

DARFON ELECTRONICS CORP

2017 Annual General Shareholders' Meeting

Meeting Agenda (Translation)

Date: June 16, 2017

DARFON ELECTRONICS CORP

2017 Annual General Shareholders' Meeting

Time: 9:00 a.m., Friday, June 16, 2017

Place: No.398, Taoying Road, Taoyuan Dist., Taoyuan City, Taiwan

Meeting Agenda :

1. Call Meeting to Order
2. Chairman's Address
3. Report Items :
 - (1) To report the business of 2016
 - (2) Audit Committee's review report
 - (3) To report the distribution of 2016 employees' and directors' remuneration
 - (4) Share buyback execution report
4. Ratification Items :
 - (1) To accept 2016 Business Report and Financial Statements
 - (2) To accept the proposal for the distribution of 2016 earnings
5. Discussion Items :
 - (1) To approve the proposal of cash distribution from capital surplus
 - (2) To approve the amendment to the Procedures for Acquisition or Disposition of Assets
6. Extraordinary Motions
7. Meeting Adjourned

Attachment

1. 2016 Business Report
2. Independent Auditors' Report and 2016 Parent Company Only Financial Statements
3. Independent Auditors' Report and 2016 Consolidated Financial Statements
4. 2016 Earnings Distribution Proposal
5. Comparison table for the " Procedures for Acquisition or Disposition of Assets" before and after amendment
6. Shareholding of All Directors
7. Rules and Procedures for Shareholders' Meeting

Report Items :

1. To report the business of 2016

Explanation:

2016 Business Report is attached hereto as Attachment 1 (pages 5).

2. Audit Committee's Review Report

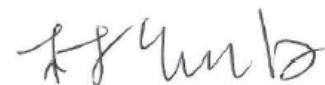
Explanation:

Audit Committee's Review Report

The Board of Directors has prepared the Company's Financial Statements for the year of 2016. Tang, Tzu Chieh and Shih, Wei Ming Certified Public Accountants of KPMG, have audited the Financial Statements. The 2016 Financial Statements, Business Report, Financial Statements, Independent Auditors Report, and Earnings Distribution Proposal have been reviewed and determined to be correct and accurate by the Audit Committee of DARFON ELECTRONICS CORP. I, as the Chair of the Audit Committee, hereby submit this report according to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

DARFON ELECTRONICS CORP.

Chair of the Audit Committee



Neng-Pai Lin

March 2, 2017

3. To Report the distribution 2016 employees' and directors' remuneration

Explanation:

The distribution of 2016 directors' and employees' remuneration is stipulated in Articles of Incorporation, it is proposed to allocate NT\$ 4,200,000 for directors' remuneration and NT\$ 53,184,254 for employees' remuneration. The payment will be made in cash.

4. Share Buyback Execution Report

Explanation:

Board of Director resolution : Nov. 8, 2016

Purpose of the share buy-back : To maintain credit of the company and interest of shareholders.

Estimated Buy-back period : Nov. 8, 2016 to Jan. 7, 2017

Estimated number of buy-back shares : 17,902,000 shares

Estimated buy-back price interval : Buy-back stock price is between NT\$ 15 to NT\$ 27.80.

Number of buy-back shares: 17,902,000shares

(as a percentage of total issued shares) : 6.01%

Total amount for buy-back shares : NT\$ 365,617,867

Average price per buy-back share : 20.42

Date of shares cancelled : Mar. 23, 2017

Ratification Items :

1. To accept 2016 Business Report and Financial Statements (proposed by the Board of Directors)

Explanation:

(1) The 2016 Financial Statements were audited by the independent auditors, Tang, Tzu Chieh and Shih, Wei Ming of KPMG.

(2) For the 2016 Business Report, Independent Auditors' Report, and the 2016 Financial Statements, please refer to Attachments 1 and 2-3 (pages 5-25).

Resolution:

2. To accept the proposal for the distribution of 2016 earnings (proposed by the Board of Directors)

Explanation:

(1) The proposed distribution is allocated from the 2016 earnings available for distribution. Each

common share holder will be entitled to receive a cash dividend of NT\$1.506 per share, The 2016 Earnings Distribution Proposal is attached hereto as Attachment 4 (page 26).

- (2) The cash dividend distribution to each shareholder will be paid to the rounded-down full NT dollar. Subject to the approval of the general shareholder's meeting, the Chairman of Board of Directors is authorized to determine the ex-dividend date for the cash dividend distribution and other related matters.
- (3) If the number of total shares outstanding has changed due to the repurchasing of shares by the Company, or for any reason, so that the ratios of the dividend is changed and need to be adjusted, the Board is authorized to make such adjustments.

Resolution:

Discussion Items :

1. To approve the proposal of cash distribution from capital surplus (Proposed by the Board of Directors)

Explanation:

- (1) In accordance with Article 241 of the Company Act, it is proposed a cash distribution of NT\$138,320,000 from the capital surplus derived from any common stock issued at a premium by the Company. The cash will be distributed to the shareholders whose names and respective shares are in the shareholders' register on the record date for ex-dividend, at a ratio of NT\$ 0.494 per share.
- (2) The cash distribution to each shareholder will be paid to the rounded-down full NT dollar. Amount less than one whole NT dollar are rounded-down to the nearest NT dollar. The aggregate unpaid cash resulting from the above rounded-down, will be distributed to shareholders in the descending order of decimal point and the ascending order of shareholder account numbers, until the total amount of the approved cash dividend has been fully distributed.
- (3) Subject to this cash distribution approved by the General Shareholders' Meeting, it is proposed that the Chairman of Board of Directors be authorized to determine the record date for the cash distribution from capital surplus.

If the distribution ratio is adjusted due to change of Company's total number of outstanding common shares it is proposed that the Chairman of Board of Directors is authorized to adjusted the ratio of cash to be distributed to each common share based on the total amount approved by the 2017 Annual General Shareholders' Meeting to be distributed and the number of actual

common shares outstanding on the record date for distribution.

Resolution:

**2. To approve the amendment to the Procedures for Acquisition or Disposition of Assets
(Proposed by the Board of Directors)**

Explanation:

To comply with the laws and regulations of "Regulations Governing the Acquisition and Disposal of Assets by Public Companies", and meet the Company's operation needs, it is proposed to revise "Procedures for Acquisition or Disposition of Assets".

The comparison tables for the "Procedures for Acquisition or Disposition of Assets" before and after amendment are attached hereto as Attachment 5 (pages27-33).

Resolution:

Extraordinary Motions

Meeting Adjourned

2016 Business Report

The annual consolidated revenue of Darfon for 2016 is 18.68 billion NTD. The gross margin has continued to rise as a result of successful product portfolio optimization and an increase in manufacturing efficiency. Aside from the one-time asset disposal gain from Darfon Precisions (Suzhou) Co., LTD during the third quarter of last year, the profits from 2016 increase significantly. The net profit after tax attributable to the parent company is 468 million NTD, with after tax earnings per share at 1.58 NTD.

In terms of operation, the strategy of human interface devices business, in the face of mature and stable PC industry, is to continue strengthening our product portfolio and further develop valued customers to increase profitability and maintain our position as the market leader. From the technology perspective, we have enhanced our backlight performance and ultra-thin keyboard as our core competency. Product-wise, in addition to the introduction of various high value-added and differentiated notebook computer keyboard products to consolidate our market leadership, we have also set our sights on breaking into the 2-in-1, e-sports keyboard, and other emerging market segments. We are also actively developing new customers and increasing the proportion of high-quality customer contributions to expand our business opportunities and profit. Our green energy and materials businesses are focusing on accelerating business development, and striving to increase revenue and profit.

