

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**(Formerly CHENMING MOLD IND. CORP.)**

**FINANCIAL STATEMENTS**

**With Independent Auditors' Report**  
**For the Years Ended December 31, 2019 and 2018**

#19169

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

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## Independent Auditors' Report

To the Board of Directors of CHENMING ELECTRONIC TECHNOLOGY CORP.:

### Opinion

We have audited the financial statements of CHENMING ELECTRONIC TECHNOLOGY CORP. (“the Company”), which comprise the balance sheets as of December 31, 2019 and 2018, and the statement of comprehensive income, changes in equity and cash flows for the year ended December 31, 2019 and 2018, 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, 2019 and 2018, 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.

### Basis for Opinion

We conducted our audit of the financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the financial statements as of and for the year ended December 31, 2018 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and the auditing standards generally accepted in the Republic of China. 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 Certified Public Accountants Code of Professional Ethics in 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 of 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, and we do not provide a separate opinion on these matters.

#### **The share of profit (loss) of associates and joint ventures accounted for using equity method - Subsidiary's Inventory valuation**

Please refer to Note (4)(g) and Note (5) for accounting policy of uncertainty of the valuation of inventory from using equity method - subsidiary. Information of the share of profit (loss) of subsidiaries, associates and joint ventures accounted for using equity method - subsidiary's inventory valuation is disclosed in notes (6)(c) of the financial statements.

#### Description of key audit matters:

Due to the impact of product life cycle and customized design in electronics industry, the price variability for the inventories of the Company are expected to change. Therefore, the test of the share of profit (loss) of associates and joint ventures accounted for using equity method - subsidiary's inventory valuation is one of the significant evaluation in our audit procedures.

#### Audit Procedure:

Our principal audit procedure included: testing the related controls of subsidiary's production cycle and assessing the allowance for loss due to price decline, as well as obsolete and slow moving inventories, to determine whether they are in compliance with the Company's accounting policies; inspecting the inventory aging statement; analyzing the subsequent sales status, and assessing the adopted net realizable value basis for obsolete inventories to verify the rationality of assessment on allowance estimated by the management authority of the Company.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 the auditing standards generally accepted in the Republic of China 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 financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this 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 safeguard.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

The engagement partners on the audit resulting in this independent auditors' report are Hsin Fu Yen and Yi Wen Wang.

KPMG

Taipei, Taiwan (Republic of China)  
March 12, 2020

#### Notes to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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



(English Translation of Financial Statements Originally Issued in Chinese)  
CHENMING ELECTRONIC TECHNOLOGY CORP.

Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
4000 Operating revenue(note (6)(p) and (7))	\$ 2,827,726	100	3,138,229	100
5000 Operating costs (note (6)(c) and (7))	<u>2,632,141</u>	<u>93</u>	<u>2,913,952</u>	<u>93</u>
5900 Gross profit from operations	195,585	7	224,277	7
6000 Operating expenses (note (6)(l) and (12)):				
6100 Selling expenses	35,807	1	31,013	1
6200 Administrative expenses	80,042	3	77,056	2
6300 Research and development expenses	<u>19,026</u>	<u>1</u>	<u>15,753</u>	<u>1</u>
	<u>134,875</u>	<u>5</u>	<u>123,822</u>	<u>4</u>
6900 Net operating income	<u>60,710</u>	<u>2</u>	<u>100,455</u>	<u>3</u>
7000 Non-operating income and expenses:				
7050 Finance costs, net	(9,831)	-	(6,888)	-
7100 Interest income	694	-	720	-
7110 Rent revenue (note (6)(k) and (7))	12,368	-	13,062	-
7190 Other income (note (7))	4,998	-	4,444	-
7230 Foreign exchange gains (losses), net	(13,097)	-	36,749	1
7070 Share of profit of subsidiaries, associates and joint ventures accounted for using equity method, net	<u>89,364</u>	<u>3</u>	<u>2,271</u>	<u>-</u>
	<u>84,496</u>	<u>3</u>	<u>50,358</u>	<u>1</u>
7900 Profit from continuing operations before tax	145,206	5	150,813	4
7951 Less: Income tax expenses (note (6)(m))	<u>12,306</u>	<u>-</u>	<u>40,762</u>	<u>1</u>
Profit	<u>132,900</u>	<u>5</u>	<u>110,051</u>	<u>3</u>
8300 Other comprehensive income:				
8310 Components of other comprehensive income (loss) that will not be reclassified to profit or loss				
8311 Gains (losses) on remeasurements of defined benefit plans	(980)	-	(1,729)	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(m))	<u>(196)</u>	<u>-</u>	<u>(357)</u>	<u>-</u>
	<u>(784)</u>	<u>-</u>	<u>(1,372)</u>	<u>-</u>
8360 Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361 Exchange differences on translation of foreign financial statements	(35,991)	(1)	(14,122)	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>(35,991)</u>	<u>(1)</u>	<u>(14,122)</u>	<u>-</u>
8300 Other comprehensive income (loss)	<u>(36,775)</u>	<u>(1)</u>	<u>(15,494)</u>	<u>-</u>
8500 Comprehensive income	<u>\$ 96,125</u>	<u>4</u>	<u>94,557</u>	<u>3</u>
Earnings per share (expressed in dollars) (note (6)(o)):				
9750 Basic earnings per share	\$ <u>0.82</u>		<u>0.65</u>	
9850 Diluted earnings per share	\$ <u>0.82</u>		<u>0.65</u>	

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Statements of Changes in Equity**

For the years ended December 31, 2019 and 2018  
 (Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Other components of equity	Treasury shares	Total equity
<b>Balance at January 1, 2018</b>	1,699,350	52,485	252,196	29,978	380,002	662,176	(31,096)	-	2,382,915
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	21,291	-	(21,291)	-	-	-	-
Special reserve	-	-	-	1,118	(1,118)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(84,968)	(84,968)	-	-	(84,968)
Profit for the year ended December 31, 2018	-	-	-	-	110,051	110,051	-	-	110,051
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(1,372)	(1,372)	(14,122)	-	(15,494)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	108,679	108,679	(14,122)	-	94,557
Purchase of treasury shares	-	-	-	-	-	-	-	(52,027)	(52,027)
Balance at December 31, 2018	1,699,350	52,485	273,487	31,096	381,304	685,887	(45,218)	(52,027)	2,340,477
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	11,005	-	(11,005)	-	-	-	-
Special reserve	-	-	-	14,123	(14,123)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(48,881)	(48,881)	-	-	(48,881)
Profit (loss) for the year ended December 31, 2019	-	-	-	-	132,900	132,900	-	-	132,900
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(784)	(784)	(35,991)	-	(36,775)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	132,116	132,116	(35,991)	-	96,125
Purchase of treasury shares	-	-	-	-	-	-	-	(102,322)	(102,322)
Retirement of treasury share	(70,000)	(2,162)	-	-	(32,377)	(32,377)	-	104,539	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	32,644	-	-	-	-	-	-	32,644
<b>Balance at December 31, 2019</b>	1,629,350	82,967	284,492	45,219	407,034	736,745	(81,209)	(49,810)	2,318,043

