

Independent Auditors' Review Report

To Compal Electronics, Inc.:

Introduction

We have reviewed the accompanying consolidated balance sheets of the Compal Electronics, Inc. and its subsidiaries as of June 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, changes in equity and cash flows for the six months ended June 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. 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 Standards ("IASs") 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 review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 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 total assets amounting to \$25,239,945 thousand and \$23,050,187 thousand, constituting 6.4% and 7.1% of consolidated total assets as of June 30, 2018 and 2017, respectively, total liabilities amounting to \$4,676,267 thousand and \$3,398,265 thousand, constituting 1.7% and 1.6% of consolidated total liabilities as of June 30, 2018 and 2017, respectively, and total comprehensive income amounting to \$40,770 thousand, \$258,150 thousand, \$222,025 thousand and \$67,274 thousand, constituting 0.9%, 23.6%, 4.9% and (4.5)% of consolidated total comprehensive income (loss) for the three months and six months ended June 30, 2018 and 2017, 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 Compal Electronics, Inc. and its subsidiaries as of June 30, 2018 and 2017, and of its consolidated financial performance for the three months and the six months ended June 30, 2018 and 2017, and of its consolidated cash flows for the six months ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 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.

KPMG

Taipei, Taiwan (Republic of China)
August 9, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its 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 GENERALLY ACCEPTED AUDITING STANDARDS**COMPAL ELECTRONICS, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****For the three months and six months ended June 30, 2018 and 2017****(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)**

	For the three months ended June 30				For the six months ended June 30				
	2018		2017		2018		2017		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	Net sales revenue (notes (6)(aa), (6)(ab) and 7)								
	\$ 237,883,964	100	213,780,026	100	433,995,926	100.0	401,207,947	100.0	
5000	Cost of sales (notes (6)(k), (6)(v), 7 and 12)								
	230,084,692	96.7	205,971,613	96.3	419,573,451	96.7	385,575,109	96.1	
	Gross profit								
	7,799,272	3.3	7,808,413	3.7	14,422,475	3.3	15,632,838	3.9	
	Operating expenses: (notes (6)(u), (6)(v) and 12)								
6100	Selling expenses	1,177,896	0.5	3,474,107	1.6	2,062,251	0.5	5,040,868	1.3
6200	Administrative expenses	978,540	0.4	930,158	0.4	1,977,790	0.5	1,840,919	0.5
6300	Research and development expenses	3,018,524	1.3	2,511,895	1.2	5,704,053	1.3	4,909,437	1.2
		5,174,960	2.2	6,916,160	3.2	9,744,094	2.3	11,791,224	3.0
	Net operating income	2,624,312	1.1	892,253	0.5	4,678,381	1.0	3,841,614	0.9
	Non-operating income and expenses:								
7020	Other gains and losses, net (notes (6)(e) and (6)(ad))	(76,372)	-	(126,179)	(0.1)	(152,259)	-	(1,756,718)	(0.4)
7050	Finance costs	(588,985)	(0.2)	(323,893)	(0.2)	(1,031,785)	(0.2)	(566,490)	(0.1)
7190	Other income (notes (6)(u) and (6)(ad))	728,033	0.3	476,331	0.2	1,072,044	0.2	891,939	0.2
7590	Miscellaneous disbursements	(7,339)	-	(31,623)	-	(8,398)	-	(57,299)	-
7770	Share of profit (loss) of associates and joint ventures accounted for using equity method (note (6)(l))	250,559	0.1	207,510	0.1	294,236	0.1	196,438	-
	Total non-operating income and expenses	305,896	0.2	202,146	-	173,838	0.1	(1,292,130)	(0.3)
7900	Profit before tax	2,930,208	1.3	1,094,399	0.5	4,852,219	1.1	2,549,484	0.6
7950	Less: Tax expense (note (6)(w))	640,533	0.3	677,165	0.3	979,748	0.2	1,024,104	0.2
	Profit	2,289,675	1.0	417,234	0.2	3,872,471	0.9	1,525,380	0.4
8300	Other comprehensive income:								
8310	Items that will not be reclassified subsequently to profit or loss								
8316	Other comprehensive income, before tax, equity instruments at fair value through other comprehensive income	(453,801)	(0.2)	-	-	(721,233)	(0.2)	-	-
8320	Share of other comprehensive income (loss) of associates and joint ventures accounted for using equity method, (components of other comprehensive income that will not be reclassified to profit or loss)	(54,841)	-	-	-	(54,841)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(w))	30,143	-	-	-	64,581	-	-	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(478,499)	(0.2)	-	-	(711,493)	(0.2)	-	-
8360	Items that will be reclassified subsequently to profit or loss								
8361	Other comprehensive income, before tax, exchange differences on translation of foreign financial statement	2,603,547	1.0	162,989	0.1	1,310,082	0.3	(3,528,487)	(1.0)
8362	Other comprehensive income, before tax, available-for-sale financial assets	-	-	435,330	0.2	-	-	720,926	0.2
8363	Gains (losses) on effective portion of cash flow hedges (notes (6)(ae))	-	-	(28,317)	-	-	-	(56,894)	-
8368	Gains (losses) on hedging instrument (notes (6)(ae))	46,509	-	-	-	8,722	-	-	-
8370	Share of other comprehensive income (loss) of associates and joint ventures accounted for using equity method	(79,418)	-	114,811	-	47,126	-	(142,637)	-
8399	Income tax relating to items that will be reclassified to profit or loss (note (6)(w))	(7,715)	-	(9,698)	-	(4,142)	-	(16,059)	-
	Components of other comprehensive income (loss) that will be reclassified to profit or loss	2,562,923	1.0	675,115	0.3	1,361,788	0.3	(3,023,151)	(0.8)
8300	Other comprehensive income (loss), net	2,084,424	0.8	675,115	0.3	650,295	0.1	(3,023,151)	(0.8)
8500	Comprehensive income	\$ 4,374,099	1.8	1,092,349	0.5	4,522,766	1.0	(1,497,771)	(0.4)
	Profit, attributable to:								
8610	Profit, attributable to owners of parent	\$ 2,092,295	0.9	254,362	0.1	3,485,597	0.8	1,327,697	0.4
8620	Profit, attributable to non-controlling interests	197,380	0.1	162,872	0.1	386,874	0.1	197,683	-
		\$ 2,289,675	1.0	417,234	0.2	3,872,471	0.9	1,525,380	0.4
	Comprehensive income attributable to:								
8710	Comprehensive income (loss), attributable to owners of parent	\$ 4,119,530	1.8	946,016	0.4	4,114,495	0.9	(1,624,290)	(0.4)
8720	Comprehensive income (loss), attributable to non-controlling interests	254,569	-	146,333	0.1	408,271	0.1	126,519	-
		\$ 4,374,099	1.8	1,092,349	0.5	4,522,766	1.0	(1,497,771)	(0.4)
	Earnings per share (note 6(z))								
9750	Basic earnings per share	\$ 0.48		0.06		0.80		0.31	
9850	Diluted earnings per share	\$ 0.48		0.06		0.79		0.30	