In terms of management, the company's allocation of resources is focused upon achieving its goal of integrating manufacturing resources and to accelerate the implementation of manufacture automation. Darfon is adjusting the tasks and responsibilities of each manufacturing site to establish high-levelled automated and efficient systems of production, to effectively reduces costs and to ensure strict control of quality. At the same time, we strengthen supply chain management and the construction of a cross business unit integrated platform to deliver economies of scale. In the face of changing global business and environmental laws and regulations, we are actively adapting and improving for a more rigorous operation and more transparency of corporate governance. The human resources department is committed to the quality of personnel allocation, maintaining a flat organization, and to build a competitive and high-quality team. In addition, in 2016, Darfon invested 795 million NTD into R&D for product and technology research and development, together with the design of automated production equipment, in order to continuously enhance core competitiveness. Our company currently has over 1,000 of patents spread across different countries, as evidence of our company's advantages in intellectual property and innovation.

In 2017, geopolitics and economic policy changes in the US lead to an uncertain global economic outlook and increasingly stiffer industrial competition. However, in the face of future change, the management team is still very confident in the company's development. Our business, with years of experience in the human interface devices business, shall capitalize on our competitive advantages and resources to accelerate the development of green energy and material business. Darfon will gain growth opportunities from the IT and green energy industry for the sustained growth.

Thank you for your long-term support and encouragement, the management team will continue to maximize the interests of our shareholders, customers and employees.

Independent Auditors' Report

To the Board of Directors
Darfon Electronics Corp.:

Opinion

We have audited the consolidated financial statements of Darfon Electronics Corp. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in the Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

1. Revenue recognition

Refer to note 4(p) of the notes to consolidated financial statements for the accounting policy on revenue recognition.

Description of key audit matter:

Revenue generation is the primary operating activity for the entity's sustainable operations, and is relevant to the business performance, and there is higher inherent risk of fraud in revenue recognition. In consideration of business volume, the Group provided sales allowances to specific customers and the sales allowance was recorded as reduction in revenue. Consequently, the revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matters above, our principal audit procedures included testing the design and operating effectiveness of Group's internal controls over financial reporting in the sales and collection cycle; on a sample basis, inspecting contracts with customers or customers' orders and assessing whether the accounting treatment of the related contracts (including sales terms) is applied appropriately and conforms to the Group's accounting policies; performing the trend analysis on revenue of top 10 customers; obtaining the sales allowances calculation and comparing with the related internal or external sources.

2. Valuation of inventories

Refer to notes 4(h), 5 and 6(e) of the notes to consolidated financial statements for the accounting policies on measuring inventory, assumptions used and uncertainties considered in determining net realizable value, and the disclosure of the amounts of inventory write-downs, respectively.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological changes, the Group's product price may decline rapidly. Furthermore, the stocks for products may exceed customers' demands thus becoming obsolete. These factors result in a risk wherein the carrying amount of inventory may exceed its net realizable value. Particularly, the estimation of net realizable value requires the management's subjective judgments. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included obtaining the inventory aging report, analyzing the fluctuation of inventory aging and electing samples to verify the accuracy of inventory aging; evaluating whether valuation of inventories was accounted for in accordance with the Groups' accounting policies; and assessing the historical reasonableness of management's estimates of inventory provisions. Moreover, comparing with inventory provisions recognized in the current year to evaluate the reasonableness of inventory provisions.

Other Matter

Darfon Electronics Corp. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified audit opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements.

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

1. Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicated 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 identified during our audit.

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Tzu-Chieh Tang and Wei-Ming Shih.

KPMG

Taipei, Taiwan (Republic of China)

March 2, 2017

Notice to Readers

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (notes 6(1) & (21))	\$ 1,344,070	8	1,345,757	8
1125	Available-for-sale financial assets — current (notes 6(3) & (21))	84,062	-	78,081	-
1170	Notes and accounts receivable, net (notes 6(4) & (21))	5,526,988	33	4,606,900	27
1180	Accounts receivable from related parties (notes 6(4) & (21) and 7)	19,303	-	21,522	-
1200	Other receivables (notes 6(4), (6) & (21) and 8)	51,208	-	656,488	3
1210	Other receivables from related parties (notes 6(4) & (21) and 7)	74	-	-	-
1310	Inventories (notes 6(5))	2,174,474	13	2,546,830	15
1410	Prepaid expenses and other current assets	379,611	2	670,082	4
1476	Other financial assets — current (notes 6(7) & (21))	<u>1,794,526</u>	<u>11</u>	<u>1,034,276</u>	<u>6</u>
Total current assets		<u>11,374,316</u>	<u>67</u>	<u>10,959,936</u>	<u>63</u>
Non-current assets:					
1523	Available-for-sale financial assets — non-current (notes 6(3) & (21))	-	-	6,000	-
1600	Property, plant and equipment (notes 6(8) and 8)	5,298,102	31	5,675,309	33
1780	Intangible assets (note 6(9))	29,991	-	42,844	-
1840	Deferred income tax assets (note 6(15))	169,077	1	152,507	1
1920	Refundable deposits (note 6(21))	11,014	-	12,545	-
1975	Net defined benefit asset — non-current (note 6(14))	10,530	-	11,007	-
1985	Long-term prepaid rents	67,749	1	71,642	1
1990	Other noncurrent assets (note 6(6))	<u>29,249</u>	<u>-</u>	<u>371,979</u>	<u>2</u>
Total non-current assets		<u>5,615,712</u>	<u>33</u>	<u>6,343,833</u>	<u>37</u>
Total assets		<u>\$ 16,990,028</u>	<u>100</u>	<u>17,303,769</u>	<u>100</u>

(Continued)

See accompanying notes to financial statements.

DARFON ELECTRONICS CORP. AND SUBSIDIARIES**Consolidated Balance Sheets****December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term borrowings (notes 6(10) & (21))	\$ 738,775	4	865,650	5
2120	Financial liabilities at fair value through profit or loss — current (notes 6(2) & (21))	18,121	-	-	-
2170	Notes and accounts payable (note 6(21))	4,028,615	24	3,724,141	21
2180	Accounts payable to related parties (notes 6(21) and 7)	6,585	-	8,612	-
2200	Other payables (notes 6(19) & (21))	2,340,246	14	2,060,536	12
2220	Other payables to related parties (notes 6(21) and 7)	5,191	-	13,804	-
2399	Other current liabilities	238,708	1	104,032	1
Total current liabilities		7,376,241	43	6,776,775	39
Non-current liabilities:					
2540	Long-term borrowings (notes 6(11) & (21) and 8)	1,080,000	6	1,106,737	6
2550	Provisions — non-current (note 6(12))	85,203	1	102,579	1
2570	Deferred income tax liabilities (note 6(15))	-	-	190	-
2670	Other noncurrent liabilities	10,226	-	8,703	-
2640	Net defined benefit liability — non-current (note 6(14))	86,051	1	85,626	1
Total non-current liabilities		1,261,480	8	1,303,835	8
Total liabilities		8,637,721	51	8,080,610	47
Equity attributable to shareholders of the Company (note 6(16)):					
3110	Common stock	2,979,020	17	2,979,020	17
3210	Capital surplus	4,351,038	26	4,351,038	25
Retained earnings:					
3310	Legal reserve	677,107	4	614,647	4
3350	Unappropriated earnings	654,568	4	844,432	5
Total retained earnings		1,331,675	8	1,459,079	9
Other components of equity:					
3410	Foreign currency translation reserve	26,335	-	441,471	2
3425	Unrealized gain (loss) on available-for-sale financial assets	4,466	-	(22,332)	-
3445	Remeasurement of defined benefit obligation	(28,098)	-	(23,569)	-
Total other components of equity		2,703	-	395,570	2
3500	Treasury stock	(341,721)	(2)	-	-
Equity attributable to shareholders of the Company		8,322,715	49	9,184,707	53
36XX	Non-controlling interests	29,592	-	38,452	-
Total equity		8,352,307	49	9,223,159	53
Total liabilities and equity		\$ 16,990,028	100	17,303,769	100