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Statements of Cash Flows**

**For the years ended December 31, 2019 and 2018**

**(Expressed in Thousands of New Taiwan Dollars)**

	2019	2018
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 145,206	150,813
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	4,810	4,585
Amortization expense	1,018	1,274
Expected credit loss (gain)	(600)	412
Interest expense	9,831	6,888
Interest income	(694)	(720)
Share of loss (profit) of subsidiaries, associates and joint ventures accounted for using equity method	(89,364)	(2,271)
<b>Total adjustments to reconcile profit (loss)</b>	<u>(74,999)</u>	<u>10,168</u>
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in trade receivables	31,810	(174,956)
Decrease (increase) in inventories	(16,091)	(63)
Decrease (increase) in other current assets	(3,928)	(185)
Increase (decrease) in notes and trade payables	11,117	(67,256)
Increase (decrease) in other payables and other current liabilities	(541)	(11,870)
Other	(26)	242
<b>Total changes in operating assets and liabilities</b>	<u>22,341</u>	<u>(254,088)</u>
<b>Total adjustments</b>	<u>(52,658)</u>	<u>(243,920)</u>
Cash inflow generated from (used in) operations	92,548	(93,107)
Interest received	694	720
Income taxes paid	(26,432)	(37,747)
<b>Net cash flows from (used in) operating activities</b>	<u>66,810</u>	<u>(130,134)</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of investments accounted for using equity method	(46,097)	(46,684)
Acquisition of property, plant and equipment	(378)	(76)
Acquisition of intangible assets	(798)	(956)
Other	(1,450)	250
<b>Net cash flows from (used in) investing activities</b>	<u>(48,723)</u>	<u>(47,466)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	20,000	220,000
Proceeds from long-term debt	160,000	160,000
Repayments of long-term debt	(136,000)	(88,000)
Payment of lease liabilities	(628)	-
Distribution in cash dividends	(48,881)	(84,968)
Payments to acquire treasury shares	(102,322)	(52,027)
Interest paid	(9,878)	(6,750)
Other	(540)	-
<b>Net cash flows from (used in) financing activities</b>	<u>(118,249)</u>	<u>148,255</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(100,162)</u>	<u>(29,345)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>171,611</u>	<u>200,956</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 71,449</u>	<u>171,611</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Notes to the Financial Statements**

**For the years ended December 31, 2019 and 2018**

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

**(1) Company history**

CHENMING ELECTRONIC TECHNOLOGY CORP. (formerly CHENMING MOLD IND. CORP.) (the “Company”) was incorporated on June 1976. The address of the Company’s registered office is 2~6F., No.27, Sec 6, Minguan E. Rd., Neihu dist., Taipei City 114, Taiwan (R.O.C). The Company’s common shares were listed on the Taiwan Stock Exchange (TWSE) in September 16, 2002. The business activities of the Company are the production of computer case, the manufacture and the development of mobile devices.

**(2) Approval date and procedures of the financial statements:**

These financial statements were authorized for issue by the board of directors on March 12, 2020.

**(3) New standards, amendments and interpretations adopted:**

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application did not have any significant impact in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements**

## 1) Definition of a lease

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

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

## 2) As a lessee

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

The Company decided to apply recognition exemptions to lease of low-value assets or short-term leases of office equipment and others.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

3) As a lessor

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

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

4) Impacts on financial statements

On transition to IFRS 16, the Company recognised additional \$844 thousands both of right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 4.51%.

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

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements	\$ 1,017
Recognition exemption for:	
short-term leases	(120)
	<b>\$ 897</b>
Discounted using the incremental borrowing rate at January 1, 2019 (as lease liabilities recognized at January 1, 2019)	\$ <u>844</u>

(ii) IFRIC 23 "Uncertainty over Income Tax Treatments"

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

On transition to the new standard, there is no material impact to the Company.

(b) The impact of IFRS endorsed by FSC but not yet effective

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

**(4) Summary of significant accounting policies:**

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(a) Statement of compliance

These annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the annual financial statements have been prepared on the historical cost basis:

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) The defined benefit liabilities (assets) are measured at fair value of the plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entities operate. The financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of Company entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) An investment in equity securities designated as at fair value through other comprehensive income;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent that the hedges are effective.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the Company's presentation currency at the average rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences arising from such a monetary item that are considered to form part of a net investment in the foreign operation are recognized in other comprehensive income.

(d) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It held the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It held the liability primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or

(Continued)

## CHENMING ELECTRONIC TECHNOLOGY CORP.

### Notes to the Financial Statements

(iv) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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.

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are 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. The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

(f) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements**

## 2) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and trade receivables, other receivables, refundable deposit and other financial assets).

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements**

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 365 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;  
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3) **Derecognition of financial assets**

The Company derecognizes a financial assets when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost, which are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Investment in subsidiaries

When preparing the parent-company-only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, the amounts of net income, other comprehensive income and equity attributable to shareholders of the Company in the parent-company-only financial statement are equal to those in the consolidated financial statements.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(i) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings: 11 ~ 51 years
- 2) Other equipment: 3 ~11 years
- 3) Building and equipment constitutes mainly building, mechanical and electrical power equipment and its related facilities. Each such part depreciates based on its useful life.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Lease

Applicable from January 1, 2019

(i) Identifying a lease

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

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
  - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

- the relevant decisions about how and for what purpose the asset is used are predetermined and:
  - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
  - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

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

(ii) As a lessee

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

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

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

Lease payments included in the measurement of the lease liability are comprised of the following:

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

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements**

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

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

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to 0.

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

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

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

(iii) As a lessor

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

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

Applicable before January 1, 2019

(i) Lessor

Lease income from an operating lease is recognized in income on a straight line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent rent is recognized as expense in the period in which it is incurred.

(l) Intangible assets

(i) Recognition & measurement

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including computer softwares, that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

The estimated useful lives for current and comparative periods are as follows:

- 1) Computer software: 1~3 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Revenue

(i) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements**

The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

(ii) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements**

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(p) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) the same taxable entity; or
  - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(q) Earnings per share

The Company discloses the basic and diluted earnings per share attributable to ordinary equity holders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible bonds and employee compensation.

(r) Operating segments

The operating segment information is disclosed within the consolidated financial statements but not disclosed in the parent-company-only financial statements.

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

The preparation of the financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Securities Issuers requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continued to monitor the accounting estimates and assumptions the management recognized the changes in the accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

There are no critical judgments in applying the accounting policies that have significant effects on the amounts recognized in the financial statements.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

Besides, for those uncertainties due to accounting assumptions and estimations, information about the significant risk of resulting in a material adjustment within the next financial year is stated below:

The share of profit (loss) of subsidiaries, associates and joint ventures accounted for using equity method - subsidiary's inventory valuation

Inventories are supposed to be measured based on the lower of cost or net realizable value. This inventory evaluation is based on the estimated sales price in future, thus, it may be changed due to changes in industry and market. Please refer to Note (6)(d) of the financial statement for the share of profit (loss) of associates and joint ventures accounted for using equity method-Subsidiary's Inventory valuation.

**(6) Explanation of significant accounts:**

**(a) Cash and cash equivalents**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash on hand	\$ 50	50
Checking accounts and demand deposits	71,399	171,561
	<u>\$ 71,449</u>	<u>171,611</u>

Please refer to note 6(r) for the interest rate risk and the sensitivity analysis of the financial assets and liabilities of the Company.

**(b) Trade receivables**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Trade receivables	\$ 902,177	933,987
Less: Loss allowance	(171)	(771)
Trade receivables, net	<u>\$ 902,006</u>	<u>933,216</u>

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and number of days past due, as well as incorporated forward looking information including macroeconomics and relevant industry information. The loss allowance provision were determined as follows:

	<b>December 31, 2019</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average expected credit loss rate</b>	<b>Allowance lifetime expected credit loss</b>
Current	\$ 896,539	0.02%	161
1 to 30 days past due	5,232	0.11%	6
31 to 150 days past due	406	0.99%	4
	<u>\$ 902,177</u>		<u>171</u>

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

	<b>December 31, 2018</b>		
	<b>Gross carrying amount</b>	<b>Weighted- average expected credit loss rate</b>	<b>Allowance lifetime expected credit loss</b>
Current	\$ 919,046	0.02%	213
1 to 30 days past due	11,179	0.12%	13
31 to 150 days past due	2,756	1.45%	40
151 to 360 days past due	1,006	50.20%	505
	<b>\$ 933,987</b>		<b>771</b>

The movement in the allowance for trade receivables were as follows:

	<b>2019</b>	<b>2018</b>
Balance on January 1	\$ 771	21,028
Impairment losses recognized (reversed)	(600)	412
Amounts written off	-	(20,669)
Balance on December 31	<b>\$ 171</b>	<b>771</b>

As of December 31, 2019 and 2018, the Company did not pledge any receivable as collateral.

