

**COMPAL ELECTRONICS, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2019 and 2018**

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Independent Auditors' Review Report

To COMPAL ELECTRONICS, INC.:

Introduction

We have reviewed the accompanying consolidated balance sheets of COMPAL ELECTRONICS, INC. (the "Company") and its subsidiaries (the "Group") as of September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the changes in equity and cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standard 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect the total assets amounting to \$22,162,821 thousand and \$20,384,537 thousand, constituting 5.3% and 4.7% of the consolidated total assets; and the total liabilities amounting to \$3,174,818 thousand and \$4,996,067 thousand, constituting 1.0% and 1.6% of the consolidated total liabilities as of September 30, 2019 and 2018, respectively; as well as the total comprehensive income amounting to \$(46,775) thousand and \$(31,367) thousand and \$(38,266) thousand and \$190,658 thousand, constituting (2.9)%, (0.9)%, (0.6)% and 2.3% of the consolidated total comprehensive income (loss) for the three months and nine months then ended, respectively.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2019 and 2018, and of its consolidated financial performance for the three months and nine months then ended, as well as its consolidated cash flows for the nine months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Szu-Chuan Chien and Yiu-Kwan Au.

The image shows the handwritten signature of KPMG in black ink. The letters are stylized and slanted to the right.

KPMG

Taipei, Taiwan (Republic of China)
November 11, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

Reviewed only, not audited in accordance with the generally accepted auditing standards as of September 30, 2019 and 2018

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2019, December 31, 2018, and September 30, 2018

(Expressed in Thousands of New Taiwan Dollars)

Assets		September 30, 2019		December 31, 2018		September 30, 2018		Liabilities and Equity		September 30, 2019		December 31, 2018		September 30, 2018	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
Current assets:								Current liabilities:							
1100	Cash and cash equivalents (note (6)(a))	\$ 55,444,483	13.3	70,296,545	17.6	72,064,833	16.7	2100	Short-term borrowings (note (6)(n))	\$ 67,790,281	16.2	72,350,197	18.1	84,959,651	19.7
1110	Current financial assets at fair value through profit or loss (note (6)(b))	3,838,516	0.9	4,611,134	1.1	3,893,302	0.9	2120	Current financial liabilities at fair value through profit or loss (note (6)(b))	950	-	26,913	-	11,546	-
1136	Current financial assets at amortized cost (note (6)(e))	-	-	350,000	0.1	350,000	0.1	2125	Current derivative financial liabilities for hedging (note (6)(d))	-	-	-	-	1,808	-
1170	Notes and accounts receivable, net (note (6)(f))	204,651,901	49.0	203,715,965	51.0	209,474,786	48.5	2130	Current contract liabilities (note (6)(z))	1,234,894	0.3	1,476,304	0.4	1,480,288	0.3
1180	Notes and accounts receivable due from related parties, net (notes (6)(f) and (7))	104,454	-	58,106	-	24,725	-	2170	Notes and accounts payable	173,419,466	41.5	152,300,093	38.1	168,876,386	39.1
1200	Other receivables, net (notes (6)(f) and (7))	1,799,346	0.4	1,665,249	0.4	2,021,133	0.5	2180	Notes and accounts payable to related parties (note (7))	1,526,774	0.4	1,976,620	0.5	1,691,710	0.4
1310	Inventories (note (6)(g))	111,059,758	26.7	79,148,922	19.8	102,939,506	23.8	2200	Other payables (note (7))	21,219,396	5.1	19,558,007	4.9	24,266,789	5.6
1470	Other current assets (note (8))	2,960,582	0.7	2,899,329	0.7	3,402,254	0.8	2230	Current tax liabilities	3,898,574	0.9	3,722,191	0.9	4,437,087	1.0
		<u>379,859,040</u>	<u>91.0</u>	<u>362,745,250</u>	<u>90.7</u>	<u>394,170,539</u>	<u>91.3</u>	2250	Current provisions (note (6)(r))	820,158	0.2	426,981	0.1	441,086	0.1
	Non-current assets:							2280	Current lease liabilities (note (6)(q))	632,012	0.2	-	-	-	-
1550	Investments accounted for using equity method (note (6)(h))	7,208,408	1.7	7,364,485	1.9	7,120,925	1.6	2300	Other current liabilities	2,528,005	0.6	3,255,135	0.8	2,540,214	0.6
1510	Non-current financial assets at fair value through profit or loss (note (6)(b))	121,036	-	69,390	-	45,165	-	2365	Current refund liabilities (note (6)(s))	1,669,019	0.4	1,579,832	0.4	1,039,668	0.2
1517	Non-current financial assets at fair value through other comprehensive income (note (6)(c))	4,637,345	1.1	5,172,295	1.3	5,585,923	1.3	2322	Long-term borrowings, current portion (note (6)(o))	16,889,375	4.0	17,535,625	4.4	18,054,375	4.2
1600	Property, plant and equipment (notes (6)(l) and (8))	19,880,190	4.8	20,418,228	5.1	20,585,966	4.8			<u>291,628,904</u>	<u>69.8</u>	<u>274,207,898</u>	<u>68.6</u>	<u>307,800,608</u>	<u>71.2</u>
1755	Right-of-use assets (note (6)(m))	2,619,473	0.6	-	-	-	-		Non-Current liabilities:						
1780	Intangible assets	1,647,543	0.4	1,516,253	0.4	1,464,509	0.3	2530	Bonds payable (note (6)(p))	963,090	0.2	-	-	-	-
1840	Deferred tax assets	1,020,966	0.2	1,023,948	0.3	1,554,160	0.4	2540	Long-term borrowings (note (6)(o))	8,968,906	2.1	10,998,438	2.7	11,458,281	2.7
1985	Long-term prepaid rents	-	-	891,147	0.2	890,856	0.2	2570	Deferred tax liabilities	495,708	0.1	478,169	0.1	701,589	0.2
1990	Other non-current assets (note (8))	696,385	0.2	593,827	0.1	525,153	0.1	2580	Non-current lease liabilities (note (6)(q))	990,136	0.2	-	-	-	-
		<u>37,831,346</u>	<u>9.0</u>	<u>37,049,573</u>	<u>9.3</u>	<u>37,772,657</u>	<u>8.7</u>	2640	Non-current net defined benefit liability	700,118	0.2	710,146	0.2	696,840	0.2
								2670	Non-current liabilities, others (note (6)(h))	231,246	0.1	238,324	0.1	200,215	-
										<u>12,349,204</u>	<u>2.9</u>	<u>12,425,077</u>	<u>3.1</u>	<u>13,056,925</u>	<u>3.1</u>
									Total liabilities	<u>303,978,108</u>	<u>72.7</u>	<u>286,632,975</u>	<u>71.7</u>	<u>320,857,533</u>	<u>74.3</u>
									Equity:						
									Equity attributable to owners of parent (notes (6)(v) and (6)(w)):						
								3110	Ordinary share	44,071,466	10.6	44,071,466	11.0	44,071,466	10.2
								3200	Capital surplus	9,133,450	2.2	9,932,434	2.5	9,965,268	2.3
								3300	Retained earnings	56,948,143	13.6	60,060,381	15.0	58,424,825	13.5
								3400	Other equity interest	(3,457,703)	(0.8)	(7,459,388)	(1.8)	(7,466,391)	(1.7)
								3500	Treasury shares	(881,247)	(0.2)	(881,247)	(0.2)	(881,247)	(0.2)
										<u>105,814,109</u>	<u>25.4</u>	<u>105,723,646</u>	<u>26.5</u>	<u>104,113,921</u>	<u>24.1</u>
								36XX	Non-controlling interests	<u>7,898,169</u>	<u>1.9</u>	<u>7,438,202</u>	<u>1.8</u>	<u>6,971,742</u>	<u>1.6</u>
									Total equity	<u>113,712,278</u>	<u>27.3</u>	<u>113,161,848</u>	<u>28.3</u>	<u>111,085,663</u>	<u>25.7</u>
									Total liabilities and equity	<u>\$ 417,690,386</u>	<u>100.0</u>	<u>\$ 399,794,823</u>	<u>100.0</u>	<u>\$ 431,943,196</u>	<u>100.0</u>
	Total assets	<u>\$ 417,690,386</u>	<u>100.0</u>	<u>\$ 399,794,823</u>	<u>100.0</u>	<u>\$ 431,943,196</u>	<u>100.0</u>								

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and nine months ended September 30, 2019 and 2018

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

	For the three months ended September 30				For the nine months ended September 30				
	2019		2018		2019		2018		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	Net sales revenue (notes (6)(z) and (7))								
	\$ 249,923,397	100.0	253,408,464	100.0	712,919,021	100.0	687,404,390	100.0	
5000	Cost of sales (notes (6)(g), (7) and (12))								
	<u>241,860,510</u>	<u>96.8</u>	<u>246,019,083</u>	<u>97.1</u>	<u>688,527,276</u>	<u>96.6</u>	<u>665,592,534</u>	<u>96.8</u>	
	Gross profit								
	<u>8,062,887</u>	<u>3.2</u>	<u>7,389,381</u>	<u>2.9</u>	<u>24,391,745</u>	<u>3.4</u>	<u>21,811,856</u>	<u>3.2</u>	
	Operating expenses: (notes (6)(t), (6)(u) and (12))								
6100	Selling expenses	1,249,685	0.5	1,109,378	0.4	3,689,529	0.5	3,171,629	0.5
6200	Administrative expenses	1,051,783	0.4	1,106,466	0.4	3,063,209	0.4	3,084,256	0.4
6300	Research and development expenses	<u>3,341,570</u>	<u>1.3</u>	<u>3,267,254</u>	<u>1.3</u>	<u>10,138,266</u>	<u>1.4</u>	<u>8,971,307</u>	<u>1.3</u>
		<u>5,643,038</u>	<u>2.2</u>	<u>5,483,098</u>	<u>2.1</u>	<u>16,891,004</u>	<u>2.3</u>	<u>15,227,192</u>	<u>2.2</u>
	Net operating income								
	<u>2,419,849</u>	<u>1.0</u>	<u>1,906,283</u>	<u>0.8</u>	<u>7,500,741</u>	<u>1.1</u>	<u>6,584,664</u>	<u>1.0</u>	
	Non-operating income and expenses:								
7020	Other gains and losses, net (notes (6)(d), (6)(h), (6)(j), (6)(ab) and (6)(ad))	199,194	0.1	2,439,988	0.9	290,950	-	2,287,729	0.3
7050	Finance costs (notes (6)(p) and (6)(q))	(649,050)	(0.3)	(709,778)	(0.3)	(2,138,992)	(0.3)	(1,741,563)	(0.3)
7190	Other income (note (6)(ab))	545,543	0.2	490,734	0.2	1,615,555	0.2	1,562,778	0.2
7590	Miscellaneous disbursements	(6,474)	-	(4,561)	-	(18,853)	-	(12,959)	-
7770	Share of profit (loss) of associates and joint ventures accounted for using equity method (note (6)(h))	<u>(1,696)</u>	<u>-</u>	<u>253,887</u>	<u>0.1</u>	<u>(9,700)</u>	<u>-</u>	<u>548,123</u>	<u>0.1</u>
	Total non-operating income and expenses	<u>87,517</u>	<u>-</u>	<u>2,470,270</u>	<u>0.9</u>	<u>(261,040)</u>	<u>(0.1)</u>	<u>2,644,108</u>	<u>0.3</u>
7900	Profit from continuing operations before tax								
	2,507,366	1.0	4,376,553	1.7	7,239,701	1.0	9,228,772	1.3	
7950	Less: Income tax expenses (note (6)(v))								
	<u>463,198</u>	<u>0.2</u>	<u>514,537</u>	<u>0.2</u>	<u>1,503,446</u>	<u>0.2</u>	<u>1,494,285</u>	<u>0.2</u>	
	Profit								
	<u>2,044,168</u>	<u>0.8</u>	<u>3,862,016</u>	<u>1.5</u>	<u>5,736,255</u>	<u>0.8</u>	<u>7,734,487</u>	<u>1.1</u>	
8300	Other comprehensive income:								
8310	Components of other comprehensive income that will not be reclassified to profit or loss								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(51,268)	-	(58,370)	-	(79,813)	-	(779,603)	(0.1)
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	52,214	-	(5,737)	-	87,233	-	(60,578)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(v))	<u>3,722</u>	<u>-</u>	<u>10,337</u>	<u>-</u>	<u>23,222</u>	<u>-</u>	<u>(54,244)</u>	<u>-</u>
	Components of other comprehensive income that will not be reclassified to profit or loss	<u>(2,776)</u>	<u>-</u>	<u>(74,444)</u>	<u>-</u>	<u>(15,802)</u>	<u>-</u>	<u>(785,937)</u>	<u>(0.1)</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	(198,051)	(0.1)	106,108	-	556,163	0.1	1,416,190	0.2
8368	Gains (losses) on hedging instrument (note (6)(ac))	-	-	(10,530)	-	-	-	(1,808)	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(215,914)	(0.1)	(269,454)	(0.1)	(156,234)	-	(222,328)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note (6)(v))	<u>(2,158)</u>	<u>-</u>	<u>212</u>	<u>-</u>	<u>541</u>	<u>-</u>	<u>4,354</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(411,807)</u>	<u>(0.2)</u>	<u>(174,088)</u>	<u>(0.1)</u>	<u>399,388</u>	<u>0.1</u>	<u>1,187,700</u>	<u>0.2</u>
8300	Other comprehensive income								
	<u>(414,583)</u>	<u>(0.2)</u>	<u>(248,532)</u>	<u>(0.1)</u>	<u>383,586</u>	<u>0.1</u>	<u>401,763</u>	<u>0.1</u>	
8500	Total comprehensive income								
	<u>\$ 1,629,585</u>	<u>0.6</u>	<u>3,613,484</u>	<u>1.4</u>	<u>6,119,841</u>	<u>0.9</u>	<u>8,136,250</u>	<u>1.2</u>	
	Profit, attributable to:								
8610	Profit, attributable to owners of parent	\$ 1,800,061	0.7	3,733,179	1.4	4,941,697	0.7	7,218,776	1.0
8620	Profit, attributable to non-controlling interests	<u>244,107</u>	<u>0.1</u>	<u>128,837</u>	<u>0.1</u>	<u>794,558</u>	<u>0.1</u>	<u>515,711</u>	<u>0.1</u>
	\$ 2,044,168	0.8	3,862,016	1.5	5,736,255	0.8	7,734,487	1.1	
	Comprehensive income attributable to:								
8710	Comprehensive income (loss), attributable to owners of parent	\$ 1,391,359	0.5	3,490,118	1.4	5,323,485	0.8	7,604,613	1.1
8720	Comprehensive income (loss), attributable to non-controlling interests	<u>238,226</u>	<u>0.1</u>	<u>123,366</u>	<u>-</u>	<u>796,356</u>	<u>0.1</u>	<u>531,637</u>	<u>0.1</u>
	\$ 1,629,585	0.6	3,613,484	1.4	6,119,841	0.9	8,136,250	1.2	
	Earnings per share (note 6(y))								
9750	Basic earnings per share								
	<u>\$ 0.41</u>		<u>0.86</u>		<u>1.13</u>		<u>1.66</u>		
9850	Diluted earnings per share								
	<u>\$ 0.41</u>		<u>0.85</u>		<u>1.12</u>		<u>1.64</u>		