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

		2016		2015	
		Amount	%	Amount	%
4000	Net sales (notes 6(18) and 7)	\$ 18,681,618	100	19,660,699	100
5000	Cost of sales (notes 6(5), (8), (14) & (19), 7 and 12)	<u>15,887,803</u>	<u>85</u>	<u>17,382,590</u>	<u>88</u>
	Gross profit	<u>2,793,815</u>	<u>15</u>	<u>2,278,109</u>	<u>12</u>
	Operating expenses (notes 6(4), (8), (9), (12), (13), (14) & (19), 7 and 12):				
6100	Selling	967,214	5	993,737	5
6200	Administrative	545,761	3	592,833	3
6300	Research and development	<u>795,077</u>	<u>4</u>	<u>843,176</u>	<u>4</u>
6000	Total operating expenses	<u>2,308,052</u>	<u>12</u>	<u>2,429,746</u>	<u>12</u>
6500	Other operating income and loss, net (note 6(6))	<u>-</u>	<u>-</u>	<u>718,530</u>	<u>3</u>
	Operating income	<u>485,763</u>	<u>3</u>	<u>566,893</u>	<u>3</u>
	Non-operating income and loss (notes 6(3),(6), (8), (20) & (21) and 7):				
7010	Other income	124,471	-	81,570	-
7020	Other gains and losses	13,709	-	206,967	1
7050	Finance costs	<u>(34,753)</u>	<u>-</u>	<u>(42,878)</u>	<u>-</u>
	Total non-operating income and loss	<u>103,427</u>	<u>-</u>	<u>245,659</u>	<u>1</u>
7900	Income before income tax	589,190	3	812,552	4
7950	Income tax expenses (note 6(15))	<u>116,800</u>	<u>-</u>	<u>185,756</u>	<u>1</u>
	Net income	<u>472,390</u>	<u>3</u>	<u>626,796</u>	<u>3</u>
	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss (notes 6(14), (15) & (16)):				
8311	Remeasurements of defined benefit plans	(5,313)	-	(3,792)	-
8349	Income tax related to items that will not be reclassified subsequently to profit or loss	<u>784</u>	<u>-</u>	<u>710</u>	<u>-</u>
	Total amount of items that could not be reclassified subsequently to profit or loss	<u>(4,529)</u>	<u>-</u>	<u>(3,082)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss(note 6(16)):				
8361	Exchange differences on translation of foreign operations	(415,136)	(3)	82,800	-
8362	Change in fair value of available-for-sale financial assets	26,798	-	(56,462)	-
8399	Income tax related to items that may be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total amount of items that could be reclassified subsequently to profit or loss	<u>(388,338)</u>	<u>(3)</u>	<u>26,338</u>	<u>-</u>
	Other comprehensive income, net of income tax	<u>(392,867)</u>	<u>(3)</u>	<u>23,256</u>	<u>-</u>
	Total comprehensive income	<u>\$ 79,523</u>	<u>-</u>	<u>650,052</u>	<u>3</u>
	Net income attributable to:				
8610	Shareholders of the Company	\$ 468,400	3	624,597	3
8620	Non-controlling interests	<u>3,990</u>	<u>-</u>	<u>2,199</u>	<u>-</u>
	Total comprehensive income attributable to:	<u>\$ 472,390</u>	<u>3</u>	<u>626,796</u>	<u>3</u>
8710	Shareholders of the Company	\$ 75,533	-	647,853	3
8720	Non-controlling interests	<u>3,990</u>	<u>-</u>	<u>2,199</u>	<u>-</u>
		<u>\$ 79,523</u>	<u>-</u>	<u>650,052</u>	<u>3</u>
	Earnings per share (in New Taiwan dollars) (note 6(17)) :				
9750	Basic earnings per share	<u>\$ 1.58</u>		<u>2.00</u>	
9850	Diluted earnings per share	<u>\$ 1.56</u>		<u>1.97</u>	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to shareholders of the Company												
	Retained earnings					Other components of equity							
	Common stock	Capital Surplus	Legal reserve	Unappropriated earnings	Subtotal	Foreign currency translation reserve	Unrealized gain (loss) on available-for-sale financial assets	Remeasurements of defined benefit plans	Subtotal	Treasury stock	Equity attributable to shareholders of the Company	Non-controlling interests	Total equity
Balance at January 1, 2015	\$ 3,189,020	4,471,758	606,836	323,317	930,153	358,671	34,130	(20,487)	372,314	-	8,963,245	37,103	9,000,348
Appropriation approved by the stockholders:													
Appropriation of legal reserve	-	-	7,811	(7,811)	-	-	-	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(95,671)	(95,671)	-	-	-	-	-	(95,671)	-	(95,671)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(330,720)	(330,720)	-	(330,720)
Retirement of treasury stock	(210,000)	(120,720)	-	-	-	-	-	-	-	330,720	-	-	-
Acquisition of subsidiary’s interests from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(850)	(850)
Net income in 2015	-	-	-	624,597	624,597	-	-	-	-	-	624,597	2,199	626,796
Other comprehensive income in 2015, net of income tax	-	-	-	-	-	82,800	(56,462)	(3,082)	23,256	-	23,256	-	23,256
Total comprehensive income in 2015	-	-	-	624,597	624,597	82,800	(56,462)	(3,082)	23,256	-	647,853	2,199	650,052
Balance at December 31, 2015	2,979,020	4,351,038	614,647	844,432	1,459,079	441,471	(22,332)	(23,569)	395,570	-	9,184,707	38,452	9,223,159
Appropriation approved by the stockholders:													
Appropriation of legal reserve	-	-	62,460	(62,460)	-	-	-	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(595,804)	(595,804)	-	-	-	-	-	(595,804)	-	(595,804)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(341,721)	(341,721)	-	(341,721)
Acquisition of subsidiary’s interests from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(12,850)	(12,850)
Net income in 2016	-	-	-	468,400	468,400	-	-	-	-	-	468,400	3,990	472,390
Other comprehensive income in 2016, net of income tax	-	-	-	-	-	(415,136)	26,798	(4,529)	(392,867)	-	(392,867)	-	(392,867)
Total comprehensive income in 2016	-	-	-	468,400	468,400	(415,136)	26,798	(4,529)	(392,867)	-	75,533	3,990	79,523
Balance at December 31, 2016	\$ 2,979,020	4,351,038	677,107	654,568	1,331,675	26,335	4,466	(28,098)	2,703	(341,721)	8,322,715	29,592	8,352,307

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	<u>2016</u>	<u>2015</u>
Cash flows from (used in) operating activities:		
Income before income tax	\$ 589,190	812,552
Adjustments for:		
Depreciation	581,882	741,564
Amortization	98,472	79,203
Interest expense	34,753	42,878
Bad debt expenses (reversal)	(695)	241
Interest income	(55,000)	(32,799)
Dividend income	(3,601)	(4,807)
Gains on disposal and retirement of property, plant and equipment, net	(40,311)	(14,864)
Losses on disposal of intangible assets	-	3,088
Gains on disposal of noncurrent assets held for sale	-	(466,461)
Gains on disposal of investments	(9,959)	(31)
Impairment losses on financial assets	39,878	-
Impairment losses on non-financial assets	-	265,665
Unrealized foreign exchange losses (profit)	(14,375)	31,725
Subtotal	<u>631,044</u>	<u>645,402</u>
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	-	10,660
Decrease (increase) in notes and accounts receivable	(919,393)	437,152
Decrease in accounts receivable from related parties	2,219	6,594
Decrease (increase) in other receivables	361,218	(161,053)
Increase in other receivables from related parties	(74)	-
Decrease in inventories	372,356	697,514
Decrease in prepaid expenses and other current assets	290,948	776,059
Decrease (increase) in other noncurrent assets	117,169	(128,033)
	<u>224,443</u>	<u>1,638,893</u>
Changes in operating liabilities:		
Increase in financial liabilities at fair value through profit or loss	18,121	-
Increase (decrease) in notes and accounts payable	304,474	(1,421,368)
Decrease in accounts payable to related parties	(2,027)	(32,976)
Increase in other payables	392,802	370,846
Decrease in other payables to related parties	(8,613)	(3,811)
Increase (decrease) in provisions	(17,376)	3,521
Increase (decrease) in other current liabilities	134,676	(79,116)
Decrease in other noncurrent liabilities	(2,581)	(3,356)
	<u>819,476</u>	<u>(1,166,260)</u>
Total changes in operating assets and liabilities	<u>1,043,919</u>	<u>472,633</u>
Total adjustments	<u>1,674,963</u>	<u>1,118,035</u>
Cash inflow generated from operations	2,264,153	1,930,587
Interest received	55,225	18,520
Interest paid	(34,391)	(44,312)
Income taxes paid	(232,120)	(42,057)
Net cash provided by operating activities	<u>2,052,867</u>	<u>1,862,738</u>