(c) Inventories

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Work in progress	\$ 21	-
Finished goods and merchandise inventories	16,133	63
	<b>\$ 16,154</b>	<b>63</b>

The cost of sales amounted to \$2,632,141 and \$2,913,952 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Company did not pledge any inventories as collateral.

(d) Investments accounted for using equity method

Investments accounted for using the equity method at the report date is as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Subsidiaries	<b>\$ 2,069,928</b>	<b>1,937,814</b>

- (i) The Company invested an additional cash of \$39,861 (US\$1,300) and \$46,684 (US\$16,004) in CITY INTERNATIONAL LIMITED in 2019 and 2018 to increase its capital for purchasing the shares of subsidiary, respectively.

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**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Notes to the Financial Statements**

(ii) The Company invested in the establishment of CHENMING ELECTRONIC TECHNOLOGY USA, Inc. in 2019, at an amount of \$6,236 (US\$200) in order to its respond to operational needs, serve nearby customers, and strive for joint development opportunities with customers in advance.

(iii) As of December 31, 2019 and 2018, the Company did not provide any investment accounted for using equity method as collateral.

(e) Property, Plant and Equipment

The cost and accumulated depreciation of the property, plant and equipment of the Company for the years ended December 31, 2019 and 2018 were as follows:

	<u>Land</u>	<u>Properties</u>	<u>Office equipment and others</u>	<u>Total</u>
<b>Cost:</b>				
Balance on January 1, 2019	\$ 210,897	131,867	2,057	344,821
Additions	-	-	378	378
Disposal	-	-	(1,825)	(1,825)
Balance on December 31, 2019	<u>\$ 210,897</u>	<u>131,867</u>	<u>610</u>	<u>343,374</u>
Balance on January 1, 2018	\$ 210,897	134,829	19,559	365,285
Additions	-	-	76	76
Disposal	-	(2,962)	(17,578)	(20,540)
Balance on December 31, 2018	<u>\$ 210,897</u>	<u>131,867</u>	<u>2,057</u>	<u>344,821</u>
<b>Depreciation:</b>				
Balance on January 1, 2019	\$ -	31,532	1,627	33,159
Depreciation	-	2,586	355	2,941
Disposal	-	-	(1,825)	(1,825)
Balance on December 31, 2019	<u>\$ -</u>	<u>34,118</u>	<u>157</u>	<u>34,275</u>
Balance on January 1, 2018	\$ -	31,908	18,444	50,352
Depreciation	-	2,586	761	3,347
Disposal	-	(2,962)	(17,578)	(20,540)
Balance on December 31, 2018	<u>\$ -</u>	<u>31,532</u>	<u>1,627</u>	<u>33,159</u>
<b>Book Value:</b>				
Balance on December 31, 2019	<u>\$ 210,897</u>	<u>97,749</u>	<u>453</u>	<u>309,099</u>
Balance on December 31, 2018	<u>\$ 210,897</u>	<u>100,335</u>	<u>430</u>	<u>311,662</u>

As of December 31, 2019 and 2018 the Company had provided parts of the property, plant and equipment as collateral for its long-term loans and credit lines. Please refer to note (8) for details.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

## (f) Right-of-use assets

The Company leases many assets including transportation. Information about leases for which the Company as a lessee was presented below:

	<u>Transportation</u>
Cost:	
Balance on January 1, 2019	\$ -
Effects of retrospective application	844
Additions	3,581
Balance on December 31, 2019	\$ 4,425
Accumulated depreciation and impairment losses:	
Balance on January 1, 2019	\$ -
Depreciation	632
Balance on December 31, 2019	\$ 632
Book value:	
Balance on December 31, 2019	\$ 3,793

The Company leases rights-of-use of land, transportation, and warehouses under an operating lease for the years ended December 31, 2018, please refer to note (6)(k).

## (g) Investment Property

	<u>Land</u>	<u>Properties</u>	<u>Total</u>
Cost:			
Balance on January 1, 2019 (Same balance as December 31, 2019)	\$ 152,640	63,116	215,756
Balance on January 1, 2018 (Same balance as December 31, 2018)	\$ 152,640	63,116	215,756
Depreciation:			
Balance on January 1, 2019	\$ -	16,883	16,883
Depreciation	-	1,237	1,237
Balance on December 31, 2019	\$ -	18,120	18,120
Balance on January 1, 2018	\$ -	15,645	15,645
Depreciation	-	1,238	1,238
Balance on December 31, 2018	\$ -	16,883	16,883
Book Value:			
Balance on December 31, 2019	\$ 152,640	44,996	197,636
Balance on December 31, 2018	\$ 152,640	46,233	198,873
Fair Value:			
Balance on December 31, 2019			\$ 547,048
Balance on December 31, 2018			\$ 492,663

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

The Company classify non-operating assets into investment properties, and investment properties was evaluated by market value.

As of December 31, 2019 and 2018, the Company pledge investment properties as collateral. Please refer to note (8) for details.

(h) Short-term loans

The short-term loans were summarized as follows:

	December 31, 2019	December 31, 2018
Credit Loan	\$ 230,000	360,000
Secured Loan	<u>160,000</u>	<u>10,000</u>
	<u>\$ 390,000</u>	<u>370,000</u>
Unused credit lines for short-term loans	<u>\$ 621,552</u>	<u>485,156</u>
Annual interest rates	<u>1.0%~1.3%</u>	<u>1.0%~1.5%</u>

(i) For information on interest rate and liquidity risk exposure, please refer to note (6)(r).

(ii) As of December 31, 2019 and 2018, the Company provided part of its assets as collateral for short term loans. Please refer to note (8) for details.

(i) Long-term loans

The long-term loans were summarized as follows:

	December 31, 2019			
	Currency	Range of interest rates	Expiration	Amount
Secured bank loans	TWD	<u>1.0%~1.5%</u>	2023~2025	\$ <u>306,000</u>
Current				\$ -
Non-current				<u>306,000</u>
Total				<u>\$ 306,000</u>
Unused long-term credit lines				<u>\$ 130,000</u>
	December 31, 2018			
	Currency	Range of interest rates	Expiration	Amount
Secured bank loans	TWD	<u>1.0%~1.5%</u>	2020~2025	\$ <u>282,000</u>
Current				\$ -
Non-current				<u>282,000</u>
Total				<u>\$ 282,000</u>
Unused credit lines				<u>\$ 170,000</u>

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**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

- (i) The main management are the guarantor of long-term loan, please refer to note (7).
- (ii) For information on interest rate and liquidity risk, please refer to note (6)(r).
- (iii) As of December 31, 2019 and 2018, the Company provided part of its assets as collateral for long-term loans. Please refer to note (8) for details.
- (j) Lease liabilities

	<b>December 31, 2019</b>
Current	\$ <u>1,491</u>
Non-current	\$ <u>2,306</u>

For the maturity analysis, please refer to note (6)(s).

The amounts recognized in profit or loss were as follows:

	<b>2019</b>
Interest on lease liabilities	\$ <u>13</u>
Expenses relating to short-term leases	\$ <u>29</u>
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>120</u>

The amounts recognized in the statement of cash flows for the Company were as follows:

	<b>2019</b>
Total cash outflow for leases	\$ <u>790</u>

The Company leases dormitory and other equipment, with contract terms of 1~3 years. These leases are short-term and/or leases of low-value items. The Company has applied the exemption and elected not to recognize right-of-use assets and lease liabilities for these leases.

(k) Operating lease

(i) Leases as lessee

Non cancellable operating lease rentals payable were as follow:

	<b>December 31, 2018</b>
Less than one year	\$ 566
Between one and five years	331
	\$ <u>897</u>

The Company leases a number of cars under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date.

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**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Notes to the Financial Statements**

(ii) Leases as lessor

The Company leases out its investment property. The Company has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to note (6)(g) sets out information about the operating leases of investment property.