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

Equity attributable to owners of parent

	Retained earnings						Total other equity interest						Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Unearned employee benefit and others	Total other equity interest	Treasury shares			
Balance at January 1, 2018	\$ 44,191,916	10,938,773	18,252,861	4,339,549	33,964,736	56,557,146	(3,477,376)	-	(5,353,772)	(79,856)	(8,911,004)	(881,247)	101,895,584	6,752,388	108,647,972
Effects of retrospective application	-	-	-	-	494,051	494,051	-	(5,847,823)	5,353,772	-	(494,051)	-	-	-	-
Adjusted balance at January 1, 2018	44,191,916	10,938,773	18,252,861	4,339,549	34,458,787	57,051,197	(3,477,376)	(5,847,823)	-	(79,856)	(9,405,055)	(881,247)	101,895,584	6,752,388	108,647,972
Profit for the nine months ended September 30, 2018	-	-	-	-	7,218,776	7,218,776	-	-	-	-	-	-	7,218,776	515,711	7,734,487
Other comprehensive income	-	-	-	-	28,828	28,828	1,175,865	(818,204)	-	(652)	357,009	-	385,837	15,926	401,763
Total comprehensive income	-	-	-	-	7,247,604	7,247,604	1,175,865	(818,204)	-	(652)	357,009	-	7,604,613	531,637	8,136,250
Appropriation and distribution of retained earnings:															
Legal reserve appropriated	-	-	574,953	-	(574,953)	-	-	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	4,491,599	(4,491,599)	-	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(4,407,147)	(4,407,147)	-	-	-	-	-	-	(4,407,147)	-	(4,407,147)
Cash dividends from capital surplus	-	(881,429)	-	-	-	-	-	-	-	-	-	-	(881,429)	-	(881,429)
Changes in ownership interests in subsidiaries	-	128	-	-	(477,345)	(477,345)	-	476,199	-	-	476,199	-	(1,018)	-	(1,018)
Changes in equity of associates and joint ventures accounted for using equity method	-	(459)	-	-	(1,155)	(1,155)	-	1,130	-	-	1,130	-	(484)	-	(484)
Share-based payments transaction	(120,450)	(151,766)	-	-	36,141	36,141	-	-	-	79,856	79,856	-	(156,219)	-	(156,219)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	60,021	-	-	-	-	-	-	-	-	-	-	60,021	-	60,021
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(1,024,470)	(1,024,470)	-	1,024,470	-	-	1,024,470	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(312,283)	(312,283)
Balance at September 30, 2018	\$ 44,071,466	9,965,268	18,827,814	8,831,148	30,765,863	58,424,825	(2,301,511)	(5,164,228)	-	(652)	(7,466,391)	(881,247)	104,113,921	6,971,742	111,085,663
Balance at January 1, 2019	\$ 44,071,466	9,932,434	18,827,814	8,831,148	32,401,419	60,060,381	(1,852,952)	(5,606,436)	-	-	(7,459,388)	(881,247)	105,723,646	7,438,202	113,161,848
Profit for the nine months ended September 30, 2019	-	-	-	-	4,941,697	4,941,697	-	-	-	-	-	-	4,941,697	794,558	5,736,255
Other comprehensive income	-	-	-	-	451	451	397,393	(16,056)	-	-	381,337	-	381,788	1,798	383,586
Total comprehensive income	-	-	-	-	4,942,148	4,942,148	397,393	(16,056)	-	-	381,337	-	5,323,485	796,356	6,119,841
Appropriation and distribution of retained earnings:															
Legal reserve appropriated	-	-	891,336	-	(891,336)	-	-	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	(1,363,317)	1,363,317	-	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(4,407,147)	(4,407,147)	-	-	-	-	-	-	(4,407,147)	-	(4,407,147)
Cash dividends from capital surplus	-	(881,429)	-	-	-	-	-	-	-	-	-	-	(881,429)	-	(881,429)
Changes in ownership interests in subsidiaries	-	18,146	-	-	-	-	-	-	-	-	-	-	18,146	-	18,146
Changes in equity of associates and joint ventures accounted for using equity method	-	4,278	-	-	(26,891)	(26,891)	-	-	-	-	-	-	(22,613)	-	(22,613)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	60,021	-	-	-	-	-	-	-	-	-	-	60,021	-	60,021
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(3,620,348)	(3,620,348)	-	3,620,348	-	-	3,620,348	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(336,389)	(336,389)
Balance at September 30, 2019	\$ 44,071,466	9,133,450	19,719,150	7,467,831	29,761,162	56,948,143	(1,455,559)	(2,002,144)	-	-	(3,457,703)	(881,247)	105,814,109	7,898,169	113,712,278

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards**COMPAL ELECTRONICS, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****For the nine months ended September 30, 2019 and 2018****(Expressed in Thousands of New Taiwan Dollars)**

	For the nine months ended September 30	
	2019	2018
Cash flows from (used in) operating activities:		
Profit before tax	\$ 7,239,701	9,228,772
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	4,750,872	3,661,736
Increase (decrease) in expected credit loss	19,883	10,730
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(41,398)	(77,875)
Finance cost	2,138,992	1,741,563
Interest income	(1,292,482)	(986,443)
Dividend income	(127,349)	(279,044)
Compensation cost of share-based payments	75,333	(156,241)
Share of loss (profit) of associates and joint ventures accounted for using equity method	9,700	(548,123)
Gain on disposal of property, plant and equipment	(37,416)	(23,645)
Gain on disposal of investments	(58,107)	(2,511,085)
Long-term prepaid rents	-	10,054
Total adjustments to reconcile profit (loss)	<u>5,438,028</u>	<u>841,627</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in financial assets at fair value through profit or loss	138,759	(3,003,940)
Decrease (increase) in notes and accounts receivable	(1,006,441)	(31,981,516)
Decrease (increase) in other receivables	(379,055)	(1,092,309)
Decrease (increase) in inventories	(31,910,836)	(33,482,419)
Decrease (increase) in other current assets	(62,691)	48,682
Decrease (increase) in other non-current assets	(8,041)	(130,024)
Total changes in operating assets	<u>(33,228,305)</u>	<u>(69,641,526)</u>
Changes in operating liabilities:		
Increase (decrease) in financial liabilities at fair value through profit or loss	(25,963)	(12,917)
Increase (decrease) in notes and accounts payable	20,668,983	28,550,272
Increase (decrease) in other payables	1,600,510	5,715,032
Increase (decrease) in refund liabilities	89,187	(479,638)
Increase (decrease) in provisions	393,177	53,939
Increase (decrease) in contract liabilities	(241,410)	(185,033)
Increase (decrease) in other current liabilities	(728,058)	(483,329)
Others	(9,986)	19,800
Total changes in operating liabilities	<u>21,746,440</u>	<u>33,178,126</u>
Total changes in operating assets and liabilities	<u>(11,481,865)</u>	<u>(36,463,400)</u>
Total adjustments	<u>(6,043,837)</u>	<u>(35,621,773)</u>
Cash inflow (outflow) generated from operations	1,195,864	(26,393,001)
Interest received	1,538,603	986,465
Dividends received	266,110	411,211
Interest paid	(2,496,337)	(1,608,800)
Income taxes paid	(1,289,006)	(1,437,782)
Net cash flows from (used in) operating activities	<u>(784,766)</u>	<u>(28,041,907)</u>
Cash flows from (used in) investing activities:		
Redemption from financial assets at amortized cost	350,000	350,000
Acquisition of financial assets at fair value through profit or loss and through other comprehensive income	(264,262)	(107,877)
Proceeds from disposal of financial assets at fair value through profit or loss and through other comprehensive income	1,283,447	720,290
Acquisition of investments accounted for using equity method	(43,200)	-
Proceeds from disposal of investments accounted for using equity method	-	7,384,102
Net cash flow from disposal of subsidiaries	143,495	-
Proceeds from capital reduction of investments	7,377	12,025
Acquisition of property, plant and equipment	(3,145,603)	(3,354,526)
Proceeds from disposal of property, plant and equipment	97,377	28,576
Acquisition of intangible assets	(461,970)	(434,604)
Acquisition of right-of-use assets	(151,459)	-
Increase in long-term prepaid rents	-	(315,371)
Others	(25,891)	(66,164)
Net cash flows from (used in) investing activities	<u>(2,210,689)</u>	<u>4,216,451</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(4,559,916)	28,444,126
Proceeds from issuing bonds	1,007,240	-
Proceeds from long-term borrowings	44,753,624	21,567,199
Repayments of long-term borrowings	(47,427,456)	(19,507,431)
Payment of lease liabilities	(584,470)	-
Cash dividends paid	(5,228,555)	(5,228,555)
Acquisition of non-controlling interests	-	(1,570)
Change in non-controlling interests	(492,742)	(300,163)
Others	(47,723)	20,008
Net cash flows from (used in) financing activities	<u>(12,579,998)</u>	<u>24,993,614</u>
Effect of exchange rate changes on cash and cash equivalents	<u>723,391</u>	<u>833,962</u>
Net increase (decrease) in cash and cash equivalents	<u>(14,852,062)</u>	<u>2,002,120</u>
Cash and cash equivalents at beginning of period	<u>70,296,545</u>	<u>70,062,713</u>
Cash and cash equivalents at end of period	<u>\$ 55,444,483</u>	<u>72,064,833</u>

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2019 and 2018

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

(1) Company history

Compal Electronics, Inc. (the "Company") was incorporated in June 1984 as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is No.581 and No.581-1 Ruiguang Rd., Neihu Dist., Taipei City, Taiwan. In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged its subsidiary, Compal Communications, Inc. ("CCI") (the "Merger"), pursuant to the resolutions of the Board of Directors in November, 2013. The Company was the surviving company and CCI was the dissolved company. The effective date of the Merger was February 27, 2014. The Company and its subsidiaries (together referred to as the "Group" and individually as the "Group entities") primarily are involved in the manufacture and sale of notebook personal computers ("notebook PCs"), monitors, LCD TVs, mobile phones and various components and peripherals.

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

These consolidated financial statements were authorized for issuance by the Board of Directors and issued on November 11, 2019.

(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 Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of significant changes are as follows:

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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 Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

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

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group 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 Group 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 Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of office equipment.

- 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 Group’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 – the Group applied this approach to all leases.

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

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- 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.
- Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

3) As a lessor

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

4) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$2,981,097 thousands of right-of-use assets and \$2,089,950 thousands of lease liabilities, recognizing the difference in long-term prepaid rents. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.78%.

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:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 2,280,672
Recognition exemption for:	
short-term leases	(56,654)
leases of low-value assets	(176)
Variable lease payment based on an index or a rate	(28,660)
	\$ 2,195,182
Discounted using the incremental borrowing rate at January 1, 2019	\$ 2,089,950
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	\$ 2,089,950

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- (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 Ruling 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 IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Group assesses that the adoption of the above-mentioned standards would not have any material impact on its consolidated 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 IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020

The Group is evaluating the impact of its initial adoption of the above-mentioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the guidelines of IAS 34 Interim Financial Reporting which are endorsed by the FSC. These consolidated interim financial statements do not include all of the information required by the Regulations and by the International Financial Reporting Standards, the International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRS endorsed by the FSC) for a complete set of the annual financial statements.

Except as described in the following paragraph, the significant accounting policies adopted in the interim financial statements are consistent with the consolidated financial statements for the year ended December 31, 2018. For related information, please refer to note (4) of the consolidated financial statements for the year ended December 31, 2018.

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Basis of consolidation

Principles of preparation of the consolidated financial statements are consistent with the consolidated financial statements for the year ended December 31, 2018. For related information, please refer to note (4)(c) of the consolidated financial statements for the year ended December 31, 2018.

To list of subsidiaries in the consolidated financial statements as follows:

Name of investor	Name of Subsidiary	Nature of Operation	Percentage of ownership			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	Panpal Technology Corp. ("Panpal")	Investment	100%	100%	100%	Panpal held 31,648 thousand shares of the Company as of September 30, 2019, which represented 0.7% of the Company's outstanding shares. (notes 1&2)
"	Gempal Technology Corp. ("Gempal")	"	100%	100%	100%	Gempal held 18,369 thousand shares of the Company as of September 30, 2019, which represented 0.4% of the Company's outstanding shares. (notes 1&2)
"	Hong Ji Capital Co., Ltd. ("Hong Ji")	"	100%	100%	100%	
"	Hong Jin Investment Co., Ltd. ("Hong Jin")	"	100%	100%	100%	
"	Zhaopal Investment Co., Ltd. ("Zhaopal")	"	-	100%	100%	The liquidation procedures had been completed in February 2019.
"	Yongpal Investment Co., Ltd. ("Yongpal")	"	-	100%	100%	The liquidation procedures had been completed in November 2018.
"	Kaipal Investment Co., Ltd. ("Kaipal")	"	-	100%	100%	The liquidation procedures had been completed in May 2019.
The Company, Panpal, et al.	Accesstek, Inc. ("ATK")	Design, manufacturing and sales of optical disk drives and components	38%	38%	38%	The Group had the ability to control ATK. ATK was dissolved on June 30, 2009.
"	Arcadyan Technology Corp. ("Arcadyan")	R&D, manufacturing and sales of wireless network, integrated household electronics, and mobile office products	35%	35%	36%	The Group had the ability to control Arcadyan.
The Company	Rayonnant Technology Co., Ltd. ("Rayonnant Technology")	Manufacturing and sales of PCs, computer periphery devices, and electronic components	100%	100%	100%	
"	HengHao Technology Co., Ltd. ("HengHao")	Manufacturing and sales of PCs, computer periphery devices, and electronic components	100%	100%	100%	
"	Ripal Optoelectronics Co., Ltd. ("Ripal")	Manufacturing of electric appliance and audiovisual electric products	100%	100%	100%	
"	Mactech Co., Ltd ("Mactech")	Manufacturing of equipment and lighting, retailing of equipment and international trading	53%	53%	53%	

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of investor	Name of Subsidiary	Nature of Operation	Percentage of ownership			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	General Life Biotechnology Co., Ltd. ("GLB")	Manufacturing and sales of medical equipment	50%	50%	50%	
"	Unicore BioMedical Co., Ltd. ("Unicore")	Management consulting services, rental and leasing business, wholesale and retail sale of medical equipment	100%	100%	100%	
"	Hippo Screen Neurotech Co., Ltd. ("Hippo Screen")	Management consulting services, rental and leasing business, wholesale and retail sale of precision instruments and international trading	70%	-	-	70% shares of Hippo Screen were acquired in February 2019.
"	Shennona Co., Ltd. ("Shennona TW")	Management consulting services, rental and leasing business, wholesale and retail sale of precision instruments and international trading	100%	-	-	Shennona TW was established in March 2019.
"	Aco Smartcare Co., Ltd. ("Aco Smartcare")	Wholesale and retail sale of computer software, software design services, data processing services, wholesale and retail sale of electronic materials, wholesale and retail sale of precision instruments, and biotechnology services	52%	-	-	52% shares of Aco Smartcare were acquired in July 2019.
"	Shennona Corporation ("Shennona")	Medical care IOT business	100%	100%	100%	
"	Auscom Engineering Inc. ("Auscom")	R&D of notebook PC related products and components	100%	100%	100%	
"	Just International Ltd. ("Just")	Investment	100%	100%	100%	
"	Compal International Holding Co., Ltd. ("CIH")	"	100%	100%	100%	
"	Compal Electronics (Holding) Ltd. ("CEH")	"	100%	100%	100%	
"	Bizcom Electronics, Inc. ("Bizcom")	Warranty services and marketing of monitors and notebook PCs	100%	100%	100%	(notes 1 & 2)
"	Flight Global Holding Inc. ("FGH")	Investment	100%	100%	100%	(notes 1 & 2)
"	High Shine Industrial Corp. ("HSI")	"	100%	100%	100%	
"	Compal Europe (Poland) Sp. z o.o. ("CEP")	Maintenance and warranty services of notebook PCs	100%	100%	100%	
"	Big Chance International Co., Ltd. ("BCI")	Investment	100%	100%	100%	
"	Compal Rayonnant Holdings Limited ("CRH")	"	100%	100%	100%	

