

Independent Auditor's Report

To COMPAL ELECTRONICS, INC.:

Opinion

We have audited the financial statements of COMPAL ELECTRONICS, INC. (“the Company”), which comprise the statements of financial position as of December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

1. Account receivable valuation

Please refer to Note (4)(f) for the accounting policy of accounts receivable. Information of account receivable valuation are disclosed in Note (6)(e) of the parent company only financial reports.

Description of key audit matters:

The Company devotes to develop new product lines and customers in emerging countries, and the credit risks of these customers are higher than other world leading enterprises. Therefore, valuation of accounts receivable has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included the following:

In order to evaluate the reasonableness of the Company's estimations for bad debts, our key audit procedures included analyzing the aging of accounts receivable, examining the historical recovery records, and the current credit status of customers, as well as inspecting the amount collected in the subsequent period.

2. Inventory valuation

Please refer to Note (4)(g) and Note (5) for the accounting policy of inventory valuation, as well as the estimation and assumption uncertainty of the valuation of inventory, respectively. Information of estimation of the valuation of inventory are disclosed in Note (6)(f) of the parent company only financial reports.

Description of key audit matters:

The inventory is measured at the lower of cost or net realizable value. The short life cycle of electronic products may cause significant changes in customers' demand and sales of related products. Consequently, the book value of inventory may be lower than the net realizable value of inventory. Therefore, the valuation of inventory is one of the key audit matters.

Our key audit procedures performed in respect of the above area included the following:

In order to verify the rationality of assessment of inventory valuation estimated by the Company, our key audit procedures included reviewing the consistency of accounting policy, inspecting the Company's inventory aging reports, analyzing the change of inventory aging, as well as verifying the inventory aging reports and the calculation of lower of cost or net realizable value.

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

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

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditor's report are Kuan Ying Kuo and Yiu Kwan Au.

KPMG

Taipei, Taiwan (Republic of China)

March 19, 2018

Notes to Readers

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

COMPAL ELECTRONICS, INC.
Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

		<u>2017</u>		<u>2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Net sale revenue	\$ 841,309,602	100.0	725,653,095	100.0
5000	Cost of sales:	<u>819,765,642</u>	<u>97.4</u>	<u>704,371,443</u>	<u>97.1</u>
	Gross profit	21,543,960	2.6	21,281,652	2.9
5910	Less: Unrealized profit from sales	<u>(480)</u>	<u>-</u>	<u>481</u>	<u>-</u>
	Gross profit	<u>21,544,440</u>	<u>2.6</u>	<u>21,281,171</u>	<u>2.9</u>
	Operating expenses:				
6100	Selling expenses	5,979,101	0.7	4,060,832	0.6
6200	Administrative expenses	2,100,602	0.2	2,395,657	0.3
6300	Research and development expenses	8,294,188	1.0	8,851,828	1.2
		<u>16,373,891</u>	<u>1.9</u>	<u>15,308,317</u>	<u>2.1</u>
	Net operating income	<u>5,170,549</u>	<u>0.7</u>	<u>5,972,854</u>	<u>0.8</u>
	Non-operating income and expenses:				
7020	Other gains and losses, net	(1,615,111)	(0.1)	(581,031)	-
7050	Finance costs	(975,175)	(0.1)	(719,294)	(0.1)
7190	Other income	937,671	0.1	933,004	0.1
7370	Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	3,160,786	0.4	3,766,213	0.5
	Total non-operating income and expenses	<u>1,508,171</u>	<u>0.3</u>	<u>3,398,892</u>	<u>0.5</u>
7900	Profit before tax	6,678,720	1.0	9,371,746	1.3
7950	Less: tax expense	<u>929,195</u>	<u>0.1</u>	<u>1,240,856</u>	<u>0.2</u>
	Profit	<u>5,749,525</u>	<u>0.9</u>	<u>8,130,890</u>	<u>1.1</u>
8300	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Other comprehensive income, before tax, remeasurement of defined benefit obligation	(79,683)	-	(82,021)	-
8330	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method that will not be reclassified subsequently to profit or loss	(1,970)	-	(6,375)	-
8349	Income tax relating to items that will not be reclassified to profit or loss	13,546	-	13,944	-
	Items that will not be reclassified subsequently to profit or loss	<u>(68,107)</u>	<u>-</u>	<u>(74,452)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Other comprehensive income, before tax, exchange differences on translation of foreign financial statements	(4,606,117)	(0.5)	(1,004,076)	(0.1)
8362	Other comprehensive income, before tax, available-for-sale financial assets	147,849	-	362,179	-
8380	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method that may be reclassified subsequently to profit or loss	(21,111)	-	(521,847)	-
8399	Income tax relating to items that may reclassified to profit or loss	(12,221)	-	23,868	-
	Items that may reclassified subsequently to profit or loss	<u>(4,491,600)</u>	<u>(0.5)</u>	<u>(1,139,876)</u>	<u>(0.1)</u>
8300	Other comprehensive income, net of tax	<u>(4,559,707)</u>	<u>(0.5)</u>	<u>(1,214,328)</u>	<u>(0.1)</u>
8500	Total comprehensive income	<u>\$ 1,189,818</u>	<u>0.4</u>	<u>6,916,562</u>	<u>1.0</u>
	Earnings per share:				
9750	Basic earnings per share	<u>\$ 1.32</u>		<u>1.88</u>	
9850	Diluted earnings per share	<u>\$ 1.31</u>		<u>1.84</u>	