As of December 31, 2019, a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

Less than one year	\$ 14,532
Between one and two years	<u>6,984</u>
Total undiscounted lease payment	<u>\$ 21,516</u>

The future lease receivables under non-cancellable lease are as follows:

	<b>December 31, 2018</b>
Less than one year	\$ 14,519
Between two and four years	<u>21,516</u>
	<u>\$ 36,035</u>

The lease revenue from investment properties are \$13,605 and \$14,300 in 2019 and 2018, respectively. Moreover, the related depreciation expense are \$1,237 and \$1,238, respectively.

(I) Employee benefits

(i) Defined benefit plans

Reconciliation of the defined benefit obligations and the fair value of the plan assets of the Company were as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Present value of the defined benefit obligations	\$ 36,746	33,422
Fair value of plan assets	<u>(59,492)</u>	<u>(56,826)</u>
Net defined benefit liabilities (assets)	<u>\$ (22,746)</u>	<u>(23,404)</u>

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for its employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on the years of service and average salary for the six months prior to retirement.

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**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by the local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$59,492 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company were as follows:

	<u>2019</u>	<u>2018</u>
Defined benefit obligations at January 1	\$ 33,422	36,082
Current service costs and interest costs	459	631
Remeasurement of net defined benefit liability (assets)	2,865	3,099
Benefits paid	-	(6,390)
Defined benefit obligations at December 31	<u>\$ 36,746</u>	<u>33,422</u>

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets at January 1	\$ (56,826)	(60,782)
Expected return on plan assets	(781)	(1,064)
Remeasurement of net defined benefit liability (assets)	(1,885)	(1,370)
Benefits paid	-	6,390
Fair value of plan assets at December 31	<u>\$ (59,492)</u>	<u>(56,826)</u>
Actual return on plan assets	<u>\$ (2,666)</u>	<u>(2,434)</u>

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	<u>2019</u>	<u>2018</u>
Interest cost	\$ 459	631
Expected rate of return on plan assets	(781)	(1,064)
	<u>\$ (322)</u>	<u>(433)</u>
Administration expense	<u>\$ (322)</u>	<u>(433)</u>

5) Remeasurement of net defined benefit liability (asset) recognized in other comprehensive income

The Company's remeasurement of net defined benefit liability (assets) recognized in other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Accumulated amount at January 1	\$ 7,422	5,693
Recognized during the period	980	1,729
Accumulated amount at December 31	<u>\$ 8,402</u>	<u>7,422</u>

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follow:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Discount rate	1.125 %	1.375 %
Future salary increasing rate	1.000 %	1.000 %

The discount rate was based on the life of the related obligation, and was used as a reference to the return rate on bonds issued by the government, which was declared by GreTai Securities Market.

The department of labor from Taipei City Government has approved the Company to suspend the contribution of pension in 2019 and 2018.

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date is \$0.

The weighted-average duration of the defined benefit obligation is 15.83 years.

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**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

7) Sensitivity Analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Influences of defined benefit obligation	
	Increased 0.25%	Decreased 0.25%
December 31, 2019		
Discount rate	\$ (1,283)	1,339
Future salary increasing rate	1,322	(1,266)
December 31, 2018		
Discount rate	(1,238)	1,284
Future salary increasing rate	1,270	(1,230)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for both periods.

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The Company recognized the pension costs under the defined contribution method amounting to \$3,675 and \$3,561 for the years ended December 31, 2019 and 2018, respectively.

(m) Income taxes

(i) income tax expenses

1) The amount of income tax for 2019 and 2018 was as follows:

	2019	2018
Current tax expense		
Current period	\$ 14,524	26,641
Undistributed earnings additional tax	1,733	10,524
Adjustment for prior period	(584)	(7)
	15,673	37,158

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**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

	<u>2019</u>	<u>2018</u>
Deferred tax expense (income)		
Origination and reversal of temporary differences	(3,367)	3,500
Adjustment in tax rate	-	104
	<u>(3,367)</u>	<u>3,604</u>
Income tax expense	<u>\$ 12,306</u>	<u>40,762</u>

- 2) The amount of income tax recognized in other comprehensive income for 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Items that will not be reclassified subsequently to profit or loss		
Remeasurement from defined benefit plans	<u>\$ (196)</u>	<u>(357)</u>

- 3) Reconciliation of income tax and profit before tax for 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Profit excluding income tax	<u>\$ 145,206</u>	<u>150,813</u>
Income tax using the Company's domestic tax rate	29,041	30,163
Adjustment in tax rate	-	104
Under (over) provision in prior periods	(584)	(7)
Undistributed earnings additional tax	1,733	10,524
Other	<u>(17,884)</u>	<u>(22)</u>
	<u>\$ 12,306</u>	<u>40,762</u>

- (ii) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax liabilities:

The Company is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as at December 31, 2019 and 2018. Also, management considered it probable that the temporary differences will not be reversed in the foreseeable future. Hence, such temporary differences were not recognized under deferred tax liabilities. Details were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unrecognized deferred tax liabilities (asset) related to investments in subsidiaries	<u>\$ 28,400</u>	<u>10,527</u>

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

2) Recognized deferred tax assets and liabilities

	<u>Defined benefit plans</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:			
Balance on January 1, 2019	\$ 5,122	(60)	5,062
Recognized in (profit) or loss	65	-	65
Recognized in other comprehensive income	<u>(196)</u>	<u>-</u>	<u>(196)</u>
Balance on December 31, 2019	<u>\$ 4,991</u>	<u>(60)</u>	<u>4,931</u>
Balance on January 1, 2018	\$ 4,554	(60)	4,494
Recognized in (profit) or loss	925	-	925
Recognized in other comprehensive income	<u>(357)</u>	<u>-</u>	<u>(357)</u>
Balance on December 31, 2018	<u>\$ 5,122</u>	<u>(60)</u>	<u>5,062</u>
	<u>Defined benefit Plans</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:			
Balance on January 1, 2019	\$ -	1,418	1,418
Recognized in profit or (loss)	<u>-</u>	<u>3,432</u>	<u>3,432</u>
Balance on December 31, 2019	<u>\$ -</u>	<u>4,850</u>	<u>4,850</u>
Balance on January 1, 2018	\$ -	4,097	4,097
Recognized in profit or (loss)	<u>-</u>	<u>(2,679)</u>	<u>(2,679)</u>
Balance on December 31, 2018	<u>\$ -</u>	<u>1,418</u>	<u>1,418</u>

(iii) The Company's tax returns for the years through 2017 were assessed by the Taipei National Tax Administration.

(n) Capital and other equity

(i) Ordinary shares

As of December 31, 2019 and 2018, the authorized common stocks were both \$2,472,000 with a par value of 10 New Taiwan dollars per share, and of which 162,935 and 169,935 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(ii) Capital surplus

The balances of capital surplus as of December 31, 2019 and 2018, were as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Additional paid-in capital	\$ 14,115	14,722
Difference between consideration and carrying amount of subsidiaries acquired or disposed	<u>68,852</u>	<u>37,763</u>
	<u>\$ 82,967</u>	<u>52,485</u>

In accordance with the R.O.C. Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

(iii) Retained Earning

The Company's articles of incorporation stipulated that 10% of annual net income after covering the accumulated deficit, if any, must be set up as a legal reserve. The remaining balance after special reserves that are appropriated in accordance with SFB regulations, if any, shall distribute to prior year's un-distribution by board of shareholders. The Company, should consider financial, business and operating factors to decide the distribution of earnings, which can be distributed by cash dividends or share dividends. Earning distribution should be cash dividends as priority, and the cash dividends cannot be lower than 10% of the total cash and stock dividends.

The Company's industry is currently in a gentle growth phase. The Company may distribute earnings through cash dividend or stock dividend given consideration of the Company's financial standing and business performance and shall be preferentially distributed in cash dividend. The cash dividends shall be at the ratio not below 10% of the aggregate total dividends to be distributed in the year.

1) Legal reserve

In accordance with the Company Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to share capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Notes to the Financial Statements**

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and is not qualified for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

The appropriation of earnings for the year of 2018 approved in the shareholders' meeting on June 14, 2019 was \$48,881 by cash dividends.