(Continued)

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
DARFON ELECTRONICS CORP. AND SUBSIDIARIES(Continued)

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from (used in) investing activities:		
Purchase of available-for-sale financial assets	(8,377)	(7,623)
Proceeds from sale of available-for-sale financial assets	5,275	4,698
Proceeds from disposal of noncurrent assets held for sale	-	615,502
Additions to property, plant and equipment	(442,894)	(355,990)
Proceeds from disposal of property, plant and equipment	54,844	77,083
Decrease in refundable deposits	1,531	12,116
Decrease in other receivables	244,031	-
Increase in other financial assets-current	(760,250)	(1,034,276)
Decrease (increase) in other non-current assets	113,428	(60,573)
Decrease (increase) in restricted cash in banks	(194)	4,303
Dividends received	3,601	4,807
Net cash used in investing activities	<u>(789,005)</u>	<u>(739,953)</u>
Cash flows from (used in) financing activities:		
Decrease in short-term borrowings	(126,875)	(131,908)
Increase in long-term borrowings	1,431,638	224,125
Repayment of long-term borrowings	(1,444,000)	(258,663)
Distribution of cash dividends	(595,804)	(95,671)
Purchase of treasury stock	(325,880)	(330,720)
Acquisition of subsidiary's interests from non-controlling interests	(12,850)	(850)
Net cash used in financing activities	<u>(1,073,771)</u>	<u>(593,687)</u>
Effects of exchange rate changes	<u>(191,778)</u>	<u>8,042</u>
Net increase (decrease) in cash and cash equivalents	(1,687)	537,140
Cash and cash equivalents at beginning of year	1,345,757	808,617
Cash and cash equivalents at end of year	<u>\$ 1,344,070</u>	<u>1,345,757</u>
Cash paid for additions to property, plant and equipment:		
Additions to property, plant and equipment	\$ 377,727	387,493
Plus (less): change in payables	65,167	(31,503)
Cash paid	<u>\$ 442,894</u>	<u>355,990</u>

Independent Auditors' Report

To the Board of Directors
Darfon Electronics Corp.:

Opinion

We have audited the parent-company-only financial statements of Darfon Electronics Corp. (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the parent-company-only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent-company-only financial statements present fairly, in all material respects, the financial position of the company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent-Company-Only Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in the Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis 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 parent-company-only financial statements of the current period. These matters were addressed in the context of our audit of the parent-company-only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's parent-company-only financial statements for the year ended December 31, 2016 are stated as follows:

1. Revenue recognition

Refer to note 4(p) of the notes to parent-company-only financial statements for the accounting policy on revenue recognition.

Description of key audit matter:

Revenue generation is the primary operating activity for the entity's sustainable operations, and is relevant to the business performance, and there is higher inherent risk of fraud in revenue recognition. In consideration of business volume, the Company provided sales allowances to specific customers and the sales allowance was recorded as reduction in revenue. Consequently, the revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matters above, our principal audit procedures included testing the design and operating effectiveness of Company's internal controls over financial reporting in the sales and collection cycle; on a sample basis, inspecting contracts with customers or customers' orders and assessing whether the accounting treatment of the related contracts (including sales terms) is applied appropriately and conforms to the Company's accounting policies; performing the trend analysis on revenue of top 10 customers; obtaining the sales allowances calculation and comparing with the related internal or external sources.

2. Valuation of inventories

Refer to notes 4(g), 5 and 6(e) of the notes to parent-company-only financial statements for the accounting policies on measuring inventory, assumptions used and uncertainties considered in determining net realizable value, and the disclosure of the amounts of inventory write-downs, respectively.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological changes, the Company's product price may decline rapidly. Furthermore, the stocks for products may exceed customers' demands thus becoming obsolete. These factors result in a risk wherein the carrying amount of inventory may exceed its net realizable value. Particularly, the estimation of net realizable value requires the management's subjective judgments. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included obtaining the inventory aging report, analyzing the fluctuation of inventory aging and electing samples to verify the accuracy of inventory aging; evaluating whether valuation of inventories was accounted for in accordance with the Company's accounting policies; and assessing the historical reasonableness of management's estimates of inventory provisions. Moreover, comparing with inventory provisions recognized in the current year to evaluate the reasonableness of inventory provisions.

Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Parent-Company-Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent-company-only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 parent-company-only financial statements.

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

1. Identified and assessed the risks of material misstatement of the parent-company-only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtained 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. Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent-company-only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluated the overall presentation, structure and content of the parent-company-only financial statements, including the disclosures, and whether the parent-company-only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtained sufficient appropriate audit evidence regarding the financial information of equity-accounted investees to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of audit. We remain solely responsible for our audit opinion.

We communicated 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 identified during our audit.

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the parent-company-only financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Tzu-Chieh Tang and Wei-Ming Shih.

KPMG

Taipei, Taiwan (Republic of China)

March 2, 2017

Notice to Readers

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

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

DARFON ELECTRONICS CORP.**Balance Sheets****December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

Assets		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (notes 6(1) & (21))	\$ 71,527	1	44,303	-
1125	Available-for-sale financial assets—current (notes 6(3) & (21))	40,087	-	52,234	-
1170	Notes and accounts receivable, net (notes 6(4) & (21))	4,146,075	27	3,484,754	23
1180	Accounts receivable from related parties (notes 6(4) & (21) and 7)	648,693	4	921,389	6
1200	Other receivables (notes 6(4) & (21))	2,659	-	5,439	-
1210	Other receivables from related parties (notes 6(4) & (21) and 7)	54,140	-	14,344	-
1310	Inventories (notes 6(5))	784,634	5	846,065	6
1410	Prepaid expenses and other current assets	<u>58,370</u>	<u>-</u>	<u>57,878</u>	<u>-</u>
	Total current assets	<u>5,806,185</u>	<u>37</u>	<u>5,426,406</u>	<u>35</u>
Non-current assets:					
1550	Investments accounted for using equity method (notes 6(6) and 7)	7,495,293	49	7,689,814	50
1600	Property, plant and equipment (notes 6(7) & 7 and 8)	2,019,389	13	2,096,639	14
1760	Investment property (notes 6(8) and 8)	17,550	-	19,070	-
1780	Intangible assets (note 6(9))	29,991	-	42,844	-
1840	Deferred income tax assets (note 6(15))	169,077	1	152,507	1
1920	Refundable deposits (note 6(21))	1,101	-	940	-
1990	Other noncurrent assets	<u>10,855</u>	<u>-</u>	<u>22,766</u>	<u>-</u>
	Total non-current assets	<u>9,743,256</u>	<u>63</u>	<u>10,024,580</u>	<u>65</u>
	Total assets	<u>\$ 15,549,441</u>	<u>100</u>	<u>15,450,986</u>	<u>100</u>

(Continued)

See accompanying notes to parent-company-only financial statements.