COMPAL ELECTRONICS, INC.
Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings						Other equity interest					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 available-for-sale financial assets	Others	Total other equity interest	Treasury shares	
Balance at January 1, 2016	\$ 44,711,266	12,838,638	16,571,311	3,139,021	32,167,179	51,877,511	2,803,061	(6,010,432)	(719,510)	(3,926,881)	(1,724,739)	103,775,795
Profit for the year ended December 31, 2016	-	-	-	-	8,130,890	8,130,890	-	-	-	-	-	8,130,890
Other comprehensive income	-	-	-	-	(74,452)	(74,452)	(1,478,779)	346,602	(7,699)	(1,139,876)	-	(1,214,328)
Total comprehensive income	-	-	-	-	8,056,438	8,056,438	(1,478,779)	346,602	(7,699)	(1,139,876)	-	6,916,562
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	868,461	-	(868,461)	-	-	-	-	-	-	-
Special reversal appropriated	-	-	-	60,653	(60,653)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(4,426,671)	(4,426,671)	-	-	-	-	-	(4,426,671)
Cash dividends from capital surplus	-	(885,334)	-	-	-	-	-	-	-	-	-	(885,334)
Changes in ownership interests in subsidiaries	-	22	-	-	(658)	(658)	-	-	-	-	-	(636)
Changes in equity of associates and joint ventures accounted for using equity method	-	1,723	-	-	(10,527)	(10,527)	-	-	-	-	-	(8,804)
Share-based payments transaction	(31,500)	(40,846)	-	-	3,671	3,671	-	-	442,104	442,104	-	373,429
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	60,048	-	-	-	-	-	-	-	-	-	60,048
Retirement of treasury share	(438,160)	(194,977)	-	-	(210,355)	(210,355)	-	-	-	-	843,492	-
Balance at December 31, 2016	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
Profit for the year ended December 31, 2017	-	-	-	-	5,749,525	5,749,525	-	-	-	-	-	5,749,525
Other comprehensive income	-	-	-	-	(68,107)	(68,107)	(4,801,658)	310,058	-	(4,491,600)	-	(4,559,707)
Total comprehensive income	-	-	-	-	5,681,418	5,681,418	(4,801,658)	310,058	-	(4,491,600)	-	1,189,818
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	813,089	-	(813,089)	-	-	-	-	-	-	-
Special reversal appropriated	-	-	-	1,139,875	(1,139,875)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(4,422,153)	(4,422,153)	-	-	-	-	-	(4,422,153)
Cash dividends from capital surplus	-	(884,431)	-	-	-	-	-	-	-	-	-	(884,431)
Difference between consideration and carrying amount arising from acquisition or disposal of subsidiaries	-	33,016	-	-	(2,179)	(2,179)	-	-	-	-	-	30,837
Changes in ownership interests in subsidiaries	-	142	-	-	(424)	(424)	-	-	-	-	-	(282)
Changes in equity of associates and joint ventures accounted for using equity method	-	14,217	-	-	(194)	(194)	-	-	-	-	-	14,023
Share-based payments transaction	(49,690)	(63,472)	-	-	11,269	11,269	-	-	205,249	205,249	-	103,356
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	60,027	-	-	-	-	-	-	-	-	-	60,027
Balance at December 31, 2017	\$ 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