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of investor	Name of Subsidiary	Nature of Operation	Percentage of ownership			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	Core Profit Holdings Limited (“CORE”)	Investment	100%	100%	100%	(note 2)
”	Compalead Electronics B.V. (“CPE”)	”	100%	100%	100%	
Panpal and Gempal	Compalead Eletronica do Brasil Industria e Comercio Ltda. (“CEB”)	Manufacturing of notebook PCs	100%	100%	100%	(notes 1 & 2)
”	Compal Electronics India Private Limited (“CEIN”)	Manufacturing and warranty service of mobile phones	100%	100%	100%	
Just	Compal Display Holding (HK) Limited (“CDH (HK)”)	Investment	100%	100%	100%	
”	Compal Electronics International Ltd. (“CII”)	”	100%	100%	100%	
”	Compal International Ltd. (“CPI”)	”	100%	100%	100%	(notes 1 & 2)
CDH (HK)	Compal Electronics (China) Co., Ltd. (“CPC”)	Manufacturing and sales of monitors	100%	100%	100%	
”	Compal Optoelectronics (Kunshan) Co., Ltd. (“CPO”)	Manufacturing and sales of LCD TVs	100%	100%	100%	
”	Compal System Trading (Kunshan) Co., Ltd. (“CST”)	International trade and distribution of computers and electronic components	100%	100%	100%	
CPC	Compal Smart Device (Chongqing) Co., Ltd. (“CSD”)	Research, manufacture and sales of communication devices, mobile phones, electronic computer, smart watch, and provide related technical service	100%	100%	100%	
CII	Smart International Trading Ltd. (“Smart”)	Investment	100%	100%	100%	
”	Amexcom Electronics Inc. (“AEI”)	Sales and maintenance of LCD TVs	100%	100%	100%	
”	Mexcom Electronics, LLC (“MEL”)	Investment	100%	100%	100%	
”	Mexcom Technologies, LLC (“MTL”)	”	100%	100%	100%	
MEL and MTL	CENA Electromex S.A. de C.V. (“CMX”)	Manufacturing, sales, and maintenance of LCD TVs	-	100%	100%	CMX was disposed in August 2019.
CIH	Compal International Holding (HK) Limited (“CIH (HK)”)	Investment	100%	100%	100%	
”	Jenpal International Ltd. (“Jenpal”)	”	100%	100%	100%	
”	Prospect Fortune Group Ltd. (“PFG”)	”	100%	100%	100%	(notes 1 & 2)
”	Fortune Way Technology Corp. (“FWT”)	”	100%	100%	100%	

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of investor	Name of Subsidiary	Nature of Operation	Percentage of ownership			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
CIH (HK)	Compal Electronics Technology (Kunshan) Co., Ltd. ("CET")	Manufacturing of notebook PCs	100%	100%	100%	
"	Compal Information (Kunshan) Co., Ltd. ("CIC")	"	100%	100%	100%	
"	Compal Information Technology (Kunshan) Co., Ltd. ("CIT")	"	100%	100%	100%	
"	Kunshan Botai Electronics Co., Ltd. ("BT")	"	100%	100%	100%	
"	Compal Information Research and Development (Nanjing) Co., Ltd. ("CIN")	Software and hardware R&D of computers, mobile phones and electronic components	100%	100%	100%	
"	Compal Digital Technology (Kunshan) Co., Ltd. ("CDT")	Manufacturing and sales of notebook PCs, mobile phones, and digital products	100%	100%	100%	
BT	Compower Global Service Co., Ltd. ("CGS")	Maintenance and warranty service of notebook PCs	100%	100%	100%	
CDH (HK) and CIH (HK)	Compal Investment (Jiansu) Co., Ltd. ("CIJ")	Investment	100%	100%	100%	
CIJ	Compal Display Electronics (Kunshan) Co., Ltd. ("CDE")	Manufacturing and sales of LCD TVs	100%	100%	100%	
The Company and Webtek	Etrade Management Co., Ltd. ("Etrade")	Investment	100%	100%	100%	
The Company	Webtek Technology Co., Ltd. ("Webtek")	"	100%	100%	100%	
"	Forever Young Technology Inc. ("Forever")	"	100%	100%	100%	
"	UniCom Global, Inc. ("UCGI")	Manufacturing and sales of computers and electronic components	100%	100%	100%	
"	Palcom International Corporation ("Palcom")	Sales of mobile phones	100%	100%	100%	
Etrade	Compal Communication (Nanjing) Co., Ltd. ("CCI Nanjing")	Manufacturing and processing of mobile phones and tablet PCs	100%	100%	100%	
"	Compal Digital Communication (Nanjing) Co., Ltd. ("CDCN")	"	100%	100%	100%	
"	Compal Wireless Communication (Nanjing) Co., Ltd. ("CWCN")	"	100%	100%	100%	
Forever	Hanhelt Communication (Nanjing) Co., Ltd. ("Hanhelt")	R&D and manufacturing of electronic communication equipment	100%	100%	100%	
"	Giant Rank Trading Ltd. ("GIA")	Sales of mobile phones	100%	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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Name of investor	Name of Subsidiary	Nature of Operation	Percentage of ownership			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
ATK	OptoRite Inc.	Sales of optical disc drives	100%	100%	100%	
"	MSI-ATK Optics Holding Corporation ("MSI-ATK")	Investment	100%	100%	100%	
"	Maitek (BVI) Corporation ("Maitek")	"	100%	100%	100%	
Arcadyan	Arcadyan Technology N.A. Corp. ("Arcadyan USA")	Sales of wireless network products	100%	100%	100%	(notes 1 & 2)
"	Arcadyan Germany Technology GmbH ("Arcadyan Germany")	Technical support of wireless network products	100%	100%	100%	(notes 1 & 2)
"	Arcadyan Technology Corporation Korea ("Arcadyan Korea")	Sales of wireless network products	100%	100%	100%	(notes 1 & 2)
"	Arcadyan Holding (BVI) Corp. ("Arcadyan Holding")	Investment	100%	100%	100%	
"	Arcadyan Technology Limited ("Arcadyan UK")	Technical support of wireless network products	100%	100%	100%	(notes 1 & 2)
"	Arcadyan Technology Australia Pty Ltd. ("Arcadyan AU")	Sales of wireless network products	100%	100%	100%	(notes 1 & 2)
Arcadyan and Zhi-pal	Arcadyan do Brasil Ltda. ("Arcadyan Brasil")	Sales of wireless network products	100%	100%	100%	(notes 1 & 2)
Arcadyan	Zhi-pal Technology Inc. ("Zhi-pal")	Investment	100%	100%	100%	(notes 1 & 2)
"	Tatung Technology Inc. ("TTI")	R&D and sales of household digital electronic products	61%	61%	61%	
"	AcBel Telecom Inc. ("AcBel Telecom")	Investment	51%	51%	51%	(notes 1 & 2)
The Company, Arcadyan, and its subsidiaries	Compal Broadband Network Inc. ("CBN")	R&D and sales of cable modem, digital set-up box, and other communication products	64%	64%	72%	
CBN	Speedlink Tradings Limited ("Speedlink")	Import and export business	100%	100%	100%	
"	Compal Broadband Networks Belgium BVBA ("CBNB")	Import and export business, technical support and consulting service of broadband networks	100%	100%	100%	
Arcadyan Holding	Sinoprime Global Inc. ("Sinoprime")	Investment	100%	100%	100%	(notes 1 & 2)
"	Arcadyan Technology (Shanghai) Corp. ("SVA Arcadyan")	R&D and sales of wireless network products	100%	100%	100%	
"	Arch Holding (BVI) Corp. ("Arch Holding")	Investment	100%	100%	100%	
Arch Holding	Compal Networking (Kunshan) Co., Ltd. ("CNC")	Manufacturing of wireless network products	100%	100%	100%	
Sinoprime	Arcadyan Technology (Vietnam) Co., Ltd. ("Arcadyan Vietnam")	Manufacturing of wireless network products	100%	-	-	Arcadyan Vietnam was established in March 2019. (note 1)
AcBel Telecom	Leading Images Ltd. ("Leading Images")	Investment	100%	100%	100%	(notes 1 & 2)
Leading Images	Astoria Networks GmbH ("Astoria GmbH")	Sales of wireless network products	100%	100%	100%	(notes 1 & 2)

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of investor	Name of Subsidiary	Nature of Operation	Percentage of ownership			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
TTI	Quest International Group Co., Ltd. ("Quest")	Investment	100%	100%	100%	
"	Tatung Technology of Japan Co., Ltd. ("TTJC")	Sales of household digital electronic products	100%	100%	100%	(notes 1 & 2)
Quest	Exquisite Electronic Co., Ltd. ("Exquisite")	Investment	100%	100%	100%	
Exquisite	Tatung Home Appliances (Wujiang) Co., Ltd. ("THAC")	Manufacturing of household digital electronic products	100%	100%	100%	
HSI	Intelligent Universal Enterprise Ltd. ("IUE")	Investment	100%	100%	100%	
"	Goal Reach Enterprises Ltd. ("Goal")	"	100%	100%	100%	
IUE	Compal (Vietnam) Co., Ltd. ("CVC")	R&D, manufacturing, sales, and maintenance of notebook PCs, computer monitors, LCD TVs and electronic components	100%	100%	100%	
Goal	Compal Development & Management ("Vietnam") Co., Ltd. ("CDM")	Construction of and investment in infrastructure in Ba-Thien industrial district of Vietnam	100%	100%	100%	
Rayonnant Technology and CRH APH	Allied Power Holding Corp. ("APH")	Investment	100%	100%	100%	
"	Primetek Enterprises Limited ("PEL")	"	100%	100%	100%	
"	Rayonnant Technology (HK) Co., Ltd. ("Rayonnant Technology (HK)")	"	100%	100%	100%	
Rayonnant Technology (HK)	Rayonnant Technology (Taicang) Co., Ltd. ("Rayonnant Technology (Taicang)")	Manufacturing and sales of aluminum alloy and magnesium alloy products	100%	100%	100%	
HengHao	HengHao Holdings A Co., Ltd. ("HHA")	Investment	100%	100%	100%	
HHA	HengHao Holdings B Co., Ltd. ("HHB")	"	100%	100%	100%	
HHB	HengHao Trading Co., Ltd.	Marketing and international trade	100%	100%	100%	
"	HengHao Optoelectronics Technology (Kunshan) Co., Ltd. ("HengHao Kunshan")	Production of touch panels and related components	100%	100%	100%	
"	Lucom Display Technology (Kunshan) Limited ("Lucom")	Manufacturing of touch panels and LCD TVs	100%	100%	100%	
BCI	Center Mind International Co., Ltd. ("CMP")	Investment	100%	100%	100%	
"	Prisco International Co., Ltd. ("PRF")	"	100%	100%	100%	
CMI	Compal Investment (Sichuan) Co., Ltd. ("CIS")	Outward investment and consulting services	100%	100%	100%	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of investor	Name of Subsidiary	Nature of Operation	Percentage of ownership			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
PRI	Compal Electronics (Chongqing) Co., Ltd. ("CEQ")	R&D, manufacturing and sales of notebook PCs, related components, related maintenance and warranty services	100%	100%	100%	
CIS	Compal Electronics (Chengdu) Co., Ltd. ("CEC")	R&D and manufacturing of notebook PCs, tablet PCs, digital products, network switches, wireless AP, and automobile electronic products	100%	100%	100%	
"	Compal Management (Chengdu) Co., Ltd. ("CMC")	Corporate management consulting, training and education, business information consulting, financial and tax consulting, investment consulting, and investment management services	100%	100%	100%	
CORE	Billion Sea Holdings Limited ("BSH")	Investment	100%	100%	100%	(note 2)
BSH	Mithera Capital Io LP ("Mithera")	Investment	99%	-	-	Mithera was established in June 2019.
GLB	Rapha Bio Ltd. ("RBL")	Detector and feature	100%	100%	100%	
Unicore	Raycore Biotech Co., Ltd. ("Raycore")	Animal medication retail and wholesale	51%	51%	51%	

Note 1: The financial statements of the subsidiary as of September 30, 2019 have not been reviewed by CPA.

Note 2: The financial statements of the subsidiary as of September 30, 2018 have not been reviewed by CPA.

(c) Leases (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group 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 Group 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 Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- 3) the Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
- the Group has the right to operate the asset and the providers do not have the right to vary; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Group 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 comprises 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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- 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.

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

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, 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 zero.

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 Group 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 Group 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 Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery and office equipment that have a lease term of 12 months or less and leases of low-value assets. The Group 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 Group 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 Group 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 Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(d) Income taxes

Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting".

Income tax expense for the year is best estimated by multiplying pretax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

For a change in tax rate that is substantively enacted in an interim period, the effect of the change should immediately be recognized in the interim period in which the change occurs.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the effective tax rate at the time of realization or liquidation and recognized directly in equity or other comprehensive income as tax expense.

(e) Employee benefits

Under defined benefit plans, pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

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

The preparation of the consolidated financial statements in conformity with Regulations as well as IFRSs (in accordance with IAS 34 endorsed by the FSC) 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.

In the preparation of the consolidated interim financial statements, the major sources of significant accounting assumptions, judgments and estimation uncertainty are consistent with note (5) of the annual consolidated financial statements for the year ended December 31, 2018.

(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference compared with the consolidated financial statements for the year ended December 31, 2018. Please refer to the note (6) of the consolidated financial statements for the year ended December 31, 2018 and for other related information.

(a) Cash and cash equivalents

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 18,813	10,834	9,239
Checking accounts and demand deposits	10,201,270	12,389,146	18,159,236
Time deposits	45,024,400	57,033,555	53,790,354
Bonds purchased under resale agreements	200,000	863,010	106,004
	<u>\$ 55,444,483</u>	<u>70,296,545</u>	<u>72,064,833</u>

Please refer to note (6)(ad) for the disclosure of the exchange rate risk, the interest rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Financial assets and liabilities at fair value through profit or loss

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Structured deposits	\$ 3,656,014	3,965,062	3,000,958
Stock listed in domestic markets	-	633,859	872,516
Unlisted fund in domestic or foreign markets	121,036	69,390	45,165
Derivative instruments not used for hedging			
Foreign exchange contracts	182,502	10,168	17,942
Swap contracts	<u>-</u>	<u>2,045</u>	<u>1,886</u>
Total	<u>\$ 3,959,552</u>	<u>4,680,524</u>	<u>3,938,467</u>
Current	\$ 3,838,516	4,611,134	3,893,302
Non-current	<u>121,036</u>	<u>69,390</u>	<u>45,165</u>
	<u>\$ 3,959,552</u>	<u>4,680,524</u>	<u>3,938,467</u>
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Financial liabilities held-for-trading:			
Derivative instruments not used for hedging			
Foreign exchange contracts	\$ <u>950</u>	<u>26,913</u>	<u>11,546</u>
Total	<u>\$ 950</u>	<u>26,913</u>	<u>11,546</u>

The Group uses derivative instruments to hedge foreign currency risk the Group is exposed to arising from its operating activities. The following derivative instruments not applied hedge accounting were classified as mandatorily measured at fair value through profit or loss and held-for-trading financial liabilities :

	<u>September 30, 2019</u>		
	<u>Contract amount (in thousand)</u>	<u>Currency</u>	<u>Maturity date</u>
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 31,000	EUR to USD	October 9, 2019~January 31, 2020
Forward exchange sold	EUR 3,000	EUR to TWD	October 30, 2019
Forward exchange purchased	USD 5,080	USD to MXN	November 14~27, 2019
Forward exchange purchased	USD 87,500	USD to BRL	October 3, 2019~ May 27, 2020

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

September 30, 2019			
	Contract amount (in thousand)	Currency	Maturity date
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange purchased	USD 3,505	USD to MXN	October 30, 2019
December 31, 2018			
	Contract amount (in thousand)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 30,200	EUR to USD	January 14~March 28, 2019
Swap contracts:			
Currency swap	USD 27,300	USD to TWD	February 14, 2019
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 21,000	EUR to USD	January 10~March 28, 2019
Forward exchange sold	EUR 1,000	EUR to TWD	March 25, 2019
Forward exchange purchased	USD 136,900	USD to BRL	January 3~April 16, 2019
September 30, 2018			
	Contract amount (in thousand)	Currency	Maturity date
Derivative financial assets:			
Foreign exchange contracts:			
Forward exchange sold	EUR 52,000	EUR to USD	October 11, 2018~January 14, 2019
Swap contracts:			
Currency swap	USD 11,300	USD to TWD	October 5~25, 2018

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

	September 30, 2018		
	Contract amount (in thousand)	Currency	Maturity date
Derivative financial liabilities:			
Foreign exchange contracts:			
Forward exchange sold	EUR 13,000	EUR to USD	November 5~ December 27, 2018
Forward exchange purchased	USD 13,312	USD to MXN	October 5~30, 2018
Forward exchange purchased	USD145,800	USD to BRL	October 3, 2018~ March 8, 2019

The market risk related to the financial instruments please refer to note (6)(ad).