The appropriation of earnings for the year of 2017 approved in the shareholders' meeting on June 13, 2018 was \$84,968 by cash dividends.

(iv) Treasury stock

In 2019 and 2018, in accordance with the requirements under section 28(2) of the Securities and Exchange Act, the Company repurchased 7,000 and 3,500 thousand shares respectively, as treasury shares in order to protect the Company's integrity and shareholders' equity. As of December 31, 2019 and 2018, both a total of 3,500 thousand shares were not yet cancelled.

Movement of treasury share in 2019 and 2018 were as follows:

	2019		2018	
	Share (thousands)	Amount	Share (thousands)	Amount
Balance on January 1	3,500	\$ 52,027	-	\$ -
Repurchase	7,000	102,322	3,500	52,027
Retirement	(7,000)	(104,539)	-	-
Balance on December 31	<u>3,500</u>	<u>\$ 49,810</u>	<u>3,500</u>	<u>\$ 52,027</u>

In accordance with Securities and Exchange Act requirements as stated above, the number of shares repurchased should not exceed 10 percent of all shares outstanding. Also, the value of the repurchased shares should not exceed the sum of the Company's retained earnings, share premium, and realized capital reserves.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

## (o) Earnings per share

For the years ended December 31, 2019 and 2018, the Company's earnings per share were calculated as follows:

	<u>2019</u>	<u>2018</u>
<b>Basic earnings per share</b>		
Profit attributable to ordinary shareholders of the Company	\$ <u>132,900</u>	<u>110,051</u>
Weighted-average number of ordinary shares (share in thousands)	<u>162,479</u>	<u>169,656</u>
	<u>\$ 0.82</u>	<u>0.65</u>
<b>Diluted earnings per share:</b>		
Profit attributable to ordinary shareholder of the Company (after adjusted the influence of potential ordinary shares)	\$ <u>132,900</u>	<u>110,051</u>
Weighted-average number of ordinary shares with potential influence of ordinary shares		
Weighted-average number of ordinary shares	162,479	169,656
Effect of employee stock remuneration (share in thousands)	<u>412</u>	<u>431</u>
Weighted-average number of ordinary shares(after adjusted the influence of potential ordinary shares)	<u>162,891</u>	<u>170,087</u>
	<u>\$ 0.82</u>	<u>0.65</u>

## (p) Revenue from contracts with customers

## (i) Disaggregation of revenue

	<u>2019</u>	<u>2018</u>
Primary geographical markets		
Taiwan	\$ 510,640	603,271
Japan	839,002	445,699
China	733,080	1,123,028
USA	360,566	481,979
Others	<u>384,438</u>	<u>484,252</u>
	<u>\$ 2,827,726</u>	<u>3,138,229</u>
Major product		
PC chassis	\$ 1,901,436	1,474,272
Mobile device components	874,002	1,534,231
Mold	<u>52,288</u>	<u>129,726</u>
	<u>\$ 2,827,726</u>	<u>3,138,229</u>

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Notes to the Financial Statements**

(ii) Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Trade receivable	\$ 902,177	933,987	779,700
Less: Loss allowance	<u>(171)</u>	<u>(771)</u>	<u>(21,028)</u>
	<u>\$ 902,006</u>	<u>933,216</u>	<u>758,672</u>

(q) Employee directors' and supervisor's remuneration

The Company's articles of incorporation require that earnings shall first be offset against any deficit, then, no less than 2% will be distributed as employee remuneration and a maximum of 2% will be allocated as directors' and supervisors' remuneration. Employees who are entitled to receive the above-mentioned employee remuneration, in shares or cash, include the employees of the subsidiaries of the Group who meet certain specific requirements.

The Company's remuneration to employees were both \$5,000; and the remuneration to directors and supervisors were both \$1,500 for the years ended December 31, 2019 and 2018. The remuneration equals the estimated sum, multiplied by the percentage of the remuneration to employees, directors and supervisors, as specified in the Company's article. The estimations are recorded under operating expenses and cost. The differences between the estimated amounts in financial statements and the actual amounts approved by the Board of Directors, if any, shall be accounted for as changes in accounting estimates and recognized as profit or loss in following year.

If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing price of the shares (ignoring ex dividend effect) on the day preceding the Board of Directors' meeting. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions in 2019 and 2018.

Related information would be available at the Market Observation Post System website.

(r) Financial Instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

2) Concentration to credit risk

The customers of the Company are mainly high tech companies, trade receivables have 69% and 64% are composed by five clients in December 31, 2019 and 2018. Thus, the company has concentration to credit risk situation.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(ii) Receivable securities

For the credit risk information of notes and trade receivables, please refer to note (6)(b).

Other financial assets at amortized cost includes cash and cash equivalents, other financial assets, and guarantee deposits which are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low risk, please refer to note (4)(f).

(iii) Liquidity Risk

The following table shows the contractual maturities of financial liabilities, excluding estimated interest payments:

	<u>Amount</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
<b>December 31, 2019</b>				
Secured loans	\$ 466,000	160,000	-	306,000
Unsecured loans	230,000	230,000	-	-
Notes and trade payables (including related parties)	508,497	508,497	-	-
Lease liabilities (including current and non-current)	3,797	1,491	1,195	1,111
Other payables	15,037	15,037	-	-
Guarantee deposits	3,270	-	3,270	-
	<u>\$ 1,226,601</u>	<u>915,025</u>	<u>4,465</u>	<u>307,111</u>
<b>December 31, 2018</b>				
Secured loans	\$ 292,000	10,000	237,000	45,000
Unsecured loans	360,000	360,000	-	-
Notes and trade payables (including related parties)	497,380	497,380	-	-
Other payables	13,344	13,344	-	-
Guarantee deposits	3,810	-	-	3,810
	<u>\$ 1,166,534</u>	<u>880,724</u>	<u>237,000</u>	<u>48,810</u>

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at a significantly different amount.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(iv) Currency risk

1) Exposure to foreign currency risk

The Company's significant exposure to foreign currency risk was as follow:

	December 31, 2019			December 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD to NTD	\$ 32,036	29.980	960,439	33,667	30.715	1,034,082
Financial liabilities						
Monetary items						
USD to NTD	45	29.980	1,349	90	30.715	2,764

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade receivables and trade payables, that are denominated in foreign currency.

A weakening (strengthening) 5% of each major foreign currency against the Company functional currency as of December 31, 2019 and 2018, would have affected the net profit after tax by \$47,955 and \$51,566, respectively. The analysis is performed on the same basis for both periods.

3) Exchange gains and losses of monetary items

Foreign exchange profit or loss (including realized and unrealized) were as follows:

	2019	2018
	Exchange profit (loss)	Exchange profit (loss)
NTD	\$ (13,097)	36,749

(v) Interest Rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

	Carrying amount	
	December 31, 2019	December 31, 2018
Variable rate instruments:		
Financial assets	\$ 71,336	171,241
Financial liabilities	696,000	652,000

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements**

The following sensitivity analysis is based on the risk exposure to the interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the assets with variable interest rates, the analysis is on the basis of the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents management of the Company's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increase by \$1,562 and \$1,202 for the years ended December 31, 2019 and 2018, respectively, which would have mainly resulted from the bank savings and borrowings with variable interest rates.

**(vi) Fair value****1) Procedure of valuation**

The Company's accounting policies and disclosure include fair value method on financial assets and financial liabilities. The Company's management is responsible in performing independent test on fair value by using independent source of information to obtain the fair value which is close to the market status. The management also confirms the independence, reliability and matching of the information source, and regularly test the valuation model, update the input and other information, and make necessary adjustment to ensure the output of valuation is reasonable.

