754	\$ 7,535	\$ 575,746
Accumulated depreciation	-	(44,922)	(1,996)	(242,291)	(10,660)	(11,909)	(196)	(11,690)	(6,398)	(330,062)
	<u>\$ 140,737</u>	<u>\$ 81,706</u>	<u>\$ 2,770</u>	<u>\$ 11,454</u>	<u>\$ 2,767</u>	<u>\$ 2,097</u>	<u>\$ 2,952</u>	<u>\$ 64</u>	<u>\$ 1,137</u>	<u>\$ 245,684</u>

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

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

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

(8) Intangible assets

	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>January 1, 2017</u>				
Cost	\$ 533	\$ 24,972	\$ 600	\$ 26,105
Accumulated amortisation	(230)	(17,977)	(336)	(18,543)
	<u>\$ 303</u>	<u>\$ 6,995</u>	<u>\$ 264</u>	<u>\$ 7,562</u>
<u>2017</u>				
At January 1	\$ 303	\$ 6,995	\$ 264	\$ 7,562
Additions	29	1,428	-	1,457
Amortisation charge	(55)	(3,809)	(76)	(3,940)
At December 31	<u>\$ 277</u>	<u>\$ 4,614</u>	<u>\$ 188</u>	<u>\$ 5,079</u>
<u>December 31, 2017</u>				
Cost	\$ 562	\$ 26,400	\$ 600	\$ 27,562
Accumulated amortisation	(285)	(21,786)	(412)	(22,483)
	<u>\$ 277</u>	<u>\$ 4,614</u>	<u>\$ 188</u>	<u>\$ 5,079</u>
	<u>Trademarks</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
<u>January 1, 2016</u>				
Cost	\$ 502	\$ 22,685	\$ 460	\$ 23,647
Accumulated amortisation	(190)	(13,492)	(259)	(13,941)
	<u>\$ 312</u>	<u>\$ 9,193</u>	<u>\$ 201</u>	<u>\$ 9,706</u>
<u>2016</u>				
At January 1	\$ 312	\$ 9,193	\$ 201	\$ 9,706
Additions	31	2,287	140	2,458
Amortisation charge	(40)	(4,485)	(77)	(4,602)
At December 31	<u>\$ 303</u>	<u>\$ 6,995</u>	<u>\$ 264</u>	<u>\$ 7,562</u>
<u>December 31, 2016</u>				
Cost	\$ 533	\$ 24,972	\$ 600	\$ 26,105
Accumulated amortisation	(230)	(17,977)	(336)	(18,543)
	<u>\$ 303</u>	<u>\$ 6,995</u>	<u>\$ 264</u>	<u>\$ 7,562</u>

Details of amortisation on intangible assets are as follows:

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

(9) Other non-current assets

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

(10) Short-term borrowings

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

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

(11) Other payables

	December 31, 2017	December 31, 2016
Remuneration due to directors and supervisors and employee bonus payable	\$ 52,378	\$ 67,566
Wages and bonus payable	54,668	48,826
Payables for export freight and customs clearance charges	17,081	21,979
Payables for service fees	13,833	10,453
Payables for mold	10,909	10,236
Payables for machinery and equipment	1,918	8,431
Others	27,721	25,274
	<u>\$ 178,508</u>	<u>\$ 192,765</u>

(12) Pensions

A. Defined benefit plan

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor

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

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligation	\$ 49,425	\$ 49,447
Fair value of plan assets	(21,495)	(23,060)
Net liability recognised in the balance sheet (shown as 'other non-current liabilities')	<u>\$ 27,930</u>	<u>\$ 26,387</u>

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

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2017</u>			
Balance at January 1	\$ 49,447	(\$ 23,060)	\$ 26,387
Current service cost	362	-	362
Interest expense (income)	692	(323)	369
	<u>50,501</u>	<u>(23,383)</u>	<u>27,118</u>
Remeasurements:			
Return on plan assets	-	112	112
Change in financial assumptions	1,637	-	1,637
Experience adjustments	(334)	-	(334)
	<u>1,303</u>	<u>112</u>	<u>1,415</u>
Pension fund contribution	-	(603)	(603)
Benefits paid	(2,379)	2,379	-
Balance at December 31	<u>\$ 49,425</u>	<u>(\$ 21,495)</u>	<u>\$ 27,930</u>

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

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

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

Assumptions regarding future mortality experience for the years ended December 31, 2017 and 2016 are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 1,034)	\$ 1,069	\$ 923	(\$ 898)
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 1,127)	\$ 1,168	\$ 1,024	(\$ 995)

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

- (f) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2018 are \$577.