As of September 30, 2019 and December 31 and September 30, 2018, the Group did not provide any aforementioned financial assets as collaterals for its loans.

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

	September 30, 2019	December 31, 2018	September 30, 2018
Equity investments at fair value through other comprehensive income:			
Stock listed in domestic markets	\$ 1,882,874	2,730,648	2,940,697
Stock listed in foreign markets	412,165	400,184	452,902
Stock unlisted in domestic markets	2,158,100	1,990,100	2,161,304
Stock unlisted in foreign markets	<u>184,206</u>	<u>51,363</u>	<u>31,020</u>
Total	<u>\$ 4,637,345</u>	<u>5,172,295</u>	<u>5,585,923</u>

The purpose that the Group invests in the above-mentioned equity securities is for long-term strategies, but rather for trading purpose. Therefore, these equity securities are designated as at FVOCI.

For the nine months ended September 30, 2019, the Group had sold all of its shareholdings in PrimeSensor Technology Inc. and Macrobloc Inc., and part of shares of Innolux Corporation (“Innolux”), which were measured at fair value through other comprehensive income. The fair value of the shares was \$656,246 when disposed and the cumulative losses amounted to \$3,620,348, which had been transferred to retained earnings from other comprehensive income.

During the third quarters of 2018, the Group has sold parts of shares of Innolux which were measured at fair value through other comprehensive income. The fair value of the shares was \$425,964 when disposed, and the cumulative losses amounted to \$1,500,669, which has been transferred to retained earnings from other equity.

If there is an increase (decrease) in the market price by 5% on the reporting date of the equity securities hold by the Group, the increase (decrease) in other comprehensive income (pre-tax) for the nine months ended September 30, 2019 and 2018, will be \$231,867 and \$279,296, respectively. These analyses are performed on the same basis for the period and assume that all other variables remain the same.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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The Group's information of market risk please refer to note (6)(ad).

As of September 30, 2019 and December 31 and September 30, 2018, the Group did not provide any financial assets at fair value through other comprehensive income as collaterals for its loans.

(d) Financial instruments used for hedging

(i) Financial instruments used for hedging were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Cash flow hedge:			
Financial liabilities used for hedging:			
Forward exchange contracts	\$ -	-	1,808

(ii) Cash flow hedge

The Group's strategy is to use forward exchange contracts to hedge its foreign currency exposure in respect of forecasted future sales.

As of September 30, 2019 and December 31, 2018, the Group did not enter into any hedge contract. As of September 30, 2018, the amount related to the items designated as hedge instruments were as follows:

	September 30, 2018			
Contract amount (in thousands)	Currency	Maturity period	Average strike price	
Derivative financial assets used for hedging				
Forward exchange purchased (forecasted sales revenue)	USD 1,689	USD to MXN	October 30, 2018	19.56

(iii) For the nine months ended September 30, 2019 and 2018, the profits (losses) of changes in fair value of derivative financial instruments used for hedging reclassified from other equity to profit or loss is recognized as revenue in the statement of comprehensive income. Please refer to note (6)(ac).

(iv) For the nine months ended September 30, 2019 and 2018, the ineffective portion of cash flow hedge recognized in losses amounted of \$5,934 and \$559, recorded as "other gains and losses, net".

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(e) Current financial assets measured at amortized costs

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Common bonds – Taiwan Star Telecom Corporation Limited (“Taiwan Star”)	\$ <u>-</u>	<u>350,000</u>	<u>350,000</u>

The Group has assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on the principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost.

As of December 31 and September 30, 2018, the Group did not provide the aforementioned financial assets as collaterals for its loans.

(f) Notes and accounts receivable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes receivables from operating activities	\$ 81,861	102,775	52,576
Accounts receivables – measured at amortized cost	169,506,216	184,671,402	176,312,528
Accounts receivables – fair value through other comprehensive income	<u>39,127,120</u>	<u>23,020,497</u>	<u>37,183,987</u>
	208,715,197	207,794,674	213,549,091
Less: allowance for uncollectible accounts	<u>(3,958,842)</u>	<u>(4,020,603)</u>	<u>(4,049,580)</u>
	<u>\$ 204,756,355</u>	<u>203,774,071</u>	<u>209,499,511</u>
Notes and accounts receivable	<u>\$ 204,651,901</u>	<u>203,715,965</u>	<u>209,474,786</u>
Notes and accounts receivable – related parties	<u>\$ 104,454</u>	<u>58,106</u>	<u>24,725</u>

The Group has assessed a portion of its trade receivables that was held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; therefore, such trade receivables were measured at fair value through other comprehensive income.

The Group 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 the days past due, as well as incorporated forward looking information.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- (i) The loss allowance provision of IT product segment of the Group was determined as follows:

September 30, 2019				
Credit rating	Carrying amount of accounts receivable	Weighted- average ECL rate	Lifetime ECLs	Credit- impaired
Level A	\$ 183,994,396	0%	-	No
Level B	14,132,871	0.580%	81,980	No
Level C	<u>3,830,424</u>	100%	<u>3,830,424</u>	Yes
	<u>\$ 201,957,691</u>		<u>3,912,404</u>	

December 31, 2018				
Credit rating	Carrying amount of accounts receivable	Weighted- average ECL rate	Lifetime ECLs	Credit- impaired
Level A	\$ 186,203,302	0%	-	No
Level B	11,907,279	1.208%	143,862	No
Level C	<u>3,830,424</u>	100%	<u>3,830,424</u>	Yes
	<u>\$ 201,941,005</u>		<u>3,974,286</u>	

September 30, 2018				
Credit rating	Carrying amount of accounts receivable	Weighted- average ECL rate	Lifetime ECLs	Credit- impaired
Level A	\$ 191,979,599	0%	-	No
Level B	11,240,585	1.283%	144,179	No
Level C	<u>3,865,313</u>	100%	<u>3,865,313</u>	Yes
	<u>\$ 207,085,497</u>		<u>4,009,492</u>	

- (ii) The loss allowance provision of strategically integrated product segment of the Group was determined as follows:

September 30, 2019				
Credit rating	Carrying amount of accounts receivable	Weighted- average ECL rate	Lifetime ECLs	Credit- impaired
Level A	\$ 2,751,278	0%	-	No
Level B	3,324,903	0.10%	3,458	No
Level C	650,935	1.93%	12,590	No
Level D~E	-	-	-	-
Level F	<u>30,390</u>	100%	<u>30,390</u>	Yes
	<u>\$ 6,757,506</u>		<u>46,438</u>	

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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December 31, 2018				
Credit rating	Carrying amount of accounts receivable	Weighted-average ECL rate	Lifetime ECLs	Credit-impaired
Level A	\$ 1,550,848	0.01%	82	No
Level B	3,024,709	0.11%	3,194	No
Level C	1,247,546	1.00%	12,475	No
Level D~E	-	-	-	-
Level F	30,566	100%	30,566	Yes
	\$ 5,853,669		46,317	
September 30, 2018				
Credit rating	Carrying amount of accounts receivable	Weighted-average ECL rate	Lifetime ECLs	Credit-impaired
Level A	\$ 1,878,135	0%	-	No
Level B	4,147,110	0.13%	5,518	No
Level C	407,857	1%	4,078	No
Level D~E	-	-	-	-
Level F	30,492	100%	30,492	Yes
	\$ 6,463,594		40,088	

The aging analysis of notes and accounts receivable were determined as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Overdue 1 to 180 days	\$ 2,511,471	2,919,586	1,578,924
Overdue 181 to 365 days	-	15,809	12,824
Overdue 365 days and over	-	25,555	-
	\$ 2,511,471	2,960,950	1,591,748

The movement in the allowance for notes and accounts receivable was as follows:

	For the nine months ended September 30,	
	2019	2018
Balance at January 1, 2019 and 2018	\$ 4,020,603	4,021,894
Impairment losses recognized	21,046	28,599
Amounts written off	(85,918)	-
Effect of changes in exchange rates	3,111	(913)
Balance at September 30, 2019 and 2018	\$ 3,958,842	4,049,580

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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Allowance for uncollectible account is the balance of accounts receivables which are uncollectable. Except for evaluating the situation of the customers' payment records and widely analyzing the credit rating of customers, the Group also takes all the necessary procedures for collection. The Group believes that there is no doubt for the recovery of the due but unimpaired accounts receivable, therefore, no allowance recognized.

The Group entered into accounts receivable factoring agreements with banks. As of September 30, 2019 and December 31 and September 30, 2018, except for the amount used under the actual sales amount in accordance with certain agreements, the factoring amount granted by the banks was USD 950,000 thousand and EUR 59,700 thousand, USD 950,000 thousand and EUR 20,000 thousand, USD 950,000 thousand and EUR 20,000 thousand, respectively. Based on the agreements, the Group is not responsible for guaranteeing the ability of the account receivable obligor to make payment when it is affected by credit risk. Thus, this is a non-recourse accounts receivable factoring. The Group derecognized the above account receivables because it has transferred substantially all of the risks and rewards of their ownership and it does not have any continuing involvement in them. After the transfer of the accounts receivable, the Group can request partial advanced amount, while the interest calculated at an agreed rate is paid to the bank in the period during the time of receiving advance and the accounts receivable is collected. The remaining amounts with no advance are received when the accounts receivable are settled by the customers. As of December 31 and September 30, 2018, account receivable factored were recovered and derecognized since the conditions of derecognition were met. As of September 30, 2019, the factored account receivable with no advance amounting to \$138,081, is accounted for as other receivables.

The Company, customers, and banks signed the three-party contracts in which the banks purchase accounts receivable from the Company. The total amount of the accounts receivable should not exceed the facility limit provided by the banks to the Company's customers. Based on the contracts, the banks have no right to request the Company to repurchase the accounts receivable. Thus, this is a non-recourse accounts receivable transfer. As of September 30, 2019 and December 31 and September 30, 2018, accounts receivable factored were recovered and derecognized since the conditions of derecognition were met.

As of September 30, 2019 and December 31 and September 30, 2018, the details of the factored accounts receivable but unsettled were as follows:

September 30, 2019							
Purchaser	Accounts derecognized	Amount advanced		Amount recognized in other receivables	Collateral	Amount derecognized	Interest rate
		Unpaid	Paid				
Financial Institution	<u>\$ 21,060,485</u>	<u>-</u>	<u>20,922,404</u>	<u>138,081</u>	-	<u>21,060,485</u>	0.64%~2.62%
December 31, 2018							
Purchaser	Accounts derecognized	Amount advanced		Amount recognized in other receivables	Collateral	Amount derecognized	Interest rate
		Unpaid	Paid				
Financial Institution	<u>\$ 32,098,074</u>	<u>-</u>	<u>32,098,074</u>	<u>-</u>	-	<u>32,098,074</u>	3.02%~3.52%

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

September 30, 2018							
Purchaser	Accounts derecognized	Amount advanced		Amount recognized in other receivables	Collateral	Amount derecognized	Interest rate
		Unpaid	Paid				
Financial Institution	\$ <u>17,296,152</u>	<u>-</u>	<u>17,296,152</u>	<u>-</u>	-	<u>17,296,152</u>	0.80%~2.84%

As of September 30, 2019 and December 31 and September 30, 2018, the Group did not provide any aforementioned notes and accounts receivable as collaterals.

(g) Inventories

	September 30, 2019	December 31, 2018	September 30, 2018
Finished goods	\$ 38,463,728	33,463,627	41,147,088
Work in progress	12,059,085	6,830,625	8,626,680
Raw materials	58,884,062	38,526,674	51,142,233
Raw materials in transit	<u>1,652,883</u>	<u>327,996</u>	<u>2,023,505</u>
	<u>\$ 111,059,758</u>	<u>79,148,922</u>	<u>102,939,506</u>

(i) During the three months and nine months ended September 30, 2019 and 2018, inventory cost recognized as cost of sales amounted to \$241,860,510 and \$246,019,083 and \$688,527,276 and \$665,592,534, respectively.

(ii) The write-down of inventories to net realizable value amounted to \$39,257 and \$240,244 and \$434,877 and \$306,860, in the three months and nine months ended September 30, 2019 and 2018, respectively.

(iii) As of September 30, 2019 and December 31 and September 30, 2018, the Group did not provide any inventories as collaterals for its loans.

(h) Investments accounted for using equity method

A summary of the Group's financial information for equity-accounted investees at the reporting date is as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Associates	\$ 7,303,000	7,469,153	7,221,721
Joint venture	<u>(13,223)</u>	<u>16,180</u>	<u>19,326</u>
	7,289,777	7,485,333	7,241,047
Plus: credit balance of investment in equity method (other non-current liability)	40,645	-	-
Less: unrealized profits or losses	<u>(122,014)</u>	<u>(120,848)</u>	<u>(120,122)</u>
	<u>\$ 7,208,408</u>	<u>7,364,485</u>	<u>7,120,925</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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(i) Associates

- 1) The fair value of the shares of listed company based on the closing price was as follow:

	September 30, 2019	December 31, 2018	September 30, 2018
Allied Circuit Co., Ltd. (“Allied Circuit”)	\$ 1,274,893	1,061,543	1,240,202
Avalue Technology Inc. (“Avalue”)	<u>1,203,966</u>	<u>586,743</u>	<u>621,795</u>
	<u>\$ 2,478,859</u>	<u>1,648,286</u>	<u>1,861,997</u>

- 2) The Group’s share of the net gain (loss) of associates was as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
The Group’s share of the gain (loss) of associates	<u>\$ 13,391</u>	<u>255,598</u>	<u>21,405</u>	<u>561,417</u>

- 3) The Group’s financial information for investments accounted for using the equity method that are individually immaterial was as follows:

	September 30, 2019	December 31, 2018	September 30, 2018	
Carrying amount of individually immaterial associates	<u>\$ 7,303,000</u>	<u>7,469,153</u>	<u>7,221,721</u>	
	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
The Group’s share of the net income (loss) of associates:				
Profit (loss) from continuing operations	\$ 13,391	255,598	21,405	561,417
Other comprehensive income	<u>(163,700)</u>	<u>(275,191)</u>	<u>(69,001)</u>	<u>(282,906)</u>
Total comprehensive income	<u>\$ (150,309)</u>	<u>(19,593)</u>	<u>(47,596)</u>	<u>278,511</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- 4) In August 2018, the Group has sold all of its shares held in LC Future Center Limited Ltd. ("LCFC"), with consideration (net of costs of disposal) amounting to USD 246,792 thousands. The transaction has been completed and the price has been fully recovered. The Group recognized a gain of \$2,511,085 (USD 83,925 thousands), which was accounted for as other gain and loss.