**2) Fair value hierarchy**

The Company uses observable market data to evaluate assets and liabilities when it is possible. The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- c) Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

**3) The kinds of financial instruments and fair value**

The fair value of financial assets and liabilities at fair value through profit or loss, derivative financial instruments used for hedging, and available for sale financial assets, are measured on a recurring basis. The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy are stated below; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

		December 31, 2019			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	\$ 71,449	-	-	-	-
Trade receivables	902,006	-	-	-	-
Refundable deposits	<u>1,470</u>	-	-	-	-
	<u>\$ 974,925</u>				
<b>Financial liabilities at amortized cost</b>					
Bank loans	\$ 696,000	-	-	-	-
Notes and trade payables (including related parties)	508,497	-	-	-	-
Lease liabilities	3,797	-	-	-	-
Other payables	15,037	-	-	-	-
Guarantee deposits	<u>3,270</u>	-	-	-	-
	<u>\$ 1,226,601</u>				
		December 31, 2018			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	\$ 171,611	-	-	-	-
Trade receivables	933,216	-	-	-	-
Refundable deposits	<u>20</u>	-	-	-	-
	<u>\$ 1,104,847</u>				
<b>Financial liabilities at amortized cost</b>					
Bank loans	\$ 652,000	-	-	-	-
Notes and trade payables (including related parties)	497,380	-	-	-	-
Other payables	13,344	-	-	-	-
Refundable deposits	<u>3,810</u>	-	-	-	-
	<u>\$ 1,166,534</u>				

4) Valuation techniques for financial instruments not measured at fair value

The Company's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Notes to the Financial Statements**

a) Financial liability with amortized cost evaluation

Fair value measurement is based on the latest quoted price and agreed upon price if these prices are available in an active market. When market value is unavailable, fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

5) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

Financial instruments traded in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

If the Company can frequently acquire financial instrument's open quotation from either the stock exchange, brokers, underwriters, industrial trade union, or authorities, and the price is equal to that of fair market, then that financial instrument has active market value. On the other hand, if the condition above is not achieved, we define that as instrument to have non-active market value. Generally, the significant difference between the bid-ask spread or the trading volume is very small, similar to the index of a non-active market.

Except from active market, the Company also acquire its financial instrument value from the valuation technique or reference to a rival's quotation. The fair value through the valuation technique refers to other essentially prerequisite and similar financial instruments with current fair value, discount cash flow, and other valuation methods. The financial instruments from the non-active market are evaluated by the discount cash flow model, the main assumption is according to time value of money and investment risk to evaluate future cash flow.

(s) Financial risk management

(i) Briefings

The Company is have exposed to the following risks arising from financial instruments :

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

In this note expressed the information on risk exposure and objectives, policies and process of risk measurement and management. For detailed information, please refer to the related notes of each risk.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.****Notes to the Financial Statements****(ii) Structure of risk management**

The financial risks management can be separated into management and operating related financial risks, the risks including credit risk, liquidity risk and market risk. In order to reduce financial risk, the Company dedicate to recognize, evaluate and avoid the uncertainty in the market. The important financial activity need to review by auditors in the broad and the Company have to follow the regulation of financial management and the process of division responsibility.

**(iii) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

**1) Trade receivables and other receivables**

The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically.

The Company constantly evaluate clients' financial situation, if necessary, the company will buy credit guarantee insurance contract. But the Company usually won't ask clients offer collateral.

**2) Guarantees**

As of December 31, 2019 and 2018, the Company do not offer any endorsement and guarantees, except to its subsidiaries, please refer note (13)(a).

**(iv) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities which be settled by delivering cash or another financial assets. The Company manages and maintains sufficient cash and cash equivalents so as to cope with its operations and liabilities. Make an effort to avoid any unacceptable loss or any harmful on their reputation.

The loans and borrowings from the bank form an important source of liquidity for the Company. Please refer to note 6(h) and note 6(i) for unused short-term and long-term bank facilities as of December 31, 2019 and 2018.

**(v) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices which will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

1) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company, primarily the New Taiwan Dollars (TWD).

To avoid the fluctuation from foreign exchange, the Company use short-term loans and derivative to avoid foreign rate risk. This kind of derivative can help the Company to reduce the influence of foreign currency exchange but can't exclude all the risk.

2) Interest rate risk

The Company borrows funds with variable interest rates, therefore there is risk of cash flows.

3) Other market value risk

The Company is exposed to equity price risk arising from non-listed stock investments. Since investment of foreign operation is investment, the Company does not plan any hedge in this field.

(t) Capital management

The Company decides the optimized capital by maintain the capital based on the current operating characteristics of the industry, future development, and changes in external environment, to assure there is financial resource and operating plan to support working capital, research and development expense and dividend payment and so on. To maintain a strong capital base, the Company might adjust the stock dividend, issue new share or buy treasury share. The Company also scrutiny the asset-liability ratio regularly to monitor the fund.

Debt-to-asset ratio in December 31, 2019 and 2018 as follow:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Total liabilities	\$ 1,286,147	1,238,955
Total assets	3,604,190	3,579,432
Debt-to-asset ratio	36 %	35 %

As of December 31, 2019, the capital management method do not change.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(u) Investing and financing activities not affecting current cash flow

Reconciliation of liabilities arising from financing activities for the years ended December 31, 2019 and 2018 were as follows:

	January 1, 2019	Cash flows	Non-cash flows Additions	December 31, 2019
Long term loans	\$ 282,000	24,000	-	306,000
Short term loans	370,000	20,000	-	390,000
Lease liabilities	844	(628)	3,581	3,797
Guarantee deposits	3,810	(540)	-	3,270
Total liabilities from financing activities	<u>\$ 656,654</u>	<u>42,832</u>	<u>3,581</u>	<u>703,067</u>

	January 1, 2018	Cash flows	December 31, 2018
Long term loans	\$ 210,000	72,000	282,000
Short term loans	150,000	220,000	370,000
Guarantee deposits	3,810	-	3,810
Total liabilities from financing activities	<u>\$ 363,810</u>	<u>292,000</u>	<u>655,810</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

Name of related party	Relationship with the Company
Dongguan Chenming Electronic Co., Ltd.	Subsidiary of the Company
CHENMING ELECTRONIC (NINGBO) Co., Ltd.	Subsidiary of the Company
UNEEC Culture and Education Foundation	Same chairman with the Company
Lin, Mu-Ho	Chairman of the Company

(b) Significant transactions with related parties

(i) Selling products to related parties

	2019	2018
Subsidiaries	<u>\$ 34</u>	<u>76</u>

There were no significant differences in the collection periods and sale prices between the related parties and other customers, and the payment term was 60 days.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

## (ii) Purchases

The amounts of significant purchases by the Company from related parties were as follows:

	<u>2019</u>	<u>2018</u>
Subsidiary:		
Dongguan Chenming Electronic Co., Ltd.	\$ 2,636,951	2,897,193
Subsidiary:		
Others	<u>-</u>	<u>192</u>
	<u>\$ 2,636,951</u>	<u>2,897,385</u>

The Company purchases certain products manufactured by its related parties. The purchase prices for related parties are no general supplier for comparison, and the collection period for related parties is 60 days and payment according to subsidiaries's financial needs.

## (iii) Payables to Related Parties

The payables to related parties were as follows:

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Trade payables	Subsidiaries:		
	Dongguan Chenming		
	Electronic Co., Ltd.	<u>\$ 505,434</u>	<u>486,788</u>

## (iv) Lease

The Company rents parts of its office and miscellaneous equipment to its related parties and collects monthly rental from them. The rental fee is determined based on nearby office rental rates. The rental revenue for the years ended December 31, 2019 and 2018 amounted to \$2,514 and \$3,429, respectively.

## (v) Guarantee

- 1) The main management was the guarantor of the syndication contract, and the amounts of syndication were \$306,000 and \$282,000, as of December 31, 2019 and 2018, respectively.
- 2) As of December 31, 2019 and 2018, the Company had provided a guarantee for loans taken out by CHENMING ELECTRONIC (NINGBO) Co. LTD. The credit limit of the guarantee was \$51,660 and \$53,664, respectively.