See accompanying notes to 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 six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent														
	Retained earnings						Total other equity interest								
	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 comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Unearned employee benefit and others	Total other equity interest	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2017	\$ 44,241,606	11,779,274	17,439,772	3,199,674	34,649,963	55,289,409	1,324,282	-	(5,663,830)	(285,105)	(4,624,653)	(881,247)	105,804,389	6,479,426	112,283,815
Profit for the six months ended June 30, 2017	-	-	-	-	1,327,697	1,327,697	-	-	-	-	-	-	1,327,697	197,683	1,525,380
Other comprehensive income	-	-	-	-	-	-	(3,645,846)	-	711,901	(18,042)	(2,951,987)	-	(2,951,987)	(71,164)	(3,023,151)
Total comprehensive income	-	-	-	-	1,327,697	1,327,697	(3,645,846)	-	711,901	(18,042)	(2,951,987)	-	(1,624,290)	126,519	(1,497,771)
Appropriation and distribution of retained earnings:															
Legal reserve appropriated	-	-	813,089	-	(813,089)	-	-	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	1,139,875	(1,139,875)	-	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(4,422,153)	(4,422,153)	-	-	-	-	-	-	(4,422,153)	-	(4,422,153)
Cash dividends from capital surplus	-	(884,431)	-	-	-	-	-	-	-	-	-	-	(884,431)	-	(884,431)
Changes in ownership interests in subsidiaries	-	63	-	-	-	-	-	-	-	-	-	-	63	-	63
Changes in equity of associates and joint ventures accounted for using equity method	-	11,634	-	-	(318)	(318)	-	-	-	-	-	-	11,316	-	11,316
Share-based payments transaction	(22,300)	(28,544)	-	-	4,462	4,462	-	-	-	107,472	107,472	-	61,090	-	61,090
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	60,027	-	-	-	-	-	-	-	-	-	-	60,027	-	60,027
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(466,174)	(466,174)
Balance at June 30, 2017	\$ 44,219,306	10,938,023	18,252,861	4,339,549	29,606,687	52,199,097	(2,321,564)	-	(4,951,929)	(195,675)	(7,469,168)	(881,247)	99,006,011	6,139,771	105,145,782
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 six months ended June 30, 2018	-	-	-	-	3,485,597	3,485,597	-	-	-	-	-	-	3,485,597	386,874	3,872,471
Other comprehensive income	-	-	-	-	28,828	28,828	1,340,716	(743,789)	-	3,143	600,070	-	628,898	21,397	650,295
Total comprehensive income	-	-	-	-	3,514,425	3,514,425	1,340,716	(743,789)	-	3,143	600,070	-	4,114,495	408,271	4,522,766
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	-	131	-	-	(1,149)	(1,149)	-	-	-	-	-	-	(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	-	60,025	-	-	-	-	-	-	-	-	-	-	60,025	-	60,025
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(312,233)	(312,233)
Balance at June 30, 2018	\$ 44,071,466	9,965,275	18,827,814	8,831,148	28,533,350	56,192,312	(2,136,660)	(6,590,482)	-	3,143	(8,723,999)	(881,247)	100,623,807	6,848,426	107,472,233