B. Defined contribution plan

Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2017 and 2016 were \$8,405 and \$7,582, respectively.

(13) Ordinary shares

- A. As of December 31, 2017, the Company's authorised capital was \$1,500,000, consisting of 150 million shares of ordinary stock (including 1 million shares reserved for employee stock options), and the paid-in capital was \$1,197,260 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

B. Treasury shares

In 2013, the Company repurchased treasury stock to be reissued to employees for 400 thousand shares totaling \$12,540 thousand. The registration of retirement of shares has been completed on October 21, 2016.

(14) Capital surplus

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

(15) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve reaches total capital. The remaining shall take into account item D below for the related regulations of setting aside special reserve. The appropriation of the remaining earnings along with the unappropriated earnings of prior years depends on annual financial status and economic development and shall be proposed by the Board of Directors and approved by the shareholders.
- B. The Company's dividend policy is based on the current profit and consideration of the Company's growth in the future, capital budget plan and capital needs as well as consideration of shareholders' interest and long-term financial plan, etc. Earnings can be distributed to shareholders as cash dividends or stock dividends. Cash dividends shall account for at least 10% of the total dividends distributed. If cash dividends are lower than \$0.20 (in dollars) per share, stock dividends will be issued instead.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amount of \$65,573 previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- E. (a) On June 20, 2017 and June 23, 2016, the shareholders resolved the appropriations of 2016 and 2015 earnings as follows:

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

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

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

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

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

(16) Other equity items

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

(17) Operating revenue

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

(18) Other income

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

(19) Other gains and losses

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

(20) Employee benefits, depreciation and amortisation expenses

	Years ended December 31,	
	2017	2016
Wages and salaries	\$ 210,152	\$ 207,794
Labour and health insurance fees	14,611	13,227
Pension costs	9,136	8,624
Other personnel expenses	11,125	11,534
Employee benefits expense	<u>\$ 245,024</u>	<u>\$ 241,179</u>
Depreciation charges on property, plant and equipment	\$ 24,012	\$ 26,667
Amortisation charges on intangible assets	<u>\$ 3,940</u>	<u>\$ 4,602</u>

A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 6% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration and will be distributed in the form of stock or cash as resolved by the Board of Directors. Employees who are entitled to receive employees' compensation include employees of subsidiaries of the company meeting certain specific requirements. Related regulations were set by the Board of Directors. The distribution of employees' compensation and directors' and supervisors' remuneration should be reported to the stockholders. However, if the Company has accumulated deficit, the Company should cover accumulated losses first, then distribute employees' compensation and directors' and supervisors' remuneration proportionately as described above.

- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$40,474 and \$52,210, respectively; while directors' and supervisors' remuneration was accrued at \$11,904 and \$15,356, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2016, employees' compensation and directors' and supervisors' remuneration amounted to \$51,972 and \$15,286 as resolved by the Board of Directors on February 23, 2107, respectively, and the differences with the amounts recognised in the current year's financial statements amounted to \$238 and \$70, respectively. The differences have been adjusted for the year ended December 31, 2017. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the year	\$ 50,790	\$ 75,769
Tax on undistributed surplus earnings	9,573	14,306
Prior year income tax under (overestimation)	882	(225)
Total current tax	61,245	89,850
Deferred tax:		
Origination and reversal of temporary differences	7,992	6,692
Total deferred tax	7,992	6,692
Income tax expense	\$ 69,237	\$ 96,542

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

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

B. Reconciliation between income tax expense and accounting profit

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

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

	2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Allowance for inventory valuation loss and loss on obsolete and slow-moving inventories	\$ 5,267	(\$ 628)	\$ -	\$ 4,639
Unrealised gain on inter-affiliate accounts	18,655	(9,773)	-	8,882
Allowance for bad debts that exceed the limit for tax purpose	1,613	(70)	-	1,543
Unused compensated absences	675	-	-	675
Pension expense payable	4,897	-	240	5,137
Pension expense that exceeds the limit for tax purpose	1,480	19	-	1,499
Unrealised warranty provision	1,020	-	-	1,020
Unrealised exchange loss	-	661	-	661
Others	58	(8)	-	50
	<u>33,665</u>	<u>(9,799)</u>	<u>240</u>	<u>24,106</u>
-Deferred tax liabilities:				
Investment income	(38,840)	509	3,565	(34,766)
Unrealised exchange gain	(1,298)	1,298	-	-
	<u>(40,138)</u>	<u>1,807</u>	<u>3,565</u>	<u>(34,766)</u>
	<u>(\$ 6,473)</u>	<u>(\$ 7,992)</u>	<u>\$ 3,805</u>	<u>(\$ 10,660)</u>