(ii) Joint venture

In April 2010, the Group and another company established a jointly controlled entity, Compal Connector Manufacture Ltd. ("CCM"), and obtained an ownership interest of 51%. CCM's actual paid-in capital amounted to USD10,000 thousands. Moreover, in May 2014, the Group and another company established a jointly controlled entity, Zheng Ying Electronics (Chongqing) Co., Ltd., ("Zheng Ying"), and obtained an ownership interest of 51%. Zheng Ying's actual paid-in capital amounted to USD2,500 thousands.

The Group's financial information for investment accounted for using the equity method that are individually insignificant was as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
The carrying amount of the Group's interests in			
all individually insignificant joint ventures	\$ <u>(13,223)</u>	<u>16,180</u>	<u>19,326</u>
	<u>Three months ended September 30, 2019</u>	<u>Three months ended September 30, 2018</u>	<u>Nine months ended September 30, 2019</u>
The Group's share of the net income (loss) of joint ventures:			
Losses from continuing operations (also the total comprehensive losses)	\$ <u>(15,087)</u>	<u>(1,711)</u>	<u>(31,105)</u>
	<u>September 30, 2018</u>	<u>September 30, 2019</u>	<u>September 30, 2018</u>
			<u>(13,294)</u>

- (iii) As of September 30, 2019 and December 31 and September 30, 2018, the Group did not provide any investments accounted for using equity method as collaterals for its loans.

(i) Changes in subsidiaries' equity

There were no significant transactions for the nine months ended September 30, 2019 and 2018. Please refer to note (6)(l) of the consolidated financial statement for the year ended December 2018.

(j) Loss control of subsidiaries

The Group had sold all of its shares in CMX, at the amount of \$218,133, to a third party in August 2019, resulting in its losing control over CMX. The entire amount had been fully received. The gain on disposal amounting to \$58,107 was recorded as other gains and losses.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The carrying amounts of assets and liabilities of CMS. were as follows:

Cash and cash equivalents	\$	74,638
Other current assets		2,918
Property, plant and equipment		117,625
Notes and accounts payable		(644)
Other payables		(33,716)
Other current liabilities		(966)
Carrying amount of net assets	<u>\$</u>	<u><u>159,855</u></u>

(k) Material non-controlling interests of subsidiaries

There were no significant transactions for the nine months ended September 30, 2019 and 2018. Please refer to note (6)(m) of the consolidated financial statement for the year ended December 2018.

(l) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the nine months ended September 30, 2019 and 2018, were as follows:

	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Under construction and prepayment for purchase of equipment</u>	<u>Total</u>
Cost:						
Balance on January 1, 2019	\$ 1,772,214	17,020,270	26,201,597	10,642,904	1,003,490	56,640,475
Additions	-	317,515	1,221,378	1,413,190	578,029	3,530,112
Disposals and derecognitions	(93,905)	(459,055)	(487,323)	(845,369)	-	(1,885,652)
Reclassifications	-	203,959	76,064	66,953	(346,976)	-
Effect of movements in exchange rates	1,024	216,967	16,951	38,956	(120,421)	153,477
Balance on September 30, 2019	<u>\$ 1,679,333</u>	<u>17,299,656</u>	<u>27,028,667</u>	<u>11,316,634</u>	<u>1,114,122</u>	<u>58,438,412</u>
Balance on January 1, 2018	\$ 1,769,326	15,100,906	23,268,462	9,759,017	1,136,868	51,034,579
Additions	-	1,701,408	2,379,515	1,035,240	309,583	5,425,746
Disposals and derecognitions	-	(5,128)	(69,124)	(926,666)	-	(1,000,918)
Reclassifications	-	-	95,783	87,393	(183,176)	-
Effect of movements in exchange rates	2,313	107,167	(491,007)	(274,086)	198,139	(457,474)
Balance on September 30, 2018	<u>\$ 1,771,639</u>	<u>16,904,353</u>	<u>25,183,629</u>	<u>9,680,898</u>	<u>1,461,414</u>	<u>55,001,933</u>
Depreciation and impairments loss:						
Balance on January 1, 2019	\$ -	10,105,653	18,441,703	7,674,891	-	36,222,247
Depreciation for the period	-	565,105	1,873,264	1,377,545	-	3,815,914
Disposals and derecognitions	-	(411,928)	(460,931)	(835,207)	-	(1,708,066)
Effect of movements in exchange rates	-	159,183	(61,872)	130,816	-	228,127
Balance on September 30, 2019	<u>\$ -</u>	<u>10,418,013</u>	<u>19,792,164</u>	<u>8,348,045</u>	<u>-</u>	<u>38,558,222</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Under construction and prepayment for purchase of equipment</u>	<u>Total</u>
Balance on January 1, 2018	\$ -	9,239,452	17,548,800	6,066,960	-	32,855,212
Depreciation for the period	-	561,307	1,663,236	1,180,991	-	3,405,534
Disposals and derecognitions	-	(4,140)	(68,405)	(923,442)	-	(995,987)
Effect of movements in exchange rates	-	153,770	(1,123,424)	120,862	-	(848,792)
Balance on September 30, 2018	<u>\$ -</u>	<u>9,950,389</u>	<u>18,020,207</u>	<u>6,445,371</u>	<u>-</u>	<u>34,415,967</u>
Carrying amounts:						
Balance on January 1, 2019	<u>\$ 1,772,214</u>	<u>6,914,617</u>	<u>7,759,894</u>	<u>2,968,013</u>	<u>1,003,490</u>	<u>20,418,228</u>
Balance on September 30, 2019	<u>\$ 1,679,333</u>	<u>6,881,643</u>	<u>7,236,503</u>	<u>2,968,589</u>	<u>1,114,122</u>	<u>19,880,190</u>
Balance on January 1, 2018	<u>\$ 1,769,326</u>	<u>5,861,454</u>	<u>5,719,662</u>	<u>3,692,057</u>	<u>1,136,868</u>	<u>18,179,367</u>
Balance on September 30, 2018	<u>\$ 1,771,639</u>	<u>6,953,964</u>	<u>7,163,422</u>	<u>3,235,527</u>	<u>1,461,414</u>	<u>20,585,966</u>

As of September 30, 2019 and December 31 and September 30, 2018, part of the Group's property, plant and equipment were provided as collateral for long-term borrowings. Please refer to note (8).

(m) Right-of-use assets

The Group leases many assets including land and buildings, machinery and vehicles. Information about leases for which the Group as a lessee is presented below:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Vehicles and Other</u>	<u>Total</u>
Cost:					
Balance on January 1, 2019	\$ -	-	-	-	-
Adjustment on initial application of IFRS 16	<u>891,147</u>	<u>1,934,899</u>	<u>87,482</u>	<u>67,569</u>	<u>2,981,097</u>
Balance on January 1, 2019 per IFRS 16	891,147	1,934,899	87,482	67,569	2,981,097
Additions	113,862	266,393	-	22,537	402,792
Deductions	-	(126,259)	(9,243)	(910)	(136,412)
Effect of movements in exchange rates	<u>(2,603)</u>	<u>(29,997)</u>	<u>(745)</u>	<u>(506)</u>	<u>(33,851)</u>
Balance on September 30, 2019	<u>\$ 1,002,406</u>	<u>2,045,036</u>	<u>77,494</u>	<u>88,690</u>	<u>3,213,626</u>
Depreciation and impairment loss:					
Balance on January 1, 2019	\$ -	-	-	-	-
Adjustment on initial application of IFRS 16	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on January 1, 2019 per IFRS 16	-	-	-	-	-
Depreciation for the period	24,453	540,520	9,946	27,674	602,593
Deductions	-	(7,547)	-	-	(7,547)
Effect of movements in exchange rates	<u>(176)</u>	<u>(253)</u>	<u>(270)</u>	<u>(194)</u>	<u>(893)</u>
Balance on September 30, 2019	<u>\$ 24,277</u>	<u>532,720</u>	<u>9,676</u>	<u>27,480</u>	<u>594,153</u>
Carrying amount:					
Balance on January 1, 2019	<u>\$ 891,147</u>	<u>1,934,899</u>	<u>87,482</u>	<u>67,569</u>	<u>2,981,097</u>
Balance on September 30, 2019	<u>\$ 978,129</u>	<u>1,512,316</u>	<u>67,818</u>	<u>61,210</u>	<u>2,619,473</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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The Group leases land, offices, warehouses and factory facilities under an operating lease for the nine months ended September 30, 2018, please refer to note (6)(t).

(n) Short-term borrowings

The details of short-term borrowings were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Unsecured bank loans	<u>\$ 67,790,281</u>	<u>72,350,197</u>	<u>84,959,651</u>
Unused credit line for short-term borrowings	<u>\$ 102,334,000</u>	<u>83,720,000</u>	<u>65,720,000</u>
Range of interest rates	<u>0.66%~5.05%</u>	<u>0.45%~5.87%</u>	<u>0.64%~5.00%</u>

For information on the Group's interest risk, foreign currency risk and liquidity risk, please refer to note (6)(ad).

(o) Long-term borrowings

The details of long-term borrowings were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Unsecured bank loans	\$ 25,750,000	28,396,250	29,345,000
Secured bank loans	108,281	137,813	167,656
Less: current portion	<u>(16,889,375)</u>	<u>(17,535,625)</u>	<u>(18,054,375)</u>
Total	<u>\$ 8,968,906</u>	<u>10,998,438</u>	<u>11,458,281</u>
Unused credit line for long-term borrowings	<u>\$ 9,570,000</u>	<u>5,443,000</u>	<u>5,603,000</u>
Range of interest rates	<u>0.65%~1.67%</u>	<u>0.79%~1.67%</u>	<u>0.65%~1.71%</u>

For information on the Group's interest risk, foreign currency risk and liquidity risk, please refer to note (6)(ad).

The Group pledges property, plant and equipment as collateral for its partial long-term borrowings. Please refer to note (8).

(p) Unsecured convertible corporate bonds

(i) The Company's subsidiary, Arcadyan, issued the first domestic unsecured convertible corporate bonds on June 6, 2019. The details were as follows:

	September 30, 2019
Total convertible corporate bonds issued	\$ 1,000,000
Unamortized discounts on corporate bonds payable	<u>(34,570)</u>
	965,430
Unamortized issuance cost of corporate bonds payable	<u>(2,340)</u>
Balance of corporate bonds payable as of September 30, 2019	<u>\$ 963,090</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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	September 30, 2019	
Equity options included in equity component (classified as capital surplus and non-controlling interests)	<u>\$ 48,667</u>	
	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
Interest expenses	<u>\$ 3,389</u>	<u>4,517</u>

The effective interest rate of the first issued convertible corporate bonds was 1.3284%.

(ii) The main terms of issuing the above-mentioned convertible corporate bonds were as follows:

- 1) Coupon rate: 0%
- 2) Duration: three years (June 6, 2019~June 6, 2022)
- 3) Repayment:

Put option and call option are excluded from the issuance of convertible corporate bonds. Except that the bondholders convert the bonds to Arcadyan's common shares, or the bonds are repurchased and cancelled by Arcadyan from the securities firm's business office, the bonds will be repaid in cash at par value when the bonds expired.

- 4) Terms of conversion:
 - a) The bondholder may opt to have its bonds converted into the Arcadyan's common shares, with the approval of Taiwan Depository & Clearing Corporation through securities firms, at any time between three months after the issuance date (September 7, 2019) and the day before the maturity day (June 6, 2022), except for the following:
 - The closing period in accordance with the applicable law;
 - The period starting from the first day of the first fifteen working days prior to the date of record for determination wherein the shareholders are entitled to receive the distributions or rights to subscribe for new shares in a capital increase for cash, and ends on the date of record for the distribution of the rights/benefits;
 - The period starts from the date of record of the capital decrease and ends on the date prior to the trading of the reissuance shares after the capital decrease.
 - b) Conversion price is determined as NT\$98.3 per share upon issuance. The cash dividends which Arcadyan paid at August 10, 2019 exceeded 1.5% of current price per share; therefore, the conversion price had been adjusted to NT\$94.7 per share.

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(q) Lease liabilities

The details of lease liabilities were as follows:

	September 30, 2019
Current	<u>\$ 632,012</u>
Non-current	<u>\$ 990,136</u>

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

The amounts recognized in profit or loss were as follows:

	For the three months ended September 30, 2019	For the nine months ended September 30, 2019
Interest on lease liabilities	<u>\$ 11,093</u>	<u>33,793</u>
Variable lease payments not included in the measurement of lease liabilities	<u>\$ 1,413</u>	<u>1,478</u>
Expenses relating to leases of low-value assets or short-term leases	<u>\$ 51,854</u>	<u>86,320</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

	For the nine months ended September 30, 2019
Total cash outflow for leases	<u>\$ 706,061</u>

(i) Real estate leases

The Group leases land leasehold rights, leases buildings for its office and plant space. The leases of office space typically run for a period of 1 ~19 years, and of land leasehold rights for 50 years.

(ii) Other leases

The Group leases vehicles and equipment, with lease terms of 1~5 years.

The Group also leases equipment and vehicles with contract terms of 1~3 years. These leases are short-term or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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(r) Provisions

There were no significant changes of provisions for the nine months ended September 30, 2019 and 2018. Please refer to note (6)(q) of the consolidated financial statements for the year ended December 31, 2018 for related information.

(s) Refund liabilities

There were no significant changes of refund liabilities for the nine months ended September 30, 2019 and 2018. Please refer to note (6)(r) of the consolidated financial statements for the year ended December 31, 2018 for related information.

(t) Operating lease

There were no significant new lease contracts during the nine months ended September 30, 2019 and 2018. Please refer to note (6)(s) of the consolidated financial statements for the year ended December 31, 2018 for related information.

(u) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one-time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2018 and 2017.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Operating cost	\$ 282	318	847	993
Selling expenses	213	252	636	785
Administrative expenses	943	974	2,799	2,946
Research and development expenses	<u>2,574</u>	<u>2,796</u>	<u>7,751</u>	<u>8,388</u>
Total	<u>\$ 4,012</u>	<u>4,340</u>	<u>12,033</u>	<u>13,112</u>

(ii) Defined contribution plans

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

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Notes to Consolidated Financial Statements

The Company and all subsidiaries in domestic recognized the pension costs under the defined contribution method amounting to \$97,284 and \$98,052 for the three months ended September 30, 2019 and 2018, respectively, and \$301,133 and \$284,033 for the nine months ended September 30, 2019 and 2018, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expenses, basic endowment insurance expenses, and social welfare expenses amounting to \$359,230 and \$348,274 for the three months ended September 30, 2019 and 2018, respectively, and \$982,439 and \$1,000,758 for the nine months ended September 30, 2019 and 2018, respectively.

(v) Income taxes

- (i) The Group entities are subject to income tax rates according to the profit before tax of interim reporting period multiply by the best estimated measurement of the expected effective tax rate by the management in all the year. The amount of income tax was as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Current tax expense	<u>\$ 463,198</u>	<u>514,537</u>	<u>1,503,446</u>	<u>1,494,285</u>

- (ii) The amount of income tax recognized in other comprehensive income were as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of the defined benefit liability	\$ -	-	-	(29,949)
Unrealized gains (losses) on equity instruments at fair value through other comprehensive income	<u>3,722</u>	<u>10,337</u>	<u>23,222</u>	<u>(24,295)</u>
	<u>\$ 3,722</u>	<u>10,337</u>	<u>23,222</u>	<u>(54,244)</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Items that will be reclassified subsequently to profit or loss:				
Foreign currency translation differences of foreign operations	\$ <u>(2,158)</u>	<u>212</u>	<u>541</u>	<u>4,354</u>

(iii) Examination and approval

The R.O.C tax authorities have assessed the Company's income tax returns through 2017. The Company disagreed with the assessment and filed formal tax appeals for 2012. In accordance with the conservatism, the total amounts of the assessed additional income tax were recognized in the statements of income. Any differences will be reflected as an adjustment after the tax is resolved.