## (vi) Other

The Company dispatched its employees to its subsidiaries for providing management services. As of December 31, 2019 and 2018, the relative revenue amounted to \$4,408 and \$4,364, respectively, which was recognized in other income.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(c) Key management personnel compensation

(i) Key management personnel compensation comprised:

	2019	2018
Short-term employee benefits	\$ 6,428	6,127
Post-employment benefits	108	108
	\$ 6,536	6,235

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Pledged Assets	Object	December 31, 2019	December 31, 2018
PPE and investment properties	Short-term loans and long-term		
— land	loans	\$ 347,804	347,804
— properties	"	135,307	138,882
		\$ 483,111	486,686

(9) Commitments and contingencies: None.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events:

- (a) The coronavirus outbreak since early 2020 has brought about additional uncertainties in the subsidiaries' operating environment in China and has impacted the Company and its subsidiaries operations position, including production and delivery delays, etc. The relevant information is unclear, so it is not possible to make a reasonable estimate of the economic impact on business results and financial situations. The Company will continue to closely monitor the development of the event and keep our contingency measures and adjustments as needed.
- (b) For protecting the credibility of the equity of the Company and its shareholders, the Company decided on March 12, 2020 to repurchase its own shares, with the maximum limit of \$3,500 thousand shares and a repurchase price ranging from NTD\$9 to NTD\$18, at the total amount not exceeding \$63,000.

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

**(12) Other:**

The summary statement of current period employee benefits, depreciation and amortization expenses by function were as follows:

By function  By item	2019			2018		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	-	73,735	73,735	-	61,792	61,792
Labor and health insurance	-	6,105	6,105	-	5,855	5,855
Pension	-	3,353	3,353	-	3,128	3,128
Remuneration of directors	-	1,000	1,000	-	1,000	1,000
Others	-	5,102	5,102	-	4,933	4,933
Depreciation	-	3,573	3,573	-	3,347	3,347
Amortization	-	1,018	1,018	-	1,274	1,274

Note: The depreciation expense, which subtract the depreciation expense from investment properties, was \$1,237 and \$1,238 for the years ended December 31, 2019 and 2018, respectively, which were recognized in the subtraction of rent revenue.

	2019	2018
Number of employees	<u>80</u>	<u>79</u>
Non-employees directors	<u>5</u>	<u>5</u>
Average labor cost	<u>\$ 1,177</u>	<u>1,023</u>
Average salary and bonus	<u>\$ 983</u>	<u>835</u>
Percentage change in average salary and bonus	<u>17.72 %</u>	

**(13) Other disclosures:****(a) Information on significant transactions:**

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

**(i) Loans to other parties:**

(In Thousands of New Taiwan Dollars)

No	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
1	TOP CITY INTERNATIONAL LIMITED	GERSHWIN INTERNATIONAL LIMITED	Trade receivables due from related parties	Yes	179,880	179,880	119,920	2.18738%~3.43613%	Demand for funding	-	Depending on demand for funding	-	-	-	2,065,182 (note 1)	2,065,182 (note 1)

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

No	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
2	CHENMING ELECTRONIC (NINGBO) CO., LTD	Dongguan Chenming Electronic Co., Ltd	"	"	73,185	73,185	73,185	4.67625%	"	-	"	-	-	-	105,305 (note 2)	210,609 (note 2)
3	Dongguan Chenming Electronic Co., Ltd.	CHENMING ELECTRONIC (NINGBO) CO., LTD	"	"	64,575	64,575	-	5.0025%	"	-	"	-	-	-	80,620 (note 3)	161,239 (note 3)
Total						317,640	193,105									

Note 1: The total amount for lending to a subsidiary whose voting shares are 100% owned, directly or indirectly, by TOP CITY INTERNATION LIMITED for funding for a short-term period shall not exceed the net worth of TOP CITY INTERNATION LIMITED, which amounted to \$2,065,182. And the total amount lendable to each of such borrowers still shall not exceed the net worth of TOP CITY INTERNATION LIMITED, which amounted to \$2,065,182.

Note 2: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent of the net worth of CHENMING ELECTRONIC (NINGBO) CO., LTD, which amounted to \$105,305 (\$1,053,045\*10%). In addition, the total amount lendable to any one borrower shall be no more than twenty percent of the borrower's net worth, which amounted to \$210,609 (\$1,053,045\*20%).

Note 3: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent of the net worth of Dongguan Chenming Electronic Co., Ltd, which amounted to \$80,620 (\$806,195\*10%). In addition, the total amount lendable to any one borrower shall be no more than twenty percent of the borrower's net worth, which amounted to \$161,239 (\$806,195\*20%).

(ii) Guarantees and endorsements for other parties:

No	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	The Company	CHENMING ELECTRONIC (NINGBO) CO., LTD	82% Owned subsidiary	927,217	51,660	51,660	-	-	2.23 %	1,854,434	Yes	No	Yes

Note: The total amount of endorsement guarantees the Company or the Group is permitted to provide shall not exceed 80% of the Company's net worth; the amount of endorsement guarantees for a entity shall not exceed 40% of the Company's net worth.

- (iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures): None.
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

(Continued)

## CHENMING ELECTRONIC TECHNOLOGY CORP.

### Notes to the Financial Statements

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Company Name	Counter party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/trade receivables (payable)		Note
			Purchase/ (Sale)	Amount	Percentage of total purchases/ (sales)	Payment terms	Unit price	Payment Terms	Ending Balance	Percentage of total notes/ trade receivables (payables)	
The Company	Dongguan Chenming Electronic Co., Ltd	Subsidiaries of GERSHWIN INTERNATIONAL LIMITED	Purchases	2,636,951	99 %	Net 60 days from the end of month of when invoice issued	No general supplier for comparison	Net 60 days from the end of month of when invoice issued and depending on the demand for funding	Trade payables (505,434)	(99)%	
Dongguan Chenming Electronic Co., Ltd	The Company	Ultimate holding company	(Sale)	(2,636,951)	71 %	Net 60 days from the end of month of when invoice issued	No general customer for comparison	Net 60 days from the end of month of when invoice issued and depending on the demand for funding	Trade receivables 505,434	52 %	

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period (Note)	Allowance for bad debts	Note
					Amount	Action taken			
Dongguan Chenming Electronic Co., Ltd	The Company	Subsidiaries	Trade receivables 505,434	4.98	-	-	Trade receivables 505,434	-	

Note: The recovered amounts of March 12, 2020.

- (ix) Trading in derivative instruments: None.

- (b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of the investment	Investment income (losses)	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	TOP CITY INTERNATIONAL LIMITED	Samoa	Investment	2,002,903	1,930,397	59,948	100 %	2,065,182	90,645	90,645	Subsidiaries
"	CHENMING ELECTRONIC TECHNOLOGY USA, Inc.	USA	Import and export business of computer case	6,236	-	200	100 %	4,746	(1,281)	(1,281)	"
TOP CITY INTERNATIONAL LIMITED	GERSHWIN INTERNATIONAL LIMITED	Samoa	Investment	1,471,994	1,471,994	45,988	100 %	1,085,158	(20,483)	The profit or loss on investments were recognized by TOP CITY INTERNATIONAL LIMITED	A grandson company
"	PEAK SHREWD INC	Samoa	Investment	638,726	566,220	17,800	100 %	837,833	107,552	"	"

(Continued)

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Notes to the Financial Statements**

(c) Information on investment in mainland China:

- (i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars)

Name of Investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investment	Percentage of ownership	Investment income (losses) (note 2 and 3)	Carrying amount as of December 31, 2019 (note 3)	Accumulated remittance of earnings as of December 31, 2019
					Outflow	Inflow						
CHENMING ELECTRONIC (NINGBO)CO.,LTD	Computer case and production of relative components	1,933,710 (USD64,500)	note1 and 7	502,537 (USD16,500)	39,861 (USD1,300) (note 6)	-	542,398 (USD17,800)	130,721	82 %	106,613	863,497	-
Dongguan Chenming Electronic Co., Ltd		872,219 (note 4) (USD28,978) (note 5)	note 1 and 8	750,755 (USD24,900)	-	-	750,755 (USD24,900)	10,669	100 %	10,669	806,195	-

- (ii) Limitation on investment in Mainland China:

Company Name	Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission of Ministry of Economic Affairs	Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs
The Company	1,293,153 (USD 42,700)	1,431,845 (USD 47,760)	Unlimited (note 9)

Note1: Investment in Mainland China through existing company from third region.