DARFON ELECTRONICS CORP.**Balance Sheets****December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term borrowings (notes 6(10) & (21))	\$ 713,775	4	865,650	6
2120	Financial liabilities at fair value through profit or loss — current (notes 6(2) & (21))	18,121	-	-	-
2170	Notes and accounts payable (note 6(21))	123,123	1	130,330	1
2180	Accounts payable to related parties (notes 6(21) and 7)	3,873,499	25	3,099,959	20
2200	Other payables (notes 6(19) & (21))	1,235,558	8	853,335	5
2220	Other payables to related parties (notes 6(21) and 7)	1,090	-	13,626	-
2399	Other current liabilities	9,273	-	7,214	-
	Total current liabilities	5,974,439	38	4,970,114	32
Non-current liabilities:					
2540	Long-term borrowings (notes 6(11) & (21) and 8)	1,080,000	7	1,106,737	7
2550	Provisions — non-current (note 6(12))	85,203	-	102,579	1
2570	Deferred income tax liabilities (note 6(15))	-	-	190	-
2640	Net defined benefit liability — non-current (note 6(14))	86,051	1	85,626	1
2645	Guarantee deposit received (note 6(21))	1,033	-	1,033	-
	Total non-current liabilities	1,252,287	8	1,296,165	9
	Total liabilities	7,226,726	46	6,266,279	41
Equity attributable to shareholders of the Company (note 6(16)):					
3110	Common stock	2,979,020	19	2,979,020	19
3210	Capital surplus	4,351,038	28	4,351,038	28
	Retained earnings:				
3310	Legal reserve	677,107	5	614,647	4
3350	Unappropriated earnings	654,568	4	844,432	5
	Total retained earnings	1,331,675	9	1,459,079	9
	Other components of equity:				
3410	Foreign currency translation reserve	26,335	-	441,471	3
3425	Unrealized gain (loss) on available-for-sale financial assets	4,466	-	(22,332)	-
3445	Remeasurement of defined benefit obligation	(28,098)	-	(23,569)	-
	Total other components of equity	2,703	-	395,570	3
3500	Treasury stock	(341,721)	(2)	-	-
	Total equity	8,322,715	54	9,184,707	59
	Total liabilities and equity	\$ 15,549,441	100	15,450,986	100

See accompanying notes to parent-company-only financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
DARFON ELECTRONICS CORP.

Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

		2016		2015	
		Amount	%	Amount	%
4000	Net sales (notes 6(18) and 7)	\$ 13,816,568	100	13,370,937	100
5000	Cost of sales (notes 6(5), (7), (14) & (19), 7 and 12)	<u>12,168,960</u>	<u>88</u>	<u>12,360,743</u>	<u>92</u>
	Gross profit	1,647,608	12	1,010,194	8
5910	Unrealized profit from sales	<u>94,385</u>	<u>1</u>	<u>35,998</u>	<u>1</u>
	Realized gross profit	<u>1,553,223</u>	<u>11</u>	<u>974,196</u>	<u>7</u>
	Operating expenses (notes 6(7), (8), (9), (12), (14), (19) & 7 and 12):				
6100	Selling	421,202	3	357,596	3
6200	Administrative	320,655	2	322,097	2
6300	Research and development	<u>619,816</u>	<u>5</u>	<u>579,998</u>	<u>4</u>
6000	Total operating expenses	<u>1,361,673</u>	<u>10</u>	<u>1,259,691</u>	<u>9</u>
	Operating income (loss)	<u>191,550</u>	<u>1</u>	<u>(285,495)</u>	<u>(2)</u>
	Non-operating income and loss:				
7010	Other income (notes 6(20) and 7)	29,067	-	30,065	-
7020	Other gains and losses (notes 6(3),(7), (20) & (21) and 7)	(6,261)	-	(121,899)	(1)
7050	Finance costs (notes 6(20))	(31,499)	-	(37,241)	-
7375	Investment gains recognized under equity methods (notes 6(6))	<u>291,812</u>	<u>2</u>	<u>1,054,850</u>	<u>8</u>
	Total non-operating income and loss	<u>283,119</u>	<u>2</u>	<u>925,775</u>	<u>7</u>
7900	Income before income tax	474,669	3	640,280	5
7950	Income tax expenses (note 6(15))	<u>6,269</u>	<u>-</u>	<u>15,683</u>	<u>-</u>
	Net income	<u>468,400</u>	<u>3</u>	<u>624,597</u>	<u>5</u>
	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss (notes 6(14), (15) & (16)):				
8311	Remeasurements of defined benefit plans	(4,610)	-	(4,178)	-
8330	Equity-accounted investees – share of other comprehensive income (loss)	(703)	-	386	-
8349	Income tax related to items that will not be reclassified subsequently to profit or loss	<u>784</u>	<u>-</u>	<u>710</u>	<u>-</u>
	Total amount of items that could not be reclassified subsequently to profit or loss	<u>(4,529)</u>	<u>-</u>	<u>(3,082)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss(note 6(16)):				
8361	Exchange differences on translation of foreign operations	(415,136)	(3)	82,800	-
8362	Change in fair value of available-for-sale financial assets	17,378	-	(41,757)	-
8380	Equity-accounted investees – share of other comprehensive loss	9,420	-	(14,705)	-
8399	Income tax related to items that may be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total amount of items that could be reclassified subsequently to profit or loss	<u>(388,338)</u>	<u>(3)</u>	<u>26,338</u>	<u>-</u>
	Other comprehensive income, net of income tax	<u>(392,867)</u>	<u>(3)</u>	<u>23,256</u>	<u>-</u>
	Total comprehensive income	<u><u>\$ 75,533</u></u>	<u><u>-</u></u>	<u><u>647,853</u></u>	<u><u>5</u></u>
	Earnings per share (in New Taiwan dollars) (note 6(17)) :				
9750	Basic earnings per share	<u><u>\$ 1.58</u></u>		<u><u>2.00</u></u>	
9850	Diluted earnings per share	<u><u>\$ 1.56</u></u>		<u><u>1.97</u></u>	

See accompanying notes to parent-company-only financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
DARFON ELECTRONICS CORP.

Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings					Other components of equity					
	Common stock	Capital Surplus	Legal reserve	Unappropriated earnings	Subtotal	Foreign currency translation reserve	Unrealized gain (loss) on available-for- sale financial assets	Remeasurements of defined benefit plans	Subtotal	Treasury stock	Total equity
Balance at January 1, 2015	\$ 3,189,020	4,471,758	606,836	323,317	930,153	358,671	34,130	(20,487)	372,314	-	8,963,245
Appropriation approved by the stockholders:											
Appropriation of legal reserve	-	-	7,811	(7,811)	-	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(95,671)	(95,671)	-	-	-	-	-	(95,671)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(330,720)	(330,720)
Retirement of treasury stock	(210,000)	(120,720)	-	-	-	-	-	-	-	330,720	-
Net income in 2015	-	-	-	624,597	624,597	-	-	-	-	-	624,597
Other comprehensive income in 2015, net of income tax	-	-	-	-	-	82,800	(56,462)	(3,082)	23,256	-	23,256
Total comprehensive income in 2015	-	-	-	624,597	624,597	82,800	(56,462)	(3,082)	23,256	-	647,853
Balance at December 31, 2015	<u>2,979,020</u>	<u>4,351,038</u>	<u>614,647</u>	<u>844,432</u>	<u>1,459,079</u>	<u>441,471</u>	<u>(22,332)</u>	<u>(23,569)</u>	<u>395,570</u>	<u>-</u>	<u>9,184,707</u>
Appropriation approved by the stockholders:											
Appropriation of legal reserve	-	-	62,460	(62,460)	-	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(595,804)	(595,804)	-	-	-	-	-	(595,804)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(341,721)	(341,721)
Net income in 2016	-	-	-	468,400	468,400	-	-	-	-	-	468,400
Other comprehensive income in 2016, net of income tax	-	-	-	-	-	(415,136)	26,798	(4,529)	(392,867)	-	(392,867)
Total comprehensive income in 2016	-	-	-	468,400	468,400	(415,136)	26,798	(4,529)	(392,867)	-	75,533
Balance at December 31, 2016	<u>\$ 2,979,020</u>	<u>4,351,038</u>	<u>677,107</u>	<u>654,568</u>	<u>1,331,675</u>	<u>26,335</u>	<u>4,466</u>	<u>(28,098)</u>	<u>2,703</u>	<u>(341,721)</u>	<u>8,322,715</u>

Note: The remuneration to directors amounted to \$4,200 thousand and \$5,381 thousand and the remunerations to employees amount to \$53,184 thousand and \$71,740 thousand for the years ended December 31, 2016 and 2015, respectively, which were deducted from the statements of comprehensive income.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
DARFON ELECTRONICS CORP.