The ROC tax authorities have assessed the income tax returns of Panpal, Gempal, Hong Ji, Hong Jin, Zhaopal, Yongpal, Palcom, Kaipal, Acbel Telecom, Ripal, Zhipal, Rayonnant Technology, UCGI, Mactech, RBL, CBN, Unicore, Raycore, TTI and GLB through 2017, of HengHao through 2016, of Arcadyan through 2017 except for 2016, and of ATK through June 2009.

(w) Capital and other equities

Except for the following disclosure, there was no significant change for capital and other equity for the periods from January 1 to September 30, 2019 and 2018. Please refer to note (6)(v) of the consolidated financial statement for the year ended December 31, 2018.

(i) Capital surplus

The balances of capital surplus were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Additional paid-in capital	\$ 6,302,490	7,183,919	7,183,919
Treasury share transactions	2,481,885	2,421,864	2,421,864
Difference arising from subsidiary's share price and its carrying value	36,766	36,766	36,766
Recognition of changes in ownership interests in subsidiaries	33,788	15,642	48,476
Changes in equity of associates and joint ventures accounted for using equity method	<u>278,521</u>	<u>274,243</u>	<u>274,243</u>
	<u>\$ 9,133,450</u>	<u>9,932,434</u>	<u>9,965,268</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The Company's shareholders' meeting held on June 21, 2019 and June 22, 2018, approved to distribute the cash dividend of \$881,429 (representing 0.2 New Taiwan Dollars per share), by using the additional paid-in-capital.

(ii) Retained earnings

Based on the Company's articles of incorporation amended on June 21, 2019, if there is any profit after closing of books in a given year, the Company shall first defray tax due, cover accumulated losses and set aside ten percent of it as legal reserve and then set aside or reverse a special reserve in accordance with laws and regulations. The balance of earnings available for distribution is composed of the remainder of the said profit and the unappropriated retained earnings of previous years. The Board of Directors may set aside a certain amount to cope with the business operation conditions, and shall prepare the proposal for distribution of the balance amount thereof after a resolution has been adopted and then allocated by the Board of Directors. The Company authorizes the Board of Directors to distribute all or part of the dividends and bonuses, capital surplus or legal reserve in cash after a resolution has been adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the General shareholders' meeting.

Based on the Company's articles of incorporation before revised on June 21, 2019, if there is any profit after closing of books in a given year, the Company shall first defray tax due, cover accumulated losses and set aside ten percent of it as legal reserve and then set aside or reverse a special reserve in accordance with laws and regulations. The balance of earnings available for distribution is composed of the remainder of the said profit and the unappropriated retained earnings of previous years. The earnings appropriation proposal to distribute dividend and bonus shall be proposed by the Board of Directors and approved by the General Shareholders Meeting. The rest of the unappropriated retained earnings shall be reserved.

The lifecycle of the industry of the Company is in the growing stage. To consider the need of the Company for the future capital, capital budget, long-term financial planning, domestic and foreign competition, the need of shareholders for cash flow and other factors, if there is any profit after close of books, the dividend and bonus to be distributed to shareholder shall not be less than thirty percent of profit after tax for such year and the cash dividend allocated by the Company each year shall not be lower than ten percent of the total dividend (including cash and share dividend) for such year.

According to the law, when there is a deduction from stockholders' equity (excluding treasury stock and unearned employee benefit) during the year, an amount equal to the deduction item is set aside as a special reserve before the earnings are appropriated. A special reserve is made available for earning distribution only after the deduction of the related shareholders' equity has been reversed.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Distribution for the earnings of 2018 and 2017 was approved by the shareholders during their annual meetings held on June 21, 2019 and June 22, 2018, respectively. The relevant information was as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Amount per share</u>	<u>Total amount</u>	<u>Amount per share</u>	<u>Total amount</u>
Cash dividends distributed to common shareholders	\$ 1.0	<u>4,407,147</u>	1.0	<u>4,407,147</u>

(iii) Treasury stock

The subsidiaries of the Company did not sell the ordinary shares of the Company in the nine months ended September 30, 2019 and 2018. As of September 30, 2019, Panpal and Gempal, subsidiaries of the Company, held 50,017 thousand shares of ordinary shares of the Company, recorded as the Company's treasury stock, with a book value of 17.6 New Taiwan dollars per share. The total cost was \$881,247. The fair value of the ordinary shares of the Company was 17.90, 17.45 and 18.95 New Taiwan dollars per share as of September 30, 2019 and December 31 and September 30, 2018, respectively.

Pursuant to the Securities and Exchange Act, the number of treasury shares purchased cannot exceed 10% of the number of shares issued. The total purchase cost cannot exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. The shares purchased for the purpose of transferring to employees shall be transferred within three years from the date of share repurchase. Those not transferred within the said limit shall be deemed as not issued by the Company and it should be cancelled. Furthermore, treasury stock cannot be pledged for debts, and treasury stock does not carry any shareholder rights until it is transferred.

(iv) Other equity interests (net-of-taxes)

	<u>Exchange differences on transaction of foreign operation financial statements</u>	<u>Unrealized gain (loss) from financial assets at fair value through other comprehensive income</u>	<u>Unrealized gain (loss) on available-for-sale financial assets</u>	<u>Unearned compensation for restricted employee shares and others</u>	<u>Total</u>
Balance on January 1, 2019	\$ (1,852,952)	(5,606,436)	-	-	(7,459,388)
The Group	553,627	3,517,510	-	-	4,071,137
Associates	(156,234)	86,782	-	-	(69,452)
Balance on September 30, 2019	<u>\$ (1,455,559)</u>	<u>(2,002,144)</u>	<u>-</u>	<u>-</u>	<u>(3,457,703)</u>
Balance on January 1, 2018	\$ (3,477,376)	-	(5,353,772)	(79,856)	(8,911,004)
Effect of retrospective application	-	(5,847,823)	5,353,772	-	(494,051)
Adjusted balance on January 1, 2018	(3,477,376)	(5,847,823)	-	(79,856)	(9,405,055)
The Company	1,398,193	743,074	-	79,204	2,220,471
Associates	(222,328)	(59,479)	-	-	(281,807)
Balance on September 30, 2018	<u>\$ (2,301,511)</u>	<u>(5,164,228)</u>	<u>-</u>	<u>(652)</u>	<u>(7,466,391)</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(x) Share-based payment

Except for those described below, there were no significant changes in share-based payment during the nine months ended September 30, 2019 and 2018. Please refer to note (6)(w) of the consolidated financial statements for the year ended December 31, 2018 for related information.

For the nine months ended September 30, 2018, due to the failure in meeting the vested requirements of the employee restricted shares, the Company reversed compensation cost amounted to \$156,219 and capital surplus-employee restricted shares amounted to \$318,209. Besides, due to meet the vested requirements of the employee restricted shares, the Company recognized capital surplus-additional paid-in capital amounted to \$155,601.

(y) Earnings per share

The Group's basic and diluted earnings per share are calculated as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Basic earnings per share:				
Profit attributable to ordinary shareholders of the Company	\$ <u>1,800,061</u>	<u>3,733,179</u>	<u>4,941,697</u>	<u>7,218,776</u>
Weighted-average number of outstanding ordinary shares (in thousands)	<u>4,357,130</u>	<u>4,357,130</u>	<u>4,357,130</u>	<u>4,356,221</u>
Diluted earnings per share:				
Profit attributable to ordinary shareholders of the Company (after adjustment of potential diluted ordinary shares)	\$ <u>1,800,061</u>	<u>3,733,179</u>	<u>4,941,697</u>	<u>7,218,776</u>
Weighted-average number of outstanding ordinary shares of potential diluted ordinary shares				
Weighted-average number of outstanding ordinary shares (in thousands)	4,357,130	4,357,130	4,357,130	4,356,221
Effect of potential diluted common stock				
Employee compensation (in thousands)	28,990	38,959	43,740	50,734
Employee restricted shares (in thousands)	<u>-</u>	<u>-</u>	<u>-</u>	<u>909</u>
Weighted-average number of ordinary shares (after adjustment of potential diluted ordinary shares) (in thousands)	<u>4,386,120</u>	<u>4,396,089</u>	<u>4,400,870</u>	<u>4,407,864</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(z) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended September 30, 2019		
	IT Product Segment	Strategically Integrated Product Segment	Total
Primary geographical markets:			
United states	\$ 97,232,428	389,780	97,622,208
China	28,504,046	86,423	28,590,469
Netherlands	22,334,655	356,228	22,690,883
United Kingdom	10,670,648	1,102,025	11,772,673
India	11,258,883	30,583	11,289,466
Germany	8,014,511	2,334,589	10,349,100
Others	<u>64,200,886</u>	<u>3,407,712</u>	<u>67,608,598</u>
	<u>\$ 242,216,057</u>	<u>7,707,340</u>	<u>249,923,397</u>
Major products:			
5C related electronic products	\$ 241,723,723	7,638,680	249,362,403
Others	<u>492,334</u>	<u>68,660</u>	<u>560,994</u>
	<u>\$ 242,216,057</u>	<u>7,707,340</u>	<u>249,923,397</u>
	For the three months ended September 30, 2018		
	IT Product Segment	Strategically Integrated Product Segment	Total
Primary geographical markets:			
United states	\$ 93,823,754	424,053	94,247,807
China	32,534,979	121,892	32,656,871
Netherlands	26,909,721	483,474	27,393,195
United Kingdom	11,230,553	392,801	11,623,354
Germany	7,892,475	1,718,314	9,610,789
India	9,984,811	80,020	10,064,831
Others	<u>64,275,449</u>	<u>3,536,168</u>	<u>67,811,617</u>
	<u>\$ 246,651,742</u>	<u>6,756,722</u>	<u>253,408,464</u>
Major products:			
5C related electronic products	\$ 246,253,354	6,706,008	252,959,362
Others	<u>398,388</u>	<u>50,714</u>	<u>449,102</u>
	<u>\$ 246,651,742</u>	<u>6,756,722</u>	<u>253,408,464</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

For the nine months ended September 30, 2019			
	IT Product Segment	Strategically Integrated Product Segment	Total
Primary geographical markets:			
United states	\$ 266,959,430	958,806	267,918,236
China	75,518,027	297,675	75,815,702
Netherlands	71,879,503	884,289	72,763,792
India	34,808,411	512,217	35,320,628
United Kingdom	31,556,995	2,695,509	34,252,504
Germany	20,733,948	8,398,382	29,132,330
Others	186,294,731	11,421,098	197,715,829
	<u>\$ 687,751,045</u>	<u>25,167,976</u>	<u>712,919,021</u>
Major products:			
5C related electronic products	\$ 686,072,676	24,864,608	710,937,284
Others	1,678,369	303,368	1,981,737
	<u>\$ 687,751,045</u>	<u>25,167,976</u>	<u>712,919,021</u>
For the nine months ended September 30, 2018			
	IT Product Segment	Strategically Integrated Product Segment	Total
Primary geographical markets:			
United states	\$ 253,388,072	1,348,173	254,736,245
China	87,973,655	318,252	88,291,907
Netherlands	78,701,218	834,632	79,535,850
United Kingdom	29,519,080	1,196,964	30,716,044
Germany	21,263,828	5,220,070	26,483,898
India	21,187,967	141,280	21,329,247
Others	176,738,482	9,572,717	186,311,199
	<u>\$ 668,772,302</u>	<u>18,632,088</u>	<u>687,404,390</u>
Major products:			
5C related electronic products	\$ 667,081,872	18,278,212	685,360,084
Others	1,690,430	353,876	2,044,306
	<u>\$ 668,772,302</u>	<u>18,632,088</u>	<u>687,404,390</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Contract balances

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes and accounts receivable (including related parties)	\$ 208,715,197	207,794,674	213,549,091
Less: allowance for impairment	<u>(3,958,842)</u>	<u>(4,020,603)</u>	<u>(4,049,580)</u>
Total	<u>\$ 204,756,355</u>	<u>203,774,071</u>	<u>209,499,511</u>
Contract liabilities	<u>\$ 1,234,894</u>	<u>1,476,304</u>	<u>1,480,288</u>

For the details on accounts receivable and allowance for impairment, please refer to note (6)(f).

The amount of revenue recognized for the three months and nine months ended September 30, 2019 and 2018 that were included in the balance of contract liability at the beginning of the period was \$318,102 and \$438,570 and \$1,057,580 and \$1,212,987, respectively.

The major change in the balance of contract assets and contract liabilities is the difference of the time frame between the performance of obligation to be satisfied and the payment to be received.

(aa) Employees' and directors' compensations

Based on the Company's articles of incorporation, if there is any profit in a fiscal year, the Company's pre-tax profits in such fiscal year, prior to deduction of compensations to employees and directors, shall be distributed to employees as compensations in an amount of not less than two percent (2%) thereof and to directors as compensations in an amount of not more than two percent (2%) of such profits. In the event that the Company has accumulated losses, the Company shall reserve an amount to offset accumulated losses. The compensations to employees as mentioned above may be distributed in the form of stock or cash. Employees entitled to receive the said stock or cash may include the employees of the Company's subordinate companies pursuant to the Company Act (Employees entitled to receive the said stock or cash may include the employees of the Company's subordinate companies who meet certain conditions after the Company's articles of incorporation amended on June 21, 2019).

The Company accrued and recognized its employee compensation of \$184,938 and \$368,033 for the three months ended September 30, 2019 and 2018, respectively, \$518,917 and \$738,279 for the nine months September 30, 2019 and 2018, respectively, and directors' compensation of \$9,780 and \$19,461 for the three months ended September 30, 2019 and 2018, respectively, and \$27,440 and \$39,039 for the nine months ended September 30, 2019 and 2018, respectively. The estimated amounts mentioned above are based on the net profit before tax without the compensations to employees and directors of each respective ending period, multiplied by the percentage of the compensation to employees and directors, which was approved by the management. The estimations are recorded under operating expenses and cost. The differences between the amounts estimated and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year. If the Board of Directors approve to distribute employee compensation in the form of stock, the number of the shares of the employee compensation is based on the closing price of the day before the Board of Directors' meeting.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The Company accrued and recognized its employee compensation of \$930,857 and \$624,296, and directors' compensation of \$49,223 and \$33,012 for the years ended December 31, 2018 and 2017, respectively. There is no differences between the amount approved in the Board of Directors' meeting and those recognized in the financial statements, the related information can be accessed through the Market Observation Post System website.