Note2: The investment gains and losses of the current period are recognized according to the financial statements which have been audited and certified by the Company's independent external auditors.

Note3: The USD was translated into New Taiwan Dollars at the exchange rate of \$29.98 as of December 31, 2019.

Note4: Invested the amount of USD 3,000 thousands in Dongguan Chenming Electronic Co., Ltd. through GERSHWIN INTERNATIONAL LIMITED by TOP CITY INTERNATIONAL LIMITED.

Note5: Invested the amount of USD 1,078 thousands on equipment in Dongguan Chenming Electronic Co., Ltd by GERSHWIN INTERNATIONAL LIMITED.

Note6: Investment through PEAK SHREWD INC by the Company and TOP CITY INTERNATIONAL LIMITED.

Note7: Investment in Mainland China through TOP CITY INTERNATIONAL LIMITED and PEAK SHREWD INC.

Note8: Investment in Mainland China through TOP CITY INTERNATIONAL LIMITED and GERSHWIN INTERNATIONAL LIMITED.

Note9: According to the "REGULATIONS GOVERNING THE APPROVAL OF INVESTMENT OR TECHNICAL COOPERATION IN MAINLAND CHINA" amended in August 29, 2008 by the MOEAIC, the Company has acquired related documents. Therefore, there is no restriction to the Company's investing amount in Mainland China.

- (iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China are disclosed in "Information on significant transactions".

**(14) Segment information:**

The Company has provided the operating segments disclosure in the consolidated financial statements.

## CHENMING ELECTRONIC TECHNOLOGY CORP.

## Statement of Cash and Cash Equivalents

December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Petty Cash		\$ 50
Checking accounts and demand deposits	NTD	7,492
	Foreign currency (US\$1,996 ; JPY\$613 ; RMB\$905)	63,907
		<u>\$ 71,449</u>

Note : The exchange rate is 29.98 New Taiwan dollars for 1 U.S. dollar ; 0.276 New Taiwan dollars for 1 JPY ; 4.305 New Taiwan dollars for 1 RMB.

## Statement of Trade Receivables

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Trade Receivables:		
Non-Related party:		
CC Company	Non-Related party operating income	\$ 287,386
DDCompany	//	111,789
E Company	//	87,402
D Company	//	79,929
F Company	//	52,737
C Company	//	45,170
Other (Note)	//	237,764
Total		902,177
Less : Loss allowance		(171)
Trade Receivables, net		<u>\$ 902,006</u>

Note : Items that do not reach the five percent benchmark for this account.

**CHENMING ELECTRONIC TECHNOLOGY CORP.**

**Statement of Changes in Investments Accounted for Using the Equity Method**

For the year ended December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Investee Company	Beginning Balance		Additions (Note1)		Disposals		Investment income	Cumulative translation adjustment	Number of shares	Ending Balance		Market price or net value	Collaterals or Pledged assets
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount				Percentage of Ownership	Amount		
TOP CITY INTERNATIONAL LIMITED	58,648	\$ 1,937,814	1,300	72,505	-	-	90,645	(35,782)	59,948	100 %	2,065,182	2,065,182	None
CHENMING ELECTROONIC TECHNOLOGY USA, Inc.	-	-	200	6,236	-	-	(1,281)	(209)	200	100 %	4,746	4,746	None
		\$ -		<u>78,741</u>			<u>89,364</u>	<u>(35,991)</u>			<u>2,069,928</u>	<u>2,069,928</u>	

Note1: The Company invested the additional cash of \$46,097 in its subsidiaries, resulting in the difference between the consideration and the carrying amounts to be \$32,644.

**CHENMING ELECTRONIC TECHNOLOGY CORP.**  
**Statement of Changes in Property, Plant and Equipment**  
**December 31, 2019 and 2018**  
**(Expressed in Thousands of New Taiwan Dollars)**

Please refer to Note 6(e) ◦

**Statement of Changes in Investment Property**

Please refer to Note 6(f) ◦

**Statement of Short-Term Borrowings**

**December 31, 2019 and 2018**  
**(Expressed in Thousands of New Taiwan Dollars)**

<u>Creditor</u>	<u>Description</u>	<u>Amount</u>	<u>Contract period</u>	<u>Interest Rate</u>	<u>Loan commitments</u>	<u>Collaterals or Pledged assets</u>
Mega International Commercial Bank Co.,Ltd	Credit Loans	\$ 220,000	2019.12.26~ 2020.12.25	Please refer to note (6)(h)	USD22,400	None
Hua Nan Commercial Bank	Secured Loans	160,000	2019.12.06~ 2020.12.06	"	NTD170,000	Land, Properties and investment properties
First Commercial Bank	Credit Loans	<u>10,000</u>	2019.5.10~ 2020.5.10	"	NTD50,000	None
		<b><u>\$ 390,000</u></b>				

## CHENMING ELECTRONIC TECHNOLOGY CORP.

## Statement of Long-Term Loans

December 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Creditor	Description	Amount		Interest Rate	Contract period	Collaterals or Pledged assets
		Loan within 1 year	Loan more than 1 year			
Mega International Commercial Bank Co.,Ltd	Secured Loans	\$ -	200,000	Please refer to Note 6(i)	2017.08~2023.8	Land, Properties and investment properties
Hua Nan Commercial Bank	Secured Loans	-	106,000	Please refer to Note 6(i)	2005.11~2025.11	Land, Properties and investment properties
		<u>\$ -</u>	<u>306,000</u>			

## Statement of Notes and Trade Payables

Item	Description	Amount
Notes and Trade payables :		
Dongguan Chenming Electronic Co., Ltd	Related party operating cost	\$ 505,434
Other (Note)	Non-Related party operating cost	<u>3,063</u>
		<u>\$ 508,497</u>

Note : Items that do not reach the five percent benchmark for this account.

**CHENMING ELECTRONIC TECHNOLOGY  
CORP.**

**Statement of Operating Revenue**

**For the year ended December 31, 2019**

**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Number—pieces in thousand</u>	<u>Amount</u>
Sales revenue :		
Computer and server case	1,332	\$ 1,912,925
Mobile components	90,772	874,002
Less : Sales discount		<u>(11,489)</u>
		2,775,438
Mold revenue		<u>52,288</u>
Net sales revenue		<u>\$ 2,827,726</u>

**Statement of Operating Costs**

<u>Item</u>	<u>Amount</u>
Raw materials, beginning of year	\$ -
Add : Purchase of raw material	11,281
Less : Raw materials, end of year	<u>-</u>
Raw materials used	11,281
Add : Work-in-process, beginning of year	-
Less : Work-in-process, end of year	<u>(21)</u>
Cost of finished goods	11,260
Add : Finished goods, beginning of year	63
Finished goods purchased	2,636,951
Less : Finished goods, end of year	<u>(16,133)</u>
Total	<u>\$ 2,632,141</u>

**CHENMING ELECTRONIC TECHNOLOGY  
CORP.**

**Statement of Operating Expenses**

**For the year ended December 31, 2019**

**(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Selling expenses</u>	<u>Administrative expenses</u>	<u>Research and development expenses</u>
Payroll expenses	\$ 20,930	40,766	12,039
Travel expenses	6,026	1,639	2,064
Insurance expenses	2,283	4,341	1,716
Entertainment expenses	2,315	1,455	8
Professional service fees	-	8,927	-
Safety and health expenses	-	4,574	-
Other (Note)	<u>4,253</u>	<u>18,340</u>	<u>3,199</u>
Total	<u>\$ 35,807</u>	<u>80,042</u>	<u>19,026</u>

Note : Items that do not reach the five percent benchmark for this account.