Note: Employee bonuses amounting to \$624,296 and \$876,028, director's compensation amounting to \$33,012 and \$46,323 were recognized in the statements of comprehensive income for the years ended December 31, 2017 and 2016, respectively.

COMPAL ELECTRONICS, INC.
Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	<u>2017</u>	<u>2016</u>
Cash flows from (used in) operating activities:		
Profit before tax	\$ 6,678,720	9,371,746
Adjustments:		
Depreciation and amortization	480,523	609,655
Increase in allowances for uncollectible accounts	2,928,547	714,682
Finance costs	975,175	719,294
Interest income	(239,394)	(119,754)
Dividend income	(117,742)	(133,485)
Compensation cost arising from share-based payment transaction	103,356	373,429
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(3,160,786)	(3,766,213)
Loss on disposal of investments	1,804	-
Impairment loss on financial assets	-	13,403
Adjustments to reconcile profit	<u>971,483</u>	<u>(1,588,989)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in notes and accounts receivable	(5,685,417)	(15,775,684)
Decrease (increase) in other receivables	(223,698)	175,486
Decrease (increase) in inventories	(15,016,352)	(2,624,036)
Decrease (increase) in other current assets	(145,850)	144,401
Total changes in operating assets	<u>(21,071,317)</u>	<u>(18,079,833)</u>
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	(2,770,322)	20,079,788
Increase (decrease) in other payables	(686,997)	(1,220,679)
Increase (decrease) in provisions	(91,958)	(502,427)
Increase (decrease) in unearned revenue	(156,532)	26,584
Increase (decrease) in other current liabilities	(261,816)	498,132
Others	(9,639)	(9,738)
Total changes in operating liabilities	<u>(3,977,264)</u>	<u>18,871,660</u>
Total changes in operating assets and liabilities	<u>(25,048,581)</u>	<u>791,827</u>
Total adjustments	<u>(24,077,098)</u>	<u>(797,162)</u>
Cash flows from (used in) operations	(17,398,378)	8,574,584
Interest received	221,027	110,209
Dividends received	660,913	359,324
Interest paid	(962,095)	(730,294)
Income taxes paid	(517,161)	(2,097,820)
Net cash flows from (used in) operating activities	<u>(17,995,694)</u>	<u>6,216,003</u>
Cash flows from (used in) investing activities:		
Redemption from bond investment without active market	350,000	350,000
Acquisition of investments accounted for using equity method and available-for-sale financial assets	(503,112)	(303,702)
Proceeds from disposal of available-for sale financing assets	809,196	-
Proceeds from capital reduction and liquidation of investments	1,459,043	25,630
Acquisition of property, plant and equipment	(126,108)	(159,703)
Decrease (Increase) in other receivables due from related parties	(293,029)	(20,939)
Acquisition of intangible assets	(193,154)	(290,200)
Others	10,495	(11,811)
Net cash flows from (used in) investing activities	<u>1,513,331</u>	<u>(410,725)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	10,942,250	8,356,550
Proceeds from long-term borrowings	12,691,630	23,515,000
Repayments of long-term borrowings	(16,893,430)	(19,770,000)
Cash dividends paid	(5,306,584)	(5,312,005)
Others	(104)	-
Net cash flows from (used in) financing activities	<u>1,433,762</u>	<u>6,789,545</u>
Net increase (decrease) in cash and cash equivalents	(15,048,601)	12,594,823
Cash and cash equivalents at beginning of period	43,392,135	30,797,312
Cash and cash equivalents at end of period	<u>\$ 28,343,534</u>	<u>43,392,135</u>

(Continued)