	2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
-Deferred tax assets:				
Allowance for inventory valuation loss and loss on obsolete and slow- moving inventories	\$ 2,875	\$ 2,392	\$ -	\$ 5,267
Unrealised gain on inter-affiliate accounts	18,155	500	-	18,655
Allowance for bad debts that exceed the limit for tax purpose	1,487	126	-	1,613
Unused compensated absences	675	-	-	675
Pension expense payable	3,215	-	1,682	4,897
Pension expense that exceeds the limit for tax purpose	1,405	75	-	1,480
Unrealised warranty provision	1,020	-	-	1,020
Others	68	(10)	-	58
	<u>28,900</u>	<u>3,083</u>	<u>1,682</u>	<u>33,665</u>
-Deferred tax liabilities:				
Investment income	(55,290)	(9,194)	25,644	(38,840)
Unrealised exchange gain	(717)	(581)	-	(1,298)
	<u>(56,007)</u>	<u>(9,775)</u>	<u>25,644</u>	<u>(40,138)</u>
	<u>(\$ 27,107)</u>	<u>(\$ 6,692)</u>	<u>\$ 27,326</u>	<u>(\$ 6,473)</u>

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

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

F. Unappropriated retained earnings:

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

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

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

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

(22) Earnings per share

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

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

(23) Supplemental cash flow information

Investing activities with partial cash payments:

Years ended December 31,			
	2017	2016	
Purchase of property, plant and equipment	\$ 8,491	\$ 16,708	
Add: Opening balance of payable on equipment	8,431	10,561	
Less: Ending balance of payable on equipment	(1,918)	(8,431)	
Cash paid during the year	<u>\$ 15,004</u>	<u>\$ 18,838</u>	

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

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

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

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Micom Source Holding Company (MICOM)	First-tier subsidiary
CLOUDWELL HOLDINGS, LLC. (CLOUDWELL)	First-tier subsidiary
Chenbro Europe B.V.	First-tier subsidiary (Note 1)
Chenbro GmbH (GmbH)	First-tier subsidiary
Chenbro Micom (USA) Incorporation (CMI)	First-tier subsidiary
Chenbro UK Limited (UK)	First-tier subsidiary (Note 2)
ChenPower Information Technology (Shanghai) Co., Ltd. (CPT)	Third-tier subsidiary (Note 3)
Chenbro Micom (Shenzhen) Co., Ltd. (CCS)	Third-tier subsidiary (Note 3)
Chenbro Technology (Kunshan) Co., Ltd. (CSH)	Third-tier subsidiary (Note 3)
Procace & Morex Corp. (PROCASE)	Third-tier subsidiary (Note 3)
Dongguan Procace Electronic Co., Ltd. (DGP)	Fourth-tier subsidiary (Note 3)
Chen-Source Inc.	Other related party

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

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

Note 3: Shown as ‘subsidiary’ in Note 7(3).

(3) Significant related party transactions

A. Operating revenue and other income

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

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

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

- (c) Management revenue: Revenue arises from managing administrative affairs on behalf of subsidiaries and other related parties and is shown as a deduction to ‘selling expenses’ and ‘management fees’. Management revenue is determined based on agreed upon terms and payment collection is 60~90 days after monthly billings.

B. Purchases and other expenses

	Years ended December 31,	
	2017	2016
Purchases of goods:		
Subsidiaries		
— CSH	\$ 1,111,269	\$ 745,259
— PROCASE	667,130	1,002,535
— Other subsidiaries	-	11,292
Other related parties	25,918	52,145
Other expenses:		
Subsidiaries (service expense)		
— GmbH	6,969	13,432
— Other subsidiaries	3,313	3,984
Other related parties (management service expense)	1,860	1,863
	<u>\$ 1,816,459</u>	<u>\$ 1,830,510</u>

- (a) Purchases of goods: No similar transaction can be compared with. Prices and terms are determined based on mutual agreements and payment term is 60 days after monthly billings.
- (b) Service expense: Service expenses paid by the Company to subsidiaries.
- (c) Management service expense: Expenses paid to other related parties for managing storages. Prices and terms are determined based on mutual agreements and payment term is 60 days after monthly billings.