See accompanying notes to 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 three months and six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 4,852,219	2,549,484
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation and amortization	2,343,961	2,751,555
Increase (decrease) in expected credit loss /allowance for uncollectible accounts	6,148	3,113,377
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(123,016)	-
Finance cost	1,031,785	566,490
Interest income	(628,537)	(415,434)
Dividend income	(265,661)	(156,844)
Compensation cost of share-based payments	(156,548)	67,598
Share of profit of associates and joint ventures accounted for using equity method	(294,236)	(196,438)
Loss (gain) on disposal of property, plant and equipment	(17,804)	(54,299)
Loss (gain) on disposal of investments	-	4,252
Long-term prepaid rents	6,771	6,509
Total adjustments to reconcile profit (loss)	<u>1,902,863</u>	<u>5,686,766</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in financial assets at fair value through profit or loss	-	48,466
Net loss (gain) on financial assets mandatorily measured at fair value through profit or loss	(1,907,685)	-
Decrease (increase) in notes and accounts receivable	(15,503,572)	17,325,804
Decrease (increase) in other receivable	(1,581,404)	(568,146)
Decrease (increase) in inventories	(5,856,906)	(6,146,183)
Decrease (increase) in other current assets	(79,970)	242,706
Decrease (increase) in other non-current assets	(30,772)	(2,569)
Total changes in operating assets	<u>(24,960,309)</u>	<u>10,900,078</u>
Changes in operating liabilities:		
Net gain (loss) on financial liabilities designated as at fair value through profit or loss	(17,798)	(53,433)
Increase (decrease) in notes and accounts payable	4,541,819	2,745,529
Increase (decrease) in other payable	3,538,354	(2,209,933)
Increase (decrease) in refund liabilities	(701,005)	-
Increase (decrease) in provisions	77,509	(355,405)
Increase (decrease) in unearned revenue	-	(62,150)
Increase (decrease) in contract liabilities	(83,547)	-
Increase (decrease) in other current liabilities	231,236	237,766
Others	22,524	(2,086)
Total changes in operating liabilities	<u>7,609,092</u>	<u>300,288</u>
Total changes in operating assets and liabilities	<u>(17,351,217)</u>	<u>11,200,366</u>
Total adjustments	<u>(15,448,354)</u>	<u>16,887,132</u>
Cash inflow (outflow) generated from operations	(10,596,135)	19,436,616
Interest received	607,536	444,414
Dividends received	19,142	16,687
Interest paid	(934,181)	(574,307)
Income taxes paid	(1,255,759)	(1,051,810)
Net cash flows from (used in) operating activities	<u>(12,159,397)</u>	<u>18,271,600</u>
Cash flows from (used in) investing activities:		
Acquisition of Investments accounted for using equity method and financial assets at fair value through other comprehensive income (available-for-sale financial assets)	(87,525)	(97,009)
Proceeds from disposal of available-for-sale financial assets	-	2,265,748
Redemption from bond investments without active market	350,000	350,000
Net cash flow from disposal of subsidiaries	-	129,000
Proceeds from capital reduction of investments	6,987	13,049
Acquisition of property, plant and equipment	(2,034,372)	(1,462,497)
Proceeds from disposal of property, plant and equipment	20,354	86,988
Acquisition of intangible assets	(315,015)	(255,462)
Others	(23,389)	(15,705)
Net cash flows from (used in) investing activities	<u>(2,082,960)</u>	<u>1,014,112</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	16,791,130	(22,010,537)
Proceeds from long-term borrowings	7,062,250	7,088,649
Repayments of long-term borrowings	(10,208,838)	(7,944,687)
Acquisition of non-controlling interests	(1,218)	(6,353)
Change in non-controlling interests	2,563	13,666
Others	36,772	(1,457)
Net cash flows from (used in) financing activities	<u>13,682,659</u>	<u>(22,860,719)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>760,253</u>	<u>(2,138,588)</u>
Net increase (decrease) in cash and cash equivalents	<u>200,555</u>	<u>(5,713,595)</u>
Cash and cash equivalents at beginning of period	<u>70,062,713</u>	<u>72,950,596</u>
Cash and cash equivalents at end of period	<u>\$ 70,263,268</u>	<u>67,237,001</u>

See accompanying notes to financial statements.