(ab) Non-operating income and expenses

(i) Other income

The other income for the nine months ended September 30, 2019 and 2018, were as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Interest income				
Financial assets at amortized cost	\$ -	1,764	4,229	8,227
Bank deposits and others	443,476	356,142	1,288,253	978,216
Dividend revenue	10,469	13,383	127,349	279,044
Other revenue	91,598	119,445	195,724	297,291
	<u>\$ 545,543</u>	<u>490,734</u>	<u>1,615,555</u>	<u>1,562,778</u>

(ii) Other gains and losses

The other gains and losses for the nine months ended September 30, 2019 and 2018, were as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Gains on disposal of investments	\$ 58,107	2,511,085	58,107	2,511,085
Gains (losses) on financial assets and liabilities at fair value through profit or loss, net	333,234	75,835	468,456	710,527
Foreign currency exchange losses, net	(196,038)	(152,773)	(273,029)	(957,528)
Gains (losses) on disposal of property, plant, and equipment, net	3,891	5,841	37,416	23,645
	<u>\$ 199,194</u>	<u>2,439,988</u>	<u>290,950</u>	<u>2,287,729</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ac) Reclassification of the components of other comprehensive income

The details of reclassification of the components of other comprehensive income for the nine months ended September 30, 2019 and 2018, were as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash flow hedge:				
Gains (losses) from current period	\$ -	(21,247)	(21,778)	1,968
Less: reclassification of gains and losses included in profit or loss	<u>-</u>	<u>(10,717)</u>	<u>(21,778)</u>	<u>3,776</u>
Profit (loss) recognized in other comprehensive income	<u>\$ -</u>	<u>(10,530)</u>	<u>-</u>	<u>(1,808)</u>

(ad) Financial instruments

Except for those described below, there were no significant changes on fair value, credit risk, liquidity risk and market risk of financial instruments. Please refer to note (6)(ad) of the consolidated financial statements for the year ended December 31, 2018 for related information.

(i) Credit risk

Information of exposure to credit risk of notes and accounts receivable, please refer to note (6)(f).

Other financial assets at amortized cost include other receivables, investments in corporate bonds and time deposits. These financial assets 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 credit risk, please refer to note (4)(g) of the consolidated financial statements for the year ended December 31, 2018.) Due to the counter parties and the performing parties of the Group's time deposits are financial institutions with investment grade and above, these time deposits are considered to have low credit risk.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The movements in the allowance for the nine months ended September 30, 2019 and 2018 were as follows:

	Other receivables
Balance on January 1, 2019	\$ 3,577
Impairment losses reversed	(1,163)
Balance on September 30, 2019	\$ 2,414
Balance on January 1, 2018	\$ 82,014
Impairment losses reversed	(17,869)
The write-off amount which was not be recovered in the period	(62,071)
Effect of changes in exchange rates	(2)
Balance on September 30, 2018	\$ 2,072

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payments.

	Carrying Amount	Contractual cash flows	Within 1 year	1 ~ 2 years	Over 2 years
September 30, 2019					
Non-derivative financial liabilities					
Secured borrowings	\$ 108,281	(108,281)	(39,375)	(39,375)	(29,531)
Unsecured borrowings	93,540,281	(93,540,281)	(84,640,281)	(2,900,000)	(6,000,000)
Lease liabilities – current and non-current	1,622,148	(1,729,858)	(670,225)	(423,295)	(636,338)
Notes and accounts payable	174,946,240	(174,946,240)	(174,946,240)	-	-
Other payables	16,438,653	(16,438,653)	(16,438,653)	-	-
Bonds payable	963,090	(1,000,000)	-	-	(1,000,000)
Derivative financial liabilities					
Forward exchange contracts:	950				
Outflow		(110,516)	(110,516)	-	-
Inflow		108,727	108,727	-	-
	\$ 287,619,643	(287,765,102)	(276,736,563)	(3,362,670)	(7,665,869)
December 31, 2018					
Non-derivative financial liabilities					
Secured borrowings	\$ 137,813	(137,813)	(39,375)	(39,375)	(59,063)
Unsecured borrowings	100,746,447	(100,746,447)	(89,846,447)	(8,600,000)	(2,300,000)
Notes and accounts payable	154,276,713	(154,276,713)	(154,276,713)	-	-
Other payables	14,790,757	(14,790,757)	(14,790,757)	-	-
Derivative financial liabilities					
Forward exchange contracts:	26,913				
Outflow		(5,016,249)	(5,016,249)	-	-
Inflow		4,978,708	4,978,708	-	-
	\$ 269,978,643	(269,989,271)	(258,990,833)	(8,639,375)	(2,359,063)

(Continued)

COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
September 30, 2018					
Non-derivative financial liabilities					
Secured borrowings	\$ 167,656	(167,656)	(59,375)	(39,375)	(68,906)
Unsecured borrowings	114,304,651	(114,304,651)	(102,954,651)	(8,150,000)	(3,200,000)
Notes and accounts payable	170,568,096	(170,568,096)	(170,568,096)	-	-
Other payables	19,810,990	(19,810,990)	(19,810,990)	-	-
Derivative financial liabilities					
Forward exchange contracts:	11,546				
Outflow		(5,352,091)	(5,352,091)	-	-
Inflow		5,316,058	5,316,058	-	-
Forward exchange for hedging:	1,808				
Outflow		(53,631)	(53,631)	-	-
Inflow		51,562	51,562	-	-
	<u>\$ 304,864,747</u>	<u>(304,889,495)</u>	<u>(293,431,214)</u>	<u>(8,189,375)</u>	<u>(3,268,906)</u>

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	<u>September 30, 2019</u>			<u>December 31, 2018</u>			<u>September 30, 2018</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets									
Monetary items									
USD to TWD	\$ 8,575,289	31.02	266,005,465	7,189,719	30.715	220,832,219	7,470,862	30.525	228,048,063
USD to CNY	11,010	7.1217	341,530	3,986	6.8672	122,430	3,986	6.8827	121,673
EUR to TWD	113,289	33.87	3,837,098	95,397	35.20	3,357,974	107,522	35.48	3,814,881
CNY to USD	2,288,920	0.1404	9,968,723	1,726,768	0.1456	7,722,286	1,920,161	0.1453	8,516,456
Non-monetary items									
THB to TWD	406,394	1.0142	412,165	423,027	0.9460	400,184	479,312	0.9449	452,902
Financial liabilities									
Monetary items									
USD to TWD	8,324,505	31.02	258,226,145	7,145,553	30.715	219,475,660	7,711,210	30.525	235,384,685
USD to CNY	6,266	7.1217	194,371	5,451	6.8672	167,427	6,496	6.8827	198,290
USD to BRL	144,411	3.8322	4,479,629	140,772	3.8720	4,323,812	144,969	4.0039	4,425,179
EUR to TWD	43,000	33.87	1,456,410	31,186	35.20	1,097,747	27,705	35.48	982,973
CNY to USD	2,535,574	0.1404	11,042,952	2,778,232	0.1456	12,424,542	2,556,108	0.1453	11,337,061

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans and borrowings, accounts payable, and other payables that are denominated in foreign currency. Assuming all other variable factors remain constant, a strengthening (weakening) 5% of appreciation (depreciation) of the each major foreign currency against Group entities' functional currency as of September 30, 2019 and 2018, would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

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	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>
USD (against the TWD)		
Strengthening 5%	\$ 388,966	(366,831)
Weakening 5%	(388,966)	366,831
USD (against the CNY)		
Strengthening 5%	7,358	(3,831)
Weakening 5%	(7,358)	3,831
USD (against the BRL)		
Strengthening 5%	(223,981)	(221,259)
Weakening 5%	223,981	221,259
EUR (against the TWD)		
Strengthening 5%	119,034	141,595
Weakening 5%	(119,034)	(141,595)
CNY (against the USD)		
Strengthening 5%	(53,711)	(141,030)
Weakening 5%	53,711	141,030

3) Exchange gains and losses of monetary items

As the Group deals with diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the three months and nine months ended September 30, 2019 and 2018, the foreign exchange losses, including both realized and unrealized, amounted to \$196,038 and \$152,773 and \$273,029 and \$957,528, respectively.

(iv) Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

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

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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Assuming all other variable factors remaining constant, if the interest rate had increased or decreased by 0.25%, the impact to the net profit before tax would be as follows for the nine months ended September 30, 2019 and 2018, which would be mainly resulted from the bank savings and borrowings with variable interest rates.

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Interest increased by 0.25%	\$ (11,503)	(3,776)
Interest decreased by 0.25%	11,503	3,776

(v) Fair value information

1) The categories and fair value of financial instruments

The Group's financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income were measured at fair value on a recurring basis. The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

	September 30, 2019				
	Book value	Fair Value			Total
	Level 1	Level 2	Level 3		
Financial assets at fair value through profit or loss—current and non-current					
Derivative financial assets for non-hedging \$	182,502	-	182,502	-	182,502
Non-derivative financial assets mandatorily measured at fair value through profit or loss	3,777,050	-	3,656,014	121,036	3,777,050
Subtotal	3,959,552				
Financial assets at fair value through other comprehensive income					
Stocks listed on domestic markets	1,882,874	1,882,874	-	-	1,882,874
Stocks listed on foreign markets	412,165	412,165	-	-	412,165
Stocks unlisted on domestic markets	2,158,100	-	-	2,158,100	2,158,100
Stocks unlisted on foreign markets	184,206	-	-	184,206	184,206
Accounts receivable	39,127,120	-	39,127,120	-	39,127,120
Subtotal	43,764,465				

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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	September 30, 2019				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	55,444,483	-	-	-	-
Notes and accounts receivable, net	165,524,781	-	-	-	-
Notes and accounts receivable due from related parties, net	104,454	-	-	-	-
Other receivables	1,799,346	-	-	-	-
Refundable deposits	<u>468,686</u>	-	-	-	-
Subtotal	<u>223,341,750</u>				
Total	<u>\$ 271,065,767</u>				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for non-hedging	\$ <u>950</u>	-	950	-	950
Financial liabilities measured at amortized cost					
Short-term borrowings	67,790,281	-	-	-	-
Notes and accounts payable	173,419,466	-	-	-	-
Notes and accounts payable to related parties	1,526,774	-	-	-	-
Other payables	16,438,653	-	-	-	-
Bonds payable	963,090	-	-	-	-
Lease liabilities—current and non-current	1,622,148	-	-	-	-
Long-term borrowings current portion	16,889,375	-	-	-	-
Long-term borrowings	8,968,906	-	-	-	-
Deposits received	<u>157,692</u>	-	-	-	-
Subtotal	<u>287,776,385</u>				
Total	<u>\$ 287,777,335</u>				
	December 31, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss—current and non-current					
Derivative financial assets for non-hedging	\$ 12,213	-	12,213	-	12,213
Non-derivative financial assets mandatorily measured at fair value through profit or loss	<u>4,668,311</u>	633,859	3,965,062	69,390	4,668,311
Subtotal	<u>4,680,524</u>				

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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	December 31, 2018				
	Book value	Fair Value			Total
	Level 1	Level 2	Level 3		
Financial assets at fair value through other comprehensive income					
Stocks listed on domestic markets	2,730,648	2,730,648	-	-	2,730,648
Stocks listed on foreign markets	400,184	400,184	-	-	400,184
Stocks unlisted on domestic markets	1,990,100	-	-	1,990,100	1,990,100
Stocks unlisted on foreign markets	51,363	-	-	51,363	51,363
Accounts receivable	<u>23,020,497</u>	-	23,020,497	-	23,020,497
Subtotal	<u>28,192,792</u>				
Financial assets measured at amortized cost					
Cash and cash equivalents	70,296,545	-	-	-	-
Corporate bonds— current	350,000	-	-	-	-
Notes and accounts receivable, net	180,695,468	-	-	-	-
Notes and accounts receivable due from related parties, net	58,106	-	-	-	-
Other receivables	1,665,249	-	-	-	-
Refundable deposits	<u>401,753</u>	-	-	-	-
Subtotal	<u>253,467,121</u>				
Total	<u>\$ 286,340,437</u>				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for non-hedging	\$ <u>26,913</u>	-	26,913	-	26,913
Financial liabilities measured at amortized cost					
Short-term borrowings	72,350,197	-	-	-	-
Notes and accounts payable	152,300,093	-	-	-	-
Notes and accounts payable to related parties	1,976,620	-	-	-	-
Other payables	14,790,757	-	-	-	-
Long-term borrowings current portion	17,535,625	-	-	-	-
Long-term borrowings	10,998,438	-	-	-	-
Deposits received	<u>209,354</u>	-	-	-	-
Subtotal	<u>270,161,084</u>				
Total	<u>\$ 270,187,997</u>				

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	September 30, 2018				
	Book value	Fair Value			Total
	Level 1	Level 2	Level 3		
Financial assets at fair value through profit or loss — current and non-current					
Derivative financial asset for non-hedging	\$ 19,828	-	19,828	-	19,828
Non-derivative financial assets mandatorily measured at fair value through profit or loss	<u>3,918,639</u>	872,516	3,000,958	45,165	3,918,639
Subtotal	<u>3,938,467</u>				
Financial assets at fair value through other comprehensive income					
Stocks listed on domestic markets	2,940,697	2,940,697	-	-	2,940,697
Stocks listed on foreign markets	452,902	452,902	-	-	452,902
Stocks unlisted on domestic markets	2,161,304	-	-	2,161,304	2,161,304
Stocks unlisted on foreign markets	31,020	-	-	31,020	31,020
Accounts receivable	<u>37,183,987</u>	-	37,183,987	-	37,183,987
Subtotal	<u>42,769,910</u>				
Financial assets measured at amortized cost					
Cash and cash equivalents	72,064,833	-	-	-	-
Corporate bonds — current	350,000	-	-	-	-
Notes and accounts receivable, net	172,290,799	-	-	-	-
Notes and accounts receivable due from related parties, net	24,725	-	-	-	-
Other receivables	2,021,133	-	-	-	-
Refundable deposits	<u>304,511</u>	-	-	-	-
Subtotal	<u>247,056,001</u>				
Total	<u>\$ 293,764,378</u>				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities for non-hedging	\$ <u>11,546</u>	-	11,546	-	11,546
Derivative financial liabilities for hedging	<u>1,808</u>	-	1,808	-	1,808

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	September 30, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortized cost					
Short-term borrowings	84,959,651	-	-	-	-
Notes and accounts payable	168,876,386	-	-	-	-
Notes and accounts payable to related parties	1,691,710	-	-	-	-
Other payables	19,810,990	-	-	-	-
Long-term borrowings current portion	18,054,375	-	-	-	-
Long-term borrowings	11,458,281	-	-	-	-
Deposits received	<u>171,248</u>	-	-	-	-
Subtotal	<u>305,022,641</u>				
Total	<u>\$ 305,035,995</u>				

2) Fair value valuation technique of financial instruments not measured at fair value

The Group estimates financial instruments that not measured at fair value by methods and assumption as follows:

a) Financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Fair value valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

Financial instruments trade in active markets is 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 base to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

If a quoted price of a financial instrument can be obtained in time and often from exchanges, brokers, underwriters, industrial union, pricing institute, or authorities and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have a quoted price in an active market. If a financial instrument is not in accord with the definition mentioned above, then it is considered to be without a quoted price in an active market. In general, market with low trading volume or high bid-ask spreads is an indication of a non-active market.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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The fair value of the listed company is determined by reference to the market quotation.

The measurements on fair value of the financial instruments without an active market are determined using the valuation technique or the quoted market price of its competitors. Fair value measured using the valuation technique can be extrapolated from similar financial instruments, discounted cash flow method, or other valuation techniques which include the model used in calculating the observable market data at the consolidated balance sheet date.

The measurement of fair value of a non-active market financial instruments held by the Group which do not have quoted market prices are based on the comparable market approach, with the use of key assumptions of price-book ratio multiple or earnings multiple of comparable listed companies as its basic measurement. These assumptions have been adjusted for the effect of discount without the marketability of the equity securities.

b) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

4) Transfer from one level to another

There was no transfer from one level to another in the nine months ended September 30, 2019 and 2018.