C. Receivables from related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable:		
Subsidiaries		
— CMI	\$ 242,239	\$ 485,364
— Other subsidiaries	48,131	42,136
	<u>290,370</u>	<u>527,500</u>
Other receivables – advance payments on behalf of others:		
Subsidiaries		
— PROCASE	43,909	20,697
— CSH	41,121	119,875
— DGP	29,531	31,578
— Other subsidiaries	11,788	10,366
Other related parties	182	490
	<u>126,531</u>	<u>183,006</u>
	<u>\$ 416,901</u>	<u>\$ 710,506</u>

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

(b) Other receivables are amounts paid for purchase of materials and collection of royalties on behalf of subsidiaries and other related parties.

D. Payables to related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts payable:		
Subsidiaries		
— PROCASE	\$ 139,701	\$ 160,666
— CSH	105,305	283,838
Other related parties	8,778	6,769
	<u>253,784</u>	<u>451,273</u>
Other payables:		
Subsidiaries	854	6,646
Other related parties	570	545
	<u>1,424</u>	<u>7,191</u>
	<u>\$ 255,208</u>	<u>\$ 458,464</u>

(a) Accounts payable bear no interest.

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

E. Endorsements and guarantees provided to related parties

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

Note: unit in thousands of USD.

(4) Key management compensation

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

8. PLEDGED ASSETS

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

	<u>Book value</u>		
<u>Pledged asset</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Purpose</u>
Time deposits (shown as 'other current assets')	<u>\$ 1,000</u>	<u>\$ 1,000</u>	Customs duty guarantee

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 1,164	\$ 1,764
Later than one year but not later than three years	753	945
Over three years	-	64
	<u>\$ 1,917</u>	<u>\$ 2,773</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

- (2) Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$4,254 and \$6,135, respectively, which will be adjusted in the first quarter of 2018.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Fair value information of financial instruments

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

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Company treasury, and

primarily hedge using natural hedge.

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

	December 31, 2017		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 29,319	29.76	\$ 872,533
<u>Non-monetary items</u>			
USD:NTD	\$ 7,573	29.76	\$ 225,359
EUR:NTD	2,117	35.57	75,313
GBP:NTD	49	40.11	1,962
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 15,295	29.76	\$ 455,179
HKD:NTD	535	3.81	2,038
	December 31, 2016		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 33,162	32.25	\$ 1,069,475
<u>Non-monetary items</u>			
USD:NTD	\$ 5,567	32.25	\$ 179,545
EUR:NTD	1,941	33.90	65,797
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 21,849	32.25	\$ 704,630
HKD:NTD	510	4.16	2,122

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

Company:

	Year ended December 31, 2017			
	Exchange gain (loss)			
	Foreign currency amount (In thousands)	Exchange rate	Book value	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	29.76	(\$	8,138)
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	29.76	\$	4,194
HKD:NTD	-	3.81		7
	Year ended December 31, 2016			
	Exchange gain (loss)			
	Foreign currency amount (In thousands)	Exchange rate	Book value	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	32.25	\$	19,348
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	\$ -	32.25	(\$	11,683)
HKD:NTD	-	4.16	(50)

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

Year ended December 31, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 8,725	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	4,552	-
HKD:NTD	1%	20	-
Year ended December 31, 2016			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 10,695	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	7,046	-
HKD:NTD	1%	21	-

Interest rate risk

The Company's interest rate risk arises from short-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's borrowings are primarily at fixed rates. During the years ended December 31, 2017 and 2016, the Company's borrowings at variable rate were denominated in the USD and NTD.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According

to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only parties with optimal ratings are accepted.

- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of significant financial assets that are neither past due nor impaired is provided in Note 6(2) B.
- iv. The ageing analysis of financial assets that were past due but not impaired is provided in Note 6(2) C.
- v. Details of the individual analysis of financial assets that had been impaired is provided in Note 6(2) D.

(c) Liquidity risk

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

Non-derivative financial liabilities:

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

<u>December 31, 2016</u>	<u>Less than 1 year</u>	<u>Between 1 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$ 94,552	\$ -	\$ -	\$ -
Accounts payable	309,438	-	-	-
Accounts payable – related party	451,273	-	-	-
Other payables	192,765	-	-	-
Other payables – related party	7,191	-	-	-
Other current liabilities	3,729	-	-	-

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

(3) Fair value information

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

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

For investees' disclosures, financial statements of Chenbro UK Limited and CLOUDWELL HOLDINGS., LLC. were audited by the investees' appointed independent accountants. Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

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

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

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

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

14. OPERATING SEGMENT INFORMATION

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