5) Changes in level 3

The change in level 3 at fair value in the nine months ended September 30, 2019 and 2018, were as follow:

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Balance on January 1, 2019	\$ 69,390	2,041,463	2,110,853
Total gains and losses recognized:			
In profit or loss	(3,950)	-	(3,950)
In other comprehensive income	-	100,525	100,525
Purchased	55,596	208,666	264,262
Disposal	-	(791)	(791)
Proceeds of capital reduction of investment	-	(7,377)	(7,377)
Effect of changes in exchange rates	-	(180)	(180)
Balance on September 30, 2019	<u>\$ 121,036</u>	<u>2,342,306</u>	<u>2,463,342</u>

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Balance on January 1, 2018	\$ -	2,421,909	2,421,909
Effects of retrospective application	48,709	5,273	53,982
Adjusted balance on January 1, 2018	48,709	2,427,182	2,475,891
Total gains and losses recognized:			
In profit or loss	(3,544)	-	(3,544)
In other comprehensive income	-	(330,710)	(330,710)
Purchased	-	107,877	107,877
Proceeds of capital reduction of investment	-	(12,025)	(12,025)
Balance on September 30, 2018	<u>\$ 45,165</u>	<u>2,192,324</u>	<u>2,237,489</u>

For the nine months ended September 30, 2019 and 2018, total gains and losses that were included in “other gains and losses, net” and “other comprehensive income, before tax, equity instruments at fair value through other comprehensive income” were as follows:

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Total gains and losses recognized:		
In profit or loss before tax (as “other gains and losses, net”)	<u>\$ (3,950)</u>	<u>(3,544)</u>
In other comprehensive income (as “other comprehensive income, before tax, equity instruments at fair value through other comprehensive income”)	<u>\$ 99,734</u>	<u>(330,710)</u>

- 6) The quantified information for significant unobservable inputs (level 3) used in fair value measurement

The Group’s financial instruments that use level 3 input to measure fair values include financial assets at fair value through other comprehensive income— equity instruments, financial assets at fair value through profit or loss— equity securities investment.

Most of fair value measurements of the Group which are categorized as equity investment into level 3 have several significant unobservable inputs. Significant unobservable inputs of equity investments without quoted price are independent of each other.

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COMPAL ELECTRONICS, INC. AND SUBSIDIARIES
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The quantified information for significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationships between significant unobservable inputs and fair value</u>
Financial assets at fair value through other comprehensive income – equity investment without an active market	Comparable market approach (Price-Book ratio method and Earnings multiplier method)	Price-Book ratio multiples (1.50~5.74, 1.33~5.86 and 1.23~9.31 respectively, on September 30, 2019 and December 31, and September 30, 2018) Multiples of earnings (3.02~14.95, 2.32~14.97 and 20.86, respectively, on September 30, 2019 and December 31 and September 30, 2018) Lack-of-Marketability discount rate (35%~82%, 40%~82% and 40%~85% respectively, on September 30, 2019 and December 31, and September 30, 2018)	The higher the multiple is, the higher the fair value will be. The higher the multiple is, the higher the fair value will be. The higher the Lack-of-Marketability discount rate is, the lower the fair value will be.
Financial assets at fair value through other comprehensive income	Net asset value method	Net asset value	Inapplicable
Financial assets at fair value through profit or loss – investment in private equity fund	Net asset value method	Net asset value	Inapplicable

7) Sensitivity analysis for fair value of financial instruments using level 3 inputs

The Group's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on other comprehensive income or loss are as follows:

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	Input	Move up or down	Other comprehensive income	
			Favorable change	Unfavorable change
September 30, 2019				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>43,542</u>	<u>42,427</u>
	Multiples of earnings	5%	\$ <u>21,454</u>	<u>20,442</u>
	Lack-of-Marketability discount rate	5%	\$ <u>946</u>	<u>790</u>
December 31, 2018				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>28,137</u>	<u>28,119</u>
	Multiples of earnings	5%	\$ <u>28,210</u>	<u>27,202</u>
	Lack-of-Marketability discount rate	5%	\$ <u>2,093</u>	<u>2,053</u>
September 30, 2018				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>20,351</u>	<u>21,596</u>
	Multiples of earnings	5%	\$ <u>17,484</u>	<u>17,439</u>
	Lack-of-Marketability discount rate	5%	\$ <u>27,096</u>	<u>28,296</u>

The favorable and unfavorable changes reflect the movement of the fair value, in which the fair value is calculated by using the different unobservable inputs in the valuation technique. The table above shows the effects of one unobservable input, without considering the inter-relationships with another unobservable input for financial instrument, if there are one or more unobservable inputs.

8) Offsetting financial assets and financial liabilities

The Group has financial instruments transactions applicable to the International Financial Reporting Standards NO. 32 Sections 42 endorsed by the FSC which requested for offsetting. Financial assets and liabilities relating to those transactions are recognized in the net amount of the balance sheets.

The following tables present the aforesaid offsetting financial assets and financial liabilities.

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Unit: thousands of New Taiwan Dollars / thousands of US Dollars

September 30, 2019						
Financial assets that are offset which have an exercisable master netting arrangement or similar agreement						
	Gross amounts of recognized financial assets (a)	Gross amounts of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c)=(a)-(b)	Amounts not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collateral received	
Other current assets	\$ 79,539,189	79,539,189	-	-	-	-
	(USD 2,564,126)	(USD 2,564,126)				

September 30, 2019						
Financial liabilities that are offset which have an exercisable master netting arrangement or similar agreement						
	Gross amounts of recognized financial liabilities (a)	Gross amounts of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c)=(a)-(b)	Amounts not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collateral received	
Short-term borrowings	\$ 79,539,189	79,539,189	-	-	-	-
	(USD 2,564,126)	(USD 2,564,126)				

December 31, 2018						
Financial assets that are offset which have an exercisable master netting arrangement or similar agreement						
	Gross amounts of recognized financial assets (a)	Gross amounts of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c)=(a)-(b)	Amounts not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collateral received	
Other current assets	\$ 306,259	306,259	-	-	-	-
	(USD 9,971)	(USD 9,971)				

December 31, 2018						
Financial liabilities that are offset which have an exercisable master netting arrangement or similar agreement						
	Gross amounts of recognized financial liabilities (a)	Gross amounts of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c)=(a)-(b)	Amounts not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collateral received	
Short-term borrowings	\$ 306,259	306,259	-	-	-	-
	(USD 9,971)	(USD 9,971)				

September 30, 2018						
Financial assets that are offset which have an exercisable master netting arrangement or similar agreement						
	Gross amounts of recognized financial assets (a)	Gross amounts of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c)=(a)-(b)	Amounts not offset in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments	Cash collateral received	
Other current assets	\$ 711,049	711,049	-	-	-	-
	(USD 23,294)	(USD 23,294)				

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September 30, 2018						
Financial liabilities that are offset which have an exercisable master netting arrangement or similar agreement						
	Gross amounts of recognized financial liabilities (a)	Gross amounts of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c)=(a)-(b)	Amounts not offset in the balance sheet (d)		
				Financial instruments	Cash collateral received	Net amount (e)=(c)-(d)
Short-term borrowings	\$ <u>711,049</u>	<u>711,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	(USD <u>23,294</u>)	(USD <u>23,294</u>)				

(ae) Financial risk management

The Group's objectives and policies for managing the financial risk are consistent with those disclosed in the note (6)(ae) of the consolidated financial statements for the year ended December 31, 2018.

(af) Capital management

The Group's objectives, policies and processes of capital management are the same as those disclosed in the consolidated financial statements for the year ended December 31, 2018. There were no significant changes of quantitative data of capital management compared to the consolidated financial statements for the year ended December 31, 2018. Please refer to note (6)(af) of the consolidated financial statements for the year ended December 31, 2018.

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

The Group's investing and financing activities which did not affect the current cash flow in the nine months ended September 30, 2019 were acquisition of right-of-use assets by leasing, please refer to note (6)(m). There were no investing and financing activities which did not affect the current cash flow in the nine months ended September 30, 2018.

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flow	Other non-cash changes	September 30, 2019
Short-term borrowings	\$ 72,350,197	(4,559,916)	-	67,790,281
Proceeds from issuance of convertible bonds	-	1,007,240	(44,150)	963,090
Long-term borrowings	28,534,063	(2,673,832)	(1,950)	25,858,281
Lease liabilities	2,089,950	(584,470)	116,668	1,622,148
Guarantee deposits and others	<u>238,324</u>	<u>(47,723)</u>	<u>40,645</u>	<u>231,246</u>
Total liabilities from financing activities	<u>\$ 103,212,534</u>	<u>(6,858,701)</u>	<u>111,213</u>	<u>96,465,046</u>

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	<u>January 1, 2018</u>	<u>Cash flow</u>	<u>September 30, 2018</u>
Short-term borrowings	\$ 56,515,525	28,444,126	84,959,651
Long-term borrowings	27,452,888	2,059,768	29,512,656
Guarantee deposits and others	<u>180,207</u>	<u>20,008</u>	<u>200,215</u>
Total liabilities from financing activities	<u>\$ 84,148,620</u>	<u>30,523,902</u>	<u>114,672,522</u>

(7) Related-party transactions:

(a) Name and relationship with related parties

The followings are the entities that have had transactions with the Group during the periods covered in the financial statement.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Compal Precision Module (Jiangsu) Co., Ltd.	An associate
Changbao Electronic Technology (Chongqing) Co., Ltd.	An associate
LCFC (Note 1)	An associate
Avalue Technology Inc. (“Avalue”)	An associate
Crownpo Technology Inc. (“Crownpo”)	An associate
Allied Circuit Co., Ltd. (“Allied Circuit”)	An associate
Kinpo Group Management Consultant Company (“Kinpo Group Management”)	An associate
LIZ Electronics (Kunshan) Co., Ltd.	An associate
Compal Connector Manufacture Ltd. (“CCM”)	A joint venture company
AcBel Polytech Inc. (“AcBel”) and its subsidiaries	The same chairman of the board with the Company

Note 1: In August 2018, the Group has sold all its shares of LCFC and no longer has significant influence over it. Therefore, LCFC is not a related-party of the Group from September 2018.

(b) Transactions with key management personnel

Key management personnel remunerations comprised:

	<u>Three months ended September 30, 2019</u>	<u>Three months ended September 30, 2018</u>	<u>Nine months ended September 30, 2019</u>	<u>Nine months ended September 30, 2018</u>
Short-term employee benefits	\$ 145,967	182,285	451,495	482,628
Post-employment benefits	2,046	1,840	6,158	5,872
Share-based payments	<u>7,569</u>	<u>2,672</u>	<u>22,707</u>	<u>(88,839)</u>
	<u>\$ 155,582</u>	<u>186,797</u>	<u>480,360</u>	<u>399,661</u>

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There are no termination benefits and other long-term benefits. Please refer to note (6)(w) for explanations related to share-based payments.

(c) Significant related-party transactions

(i) Sale of goods to related parties

The amounts of significant sales transactions between the Group and related parties were as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Associates	\$ 116,058	66,014	221,257	232,922
Other related parties	-	-	5	2,955
	<u>\$ 116,058</u>	<u>66,014</u>	<u>221,262</u>	<u>235,877</u>

Sales prices for related parties were similar to those of the third-party customers. The collection period was 60~120 days for related parties.

(ii) Purchase of goods from related parties

The amounts of significant purchase transactions between the Group and related parties were as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Associates	\$ 855,747	1,028,112	2,816,289	3,011,086
Other related parties	402,133	245,366	1,130,758	548,117
Joint venture	(350)	26,668	31,494	74,335
	<u>\$ 1,257,530</u>	<u>1,300,146</u>	<u>3,978,541</u>	<u>3,633,538</u>

Purchase prices and payment period from related parties were similar to those from third-party suppliers. The payment period was 60~165 days for related parties.

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(iii) Receivables due from relate parties

The receivables arising from the transactions mentioned above and others on behalf of related parties were as follows:

<u>Account</u>	<u>Related party categories</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes and accounts receivable	Associates	\$ 104,454	56,701	24,417
Notes and accounts receivable	Other related parties	-	1,405	308
Other receivables	Joint venture	342	120	301
		<u>\$ 104,796</u>	<u>58,226</u>	<u>25,026</u>

(iv) Payables to related parties

The payables arising from the transactions mentioned above and rendering of services from other related parties were as follows:

<u>Account</u>	<u>Related party categories</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes and accounts payable	Associates	\$ 865,143	1,245,574	1,296,794
Notes and accounts payable	Other related parties	661,105	705,761	372,287
Notes and accounts payable	Joint venture	526	25,285	22,629
Other payables	Associates	1,701	1,019	-
		<u>\$ 1,528,475</u>	<u>1,977,639</u>	<u>1,691,710</u>

(8) Pledged assets:

The carrying values of pledged assets were as follows:

<u>Pledged Assets</u>	<u>Subject</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Other current assets	Bail for court mandatory execution	\$ 41,090	41,090	41,090
Property, plant and equipment	Long-term borrowings (including current portion) (note)	241,697	715,913	1,021,525
Other non-current assets	Guarantee of post-release duty payment to the customs and guarantee of the customs	500	500	14,558
		<u>\$ 283,287</u>	<u>757,503</u>	<u>1,077,173</u>

Note: Part of long-term borrowings had been settled, and the assets of property— land pledged as collateral was released this year.

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(9) Commitments and contingencies:

The details of commitments and contingencies were as follows:

- (a) On May 17, 2017, Qualcomm Inc. filed a lawsuit to the Southern District Court of California, USA against the Group for not paying the royalties of the patent license agreement. The Group has filed counterclaims against Qualcomm Inc. based on the antitrust law in the same court on July 19, 2017. The lawsuits was settled on April 16, 2019. The Group had compromised and both parties had agreed to drop the lawsuits.
- (b) In August 2019, Inventec Corporation filed a lawsuit to the Taiwan Taipei District Prosecutors Office against the Group concerning its former employees who joined the Group. This is deemed as an act of violation according to the Trade Secret Law and Copyright Law. The Group engaged lawyers to defend its right on this matter. Currently, the case is still in progress; therefore, the Group cannot make any reasonable estimation regarding the possible impact on its business operation.
- (c) The Group entered into various patent license agreements with third parties, and was required to make royalty payments of a predetermined amount periodically.
- (d) As of September 30, 2019 and December 31 and September 30, 2018, the Group's signed commitments to purchase property, plant and equipment amounted to \$771,719, \$187,872 and \$229,715, respectively.

(10) Losses due to major disasters: None

(11) Subsequent events: None

(12) Other:

- (a) The employee benefits, depreciation and amortization expenses by categorized function are summarized as follows:

By function By item	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	5,049,419	3,119,505	8,168,924	4,483,980	3,066,384	7,550,364
Labor and health insurance	241,593	196,461	438,054	218,408	181,615	400,023
Pension	335,701	124,825	460,526	328,455	122,212	450,667
Others	441,410	139,465	580,875	536,071	151,945	688,016
Depreciation	1,266,623	234,017	1,500,640	1,118,531	114,046	1,232,577
Amortization	26,586	96,875	123,461	11,887	73,311	85,198

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By function By item	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	13,767,820	9,039,405	22,807,225	12,917,451	8,379,428	21,296,879
Labor and health insurance	671,915	595,696	1,267,611	639,287	541,184	1,180,471
Pension	918,999	376,606	1,295,605	943,403	354,501	1,297,904
Others	1,401,316	448,489	1,849,805	1,669,675	422,230	2,091,905
Depreciation	3,723,387	695,120	4,418,507	3,058,137	347,397	3,405,534
Amortization	58,511	273,854	332,365	38,205	217,997	256,202

(b) Seasonality of operations

The Group's operations were not affected by seasonality or cyclicity factors.

(13) Other disclosures:

(a) Information on significant transactions

The following were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the nine month ended September 30, 2019:

- (i) Loans to other parties: Please refer to Table 1
- (ii) Guarantees and endorsements for other parties: Please refer to Table 2
- (iii) Securities held as of September 30, 2019 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 3
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: Please refer to Table 4
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposals of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 5
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Table 6
- (ix) Trading in derivative instruments: Please refer to note (6)(b)
- (x) Business relationships and significant intercompany transactions: Please refer to Table 7

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