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	<u>2016</u>	<u>2015</u>
Cash flows from (used in) operating activities:		
Income before income tax	\$ 474,669	640,280
Adjustments for:		
Depreciation	113,866	174,185
Amortization	44,673	29,763
Interest expense	31,499	37,241
Interest income	(338)	(7,534)
Dividend income	(1,966)	(3,219)
Investment gains recognized under equity method	(291,812)	(1,054,850)
Gains on disposal and retirement of property, plant and equipment, net	(67,775)	(4,471)
Impairment losses on financial assets	29,525	-
Impairment losses on non-financial assets	-	129,065
Unrealized foreign exchange losses (profit)	(14,375)	31,725
Unrealized profit from sales	(94,385)	35,998
Subtotal	<u>(62,318)</u>	<u>(632,097)</u>
Changes in operating assets:		
Increase in notes and accounts receivable	(661,321)	(534,264)
Decrease in accounts receivable from related parties	272,696	168,721
Decrease in other receivables	2,780	2,525
Decrease (increase) in other receivables from related parties	1,790	(3,502)
Decrease in inventories	61,431	175,873
Increase in prepaid expenses and other current assets	(492)	(2,130)
	<u>(323,116)</u>	<u>(192,777)</u>
Changes in operating liabilities:		
Increase in financial liabilities at fair value through profit or loss	18,121	-
Decrease in notes and accounts payable	(7,207)	(96,840)
Increase in accounts payable to related parties	773,540	369,761
Increase in other payables	367,543	307,306
Increase (decrease) in other payables to related parties	(12,536)	10,133
Increase (decrease) in provisions	(17,376)	3,521
Increase (decrease) in other current liabilities	2,059	(1,536)
Decrease in other noncurrent liabilities	(4,185)	(4,067)
	<u>1,119,959</u>	<u>588,278</u>
Total changes in operating assets and liabilities	<u>796,843</u>	<u>395,501</u>
Total adjustments	<u>734,525</u>	<u>(236,596)</u>
Cash inflow generated from operations	1,209,194	403,684
Interest received	338	7,534
Equity interest in subsidiary	17,130	-
Interest paid	(31,148)	(37,867)
Income taxes paid	(7,733)	(21,898)
Net cash provided by operating activities	<u>1,187,781</u>	<u>351,453</u>

(Continued)

(English Translation of Financial Statements and Report Originally Issued in Chinese)

DARFON ELECTRONICS CORP. (Continued)

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	<u>2016</u>	<u>2015</u>
Cash flows from (used in) investing activities:		
Acquisitions of equity-accounted investees	(36,482)	(21,401)
Accommodation fund received- decrease in related parties	-	136,095
Other Receivables-increase in related parties	(41,586)	(4,783)
Proceed from capital reduction of equity-accounted investees	2,915	-
Additions to property, plant and equipment	(54,679)	(45,787)
Proceeds from disposal of property, plant and equipment	73,300	48,214
Acquisition of Investment Property	-	(254)
Decrease in refundable deposits	(161)	-
Increase in other non-current assets	(19,909)	(32,582)
Dividends received	<u>1,966</u>	<u>3,219</u>
Net cash used in investing activities	<u>(74,636)</u>	<u>82,721</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(151,875)	22,560
Increase in long-term borrowings	1,431,638	224,125
Repayment of long-term borrowings	(1,444,000)	(258,663)
Distribution of cash dividends	(595,804)	(95,671)
Purchase of treasury stock	<u>(325,880)</u>	<u>(330,720)</u>
Net cash used in financing activities	<u>(1,085,921)</u>	<u>(438,369)</u>
Net increase (decrease) in cash and cash equivalents	27,224	(4,195)
Cash and cash equivalents at beginning of year	<u>44,303</u>	<u>48,498</u>
Cash and cash equivalents at end of year	<u>\$ 71,527</u>	<u>44,303</u>
Cash paid for additions to property, plant and equipment:		
Additions to property, plant and equipment	\$ 38,655	41,946
Plus (less): change in payables	<u>16,024</u>	<u>3,841</u>
Cash paid	<u>\$ 54,679</u>	<u>45,787</u>

DARFON ELECTRONICS CORP
2016 Earnings Distribution Proposal

(Unit: NTD \$)

Items	Amount
Unappropriated retained earnings of prior years	186,167,989
Add:	
Net profit after tax	468,400,387
Less: 10% legal reserve	(46,840,039)
Distributable net profit	607,728,337
Distributable items:	
Cash dividends to common shareholders (NT\$1,506 for every 1,000 common shares)	(421,680,002)
Unappropriated retained earnings	186,048,335
<p>Notes:</p> <p>The cash dividend distribution to each shareholder will be paid to the rounded-down full NT dollar. Amounts less than one whole NT dollar are rounded-down to the nearest NT dollar. The aggregate unpaid cash dividend resulting from the above rounded-down, will be distributed to shareholders in the descending order of decimal point and the ascending order of shareholder account numbers, until the total amount of the approved cash dividend has been fully distributed.</p>	

Comparison Table of the Handling Procedures for Acquisition or Disposal of Assets Before and After Amendment

Number of Article	Before amendment	After amendment	Reason of amendment
Article 4	<p>Information Disclosure</p> <p>1. If the Company or the Company's subsidiary acquires or disposes of the following assets, the Company shall make a public announcement and file the necessary report(s) in the format prescribed by the FSC within two days from occurrence of the relevant event :</p> <p>(1) acquisition or disposal of real property from any related party or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets, or NT\$300 million or more.</p> <p>(2) conducting merger, spin-off, acquisition or share transfer;</p> <p>(3) Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company.</p> <p>(4) If any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported in accordance with the relevant rules, change, termination, or rescission of the contract signed in regard to the original transaction; and the merger, demerger, acquisition, or transfer of shares is not completed by scheduled date set forth in the contract; or change of the originally publicly announced and reported information.</p> <p>(5) except for any of those referred to in the preceding four subparagraphs or investing in Mainland China, the transaction amount reaches 20 percent or more of paid-in capital or NT\$300 million or more. The transaction</p>	<p>Information Disclosure</p> <p>1. If the Company or the Company's subsidiary acquires or disposes of the following assets, the Company shall make a public announcement and file the necessary report(s) in the format prescribed by the FSC within two days from occurrence of the relevant event :</p> <p>(1) acquisition or disposal of real property from any related party or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets, or NT\$300 million or more, <u>except for trading in government bonds, bond trading with repurchase and/or reverse purchase arrangement, or subscription or repurchase redemption of money market funds issued by securities investment trust enterprises;</u></p> <p>(2) conducting merger, spin-off, acquisition or share transfer;</p> <p>(3) Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company.</p> <p><u>(4) the acquired and/or disposed assets are equipments which are for business use and the transaction counterparties are not related parties, and the transaction amounts reach any of the following,</u></p> <p>(a) NT\$500 million or more if the Company's paid-in capital does not reach NT\$10 billion, <u>(b) NT\$1 billion or more if the Company's paid-in capital reaches NT\$10 billion or more.</u></p> <p><u>(5) the real property was acquired by ways of</u></p>	To comply with the amendments to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies

Number of Article	B e f o r e a m e n d m e n t	A f t e r a m e n d m e n t	Reason of amendment
	<p>amounts in the preceding paragraph shall be calculated the amount of any individual transaction, or of cumulative transactions with the same trading counterparty within 1 year, or the cumulative transaction amount of acquisitions or disposals of the same securities within one year.</p> <p>2. If the Company acquires or disposes of the following assets , the transaction amount reaches NT\$500 million or more, the Company shall make a public announcement and file the necessary report(s) in the format prescribed by the FSC within two days from occurrence of the relevant event :</p> <p>(1) the acquired and/or disposed assets are equipments which are for business use, the transaction counterparties are not related parties, the amount of any individual transaction is reaches NT\$500 million or more, or of cumulative transactions with the same trading counterparty within 1 year the transaction amount reaches NT\$500 million or more. ; and</p> <p>(2) the real property was acquired by ways of mandating others to build on the Company's own land, or mandating others to build on the rented land, joint construction with others to share the buildings, joint construction with others to acquire certain proportion of ownership of the buildings, or joint construction with others to separately sell the buildings, and the proposed investment amount to be contributed by the Company reaches NT\$500 million or more.</p> <p>3. The company acquired and/or disposed of the following assets, need not publicly announcement :</p> <p>(1) bond trading with repurchase and/or reverse purchase arrangement, or subscription or repurchase of domestic money market funds;</p> <p>(2) trading in government bonds.</p>	<p>mandating others to build on the Company's own land, or mandating others to build on the rented land, joint construction with others to share the buildings, joint construction with others to acquire certain proportion of ownership of the buildings, or joint construction with others to separately sell the buildings, and the proposed investment amount to be contributed by the Company reaches NT\$500 million or more.</p> <p><u>(6)</u> except for any of those referred to in the preceding <u>five</u> subparagraphs or investing in Mainland China, the transaction amount reaches 20 percent or more of paid-in capital or NT\$300 million or more. The transaction amounts in the preceding paragraph shall be calculated the amount of any individual transaction, or of cumulative transactions with the same trading counterparty within 1 year, or the cumulative transaction amount of acquisitions or disposals of the same securities within one year ; <u>provided, this shall not apply to the following circumstances:</u></p> <p><u>(a)</u> bond trading with repurchase and/or reverse <u>purchase</u> arrangement, or subscription or redemption of money market funds <u>issued by securities investment trust enterprises;</u></p> <p><u>(b)</u> trading in government bonds.</p> <p><u>2.</u> If any of the following circumstances occurs with respect to a transaction that the Company has already publicly announced and reported in accordance with the relevant rules, change, termination, or rescission of the contract signed in regard to the original transaction; and the merger, demerger, acquisition, or transfer of shares is not completed by scheduled date set forth in the contract; or change of the originally publicly announced and reported information.</p> <p><u>3.</u> The term "the date of occurrence of the relevant event" as used in the Handling Procedures, shall</p>	

Number of Article	B e f o r e a m e n d m e n t	A f t e r a m e n d m e n t	Reason of amendment
	<p>4. The term "the date of occurrence of the relevant event" as used in the Handling Procedures, shall mean the earliest of contract execution date, the payment date, the consignment date, the transfer date, the date of resolution adopted by the board of directors and other date which can confirm the counterparty and the transaction amount, provided that if the relevant investment is subject to the competent authority's approval, it shall mean the earlier of the respective above-mentioned date or the date of receiving the approval letter from the competent authority.</p> <p>5. If there is any mistake or omission in the required announced/reported items and the correction is required, the Company shall make public announcement and file necessary report(s) of all required items again.</p>	<p>mean the earliest of contract execution date, the payment date, the consignment date, the transfer date, the date of resolution adopted by the board of directors and other date which can confirm the counterparty and the transaction amount, provided that if the relevant investment is subject to the competent authority's approval, it shall mean the earlier of the respective above-mentioned date or the date of receiving the approval letter from the competent authority.</p> <p><u>4. If there is any mistake or omission in the required announced/reported items and the correction is required, the Company shall make public announcement and file necessary report(s) of all required items again within two days commencing from the day when the Company knows such mistake or omission.</u></p>	
Article 5	<p>The acquired and/or disposed of real property or equipment ,shall be subject to obtaining the evaluation report.</p> <p>1. Except for the assets which are dealing with a government institution or by ways of mandating others to build on the Company's own land or on the land rented by the Company or equipments which are to be acquired for business use, any acquisition or disposal of real property or equipment the transaction amount of which reaches 20% of the Company's paid-in capital or NT\$300,000,000 or more, shall be subject to obtaining the evaluation report issued by the professional appraisers prior to occurrence of the event and compliance with the following provisions:</p> <p>(omitted)</p>	<p>The acquired and/or disposed of real property or equipment ,shall be subject to obtaining the evaluation report.</p> <p>1. Except for the assets which are dealing with a government <u>authority</u> or by ways of mandating others to build on the Company's own land or on the land rented by the Company or equipments which are to be acquired for business use, any acquisition or disposal of real property or equipment the transaction amount of which reaches 20% of the Company's paid-in capital or NT\$300,000,000 or more, shall be subject to obtaining the evaluation report issued by the professional appraisers prior to occurrence of the event and compliance with the following provisions:</p> <p>(omitted)</p>	To comply with the amendments to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies
Article 6	<p>The acquired and/or disposed of the securities, certificate of membership or intangible asset, shall be subject to obtaining the CPA's opinion.</p> <p>1. The latest financial statements of the target company audited or reviewed by the certified public accountants shall be obtained prior to occurrence of the event for use as a reference to determine the transaction price of any acquisition or disposal of the securities. A certified public</p>	<p>The acquired and/or disposed of the securities, certificate of membership or intangible asset, shall be subject to obtaining the CPA's opinion.</p> <p>1. The latest financial statements of the target company audited or reviewed by the certified public accountants shall be obtained prior to occurrence of the event for use as a reference to determine the transaction price of any acquisition or disposal of the securities. A certified public</p>	To comply with the amendments to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies

Number of Article	B e f o r e a m e n d m e n t	A f t e r a m e n d m e n t	Reason of amendment
	<p>accountant shall be retained to issue a fairness opinion on the transaction price prior to occurrence of such event, if the transaction amount reaches 20% of the Company's paid-in capital or NT\$300,000,000 or more. If the CPA needs to use the report of an expert as evidence, the CPA shall do so in accordance with the provisions of Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation of the Republic of China. This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by the FSC.</p> <p>2. If the transaction amount of any acquisition or disposal of the certificate of membership or intangible asset reaches 20% of the Company's paid-in capital or NT\$300,000,000 or more, except for the assets which are dealing with a government institution, a certificated public accountant shall be retained to issue a fairness opinion on the transaction price prior to occurrence of the event. The certificated public accountant shall issue such fairness opinion in accordance with the Statements of Auditing Standards No. 20 issued by Accounting Research and Development Foundation of the Republic of China.</p> <p>(omitted)</p>	<p>accountant shall be retained to issue a fairness opinion on the transaction price prior to occurrence of such event, if the transaction amount reaches 20% of the Company's paid-in capital or NT\$300,000,000 or more. If the CPA needs to use the report of an expert as evidence, the CPA shall do so in accordance with the provisions of Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation of the Republic of China. This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by the FSC.</p> <p>2. If the transaction amount of any acquisition or disposal of the certificate of membership or intangible asset reaches 20% of the Company's paid-in capital or NT\$300,000,000 or more, except for the assets which are dealing with a government <u>authority</u>, a certificated public accountant shall be retained to issue a fairness opinion on the transaction price prior to occurrence of the event. The certificated public accountant shall issue such fairness opinion in accordance with the Statements of Auditing Standards No. 20 issued by Accounting Research and Development Foundation of the Republic of China.</p> <p>(omitted)</p>	
Article 9	<p>Related Party Transactions</p> <p>1. When the Company engages in any acquisition or disposal of assets from or to a related party, in addition to ensuring that the necessary resolutions are adopted and the reasonableness of the transaction terms is appraised as provided in Article 5 to 8 and this Article, if the transaction amount reaches 10% or more of the Company's total assets, the Company shall also obtain an appraisal report from a professional appraiser or a CPA's opinion in accordance with Article 5 to 8. The calculation of the transaction amount shall be</p>	<p>Related Party Transactions</p> <p>1. When the Company engages in any acquisition or disposal of assets from or to a related party, in addition to ensuring that the necessary resolutions are adopted and the reasonableness of the transaction terms is appraised as provided in Article 5 to 8 and this Article, if the transaction amount reaches 10% or more of the Company's total assets, the Company shall also obtain an appraisal report from a professional appraiser or a CPA's opinion in accordance with Article 5 to 8. The calculation of the transaction amount shall be</p>	<p>To comply with the amendments to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies</p>

Number of Article	B e f o r e a m e n d m e n t	A f t e r a m e n d m e n t	Reason of amendment
	<p>made in accordance with Article 6, paragraph (3) herein.</p> <p>2. When the Company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets, or NT\$300 million or more, except for trading in government bonds, bond trading with repurchase and/or reverse purchase arrangement, or subscription or repurchase of domestic money market funds, the Company may not proceed to enter into a transaction contract and make a payment until the following matters have been approved by the audit committee and the board of directors, if the company has established the position of independent director, when a matter is submitted for discussion by the board of directors , the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting. If an audit committee has been established, the matter shall be approved by more than half of all audit committee members and submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of Article 15, paragraphs 4 and 5 :</p> <p>(omitted)</p>	<p>made in accordance with Article 6, paragraph (3) herein.</p> <p>2. When the Company intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20% or more of the Company's paid-in capital, 10% or more of the Company's total assets, or NT\$300 million or more, except for trading in government bonds, bond trading with repurchase and/or reverse purchase arrangement, or subscription or <u>redemption</u> of money market funds <u>issued by domestic securities investment trust enterprises</u>, the Company may not proceed to enter into a transaction contract and make a payment until the following matters have been approved by the audit committee and the board of directors, if the company has established the position of independent director, when a matter is submitted for discussion by the board of directors , the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting. If an audit committee has been established, the matter shall be approved by more than half of all audit committee members and submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of Article 15, paragraphs 4 and 5 :</p> <p>(omitted)</p>	
Article 11	<p>Merger, Spin-off, Acquisition, and Share Transfer</p> <p>1. The Company shall retain a certified public accountant, lawyer or underwriter to issue the fairness opinion on share swap ratio, acquisition price or the amount of cash or other property distributed to shareholders prior to convening the relevant board of directors meeting to discuss the subject merger, spin-off, acquisition, or share</p>	<p>Merger, Spin-off, Acquisition, and Share Transfer</p> <p>1. The Company shall retain a certified public accountant, lawyer or underwriter to issue the fairness opinion on share swap ratio, acquisition price or the amount of cash or other property distributed to shareholders prior to convening the relevant board of directors meeting to discuss the subject merger, spin-off, acquisition, or share</p>	<p>To comply with the amendments to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies</p>

Number of Article	Before amendment	After amendment	Reason of amendment																																																																	
	transfer. Such fairness opinion should be submitted to the board of directors for discussion and approval. (omitted)	transfer. Such fairness opinion should be submitted to the board of directors for discussion and approval. <u>It is not required to obtain the fairness opinion issued by the above-mentioned experts for mergers between the Company and its subsidiaries which are 100% owned by the Company, or the mergers between the Company's subsidiaries which are 100% owned by the Company.</u>																																																																		
Article 16	<p>(omitted)</p> <p>The Board of Directors is authorized to set the aggregate limit on securities investment, the individual limit on the securities investment and the aggregate limit on real property investment for the purpose rather than business use. Such limits should be appended to the Handling Procedures as shown below, namely, "Authorization Schedule for Acquisition or Disposal of Assets and the Limits on Securities Investment" :</p> <table><tr><th>Asset Item</th><th>Approver</th><th>Authority</th><th>Aggregate Investment Limit</th><th>Individual Investment Limit</th></tr><tr><td>Real property not for business use</td><td>Board of Director</td><td></td><td>30% of the equity</td><td>15% of the equity</td></tr><tr><td>Long term equity investments</td><td>Board of Director Chairman</td><td>>NT\$50,000,000 ≤ NT\$50,000,000</td><td>equity</td><td>50% of the equity</td></tr><tr><td>Short term equity investments</td><td>Chairman</td><td>Chairman</td><td>NT\$100,000,000</td><td>NT\$50,000,000</td></tr><tr><td>Long term investment in bonds</td><td>Chairman President</td><td>>NT\$100,000,000 ≤NT\$100,000,000</td><td>30% of the equity</td><td>15% of the equity</td></tr><tr><td>Short term investment in bonds , bond funds and money market fund</td><td>President Chief Financial Officer</td><td>>NT\$100,000,000 ≤NT\$100,000,000</td><td>30% of the equity</td><td>15% of the equity</td></tr><tr><td>Other securities</td><td>Chairman President</td><td>>NT\$50,000,000 ≤NT\$50,000,000</td><td>10% of the equity</td><td>5% of the equity</td></tr></table> <p>※The Aggregate investment limit of Long term equity investments shall not apply to a Company's</p>	Asset Item	Approver	Authority	Aggregate Investment Limit	Individual Investment Limit	Real property not for business use	Board of Director		30% of the equity	15% of the equity	Long term equity investments	Board of Director Chairman	>NT\$50,000,000 ≤ NT\$50,000,000	equity	50% of the equity	Short term equity investments	Chairman	Chairman	NT\$100,000,000	NT\$50,000,000	Long term investment in bonds	Chairman President	>NT\$100,000,000 ≤NT\$100,000,000	30% of the equity	15% of the equity	Short term investment in bonds , bond funds and money market fund	President Chief Financial Officer	>NT\$100,000,000 ≤NT\$100,000,000	30% of the equity	15% of the equity	Other securities	Chairman President	>NT\$50,000,000 ≤NT\$50,000,000	10% of the equity	5% of the equity	<p>(omitted)</p> <p>The Board of Directors is authorized to set the aggregate limit on securities investment, the individual limit on the securities investment and the aggregate limit on real property investment for the purpose rather than business use. Such limits should be appended to the Handling Procedures as shown below, namely, "Authorization Schedule for Acquisition or Disposal of Assets and the Limits on Securities Investment" :</p> <table><tr><th>Asset Item</th><th>Approver</th><th>Authority</th><th>Aggregate Investment Limit</th><th>Individual Investment Limit</th></tr><tr><td>Real property not for business use</td><td>Board of Director</td><td></td><td>30% of the equity</td><td>15% of the equity</td></tr><tr><td>Equity investment</td><td>Board of Director Chairman</td><td>>NT\$100,000,000 ≤NT\$100,000,000</td><td>equity</td><td>50% of the equity</td></tr><tr><td>Long term investment in secured bonds</td><td>Chairman President</td><td>>NT\$100,000,000 ≤NT\$100,000,000</td><td>30% of the equity</td><td>15% of the equity</td></tr><tr><td>Short term investment in bonds and money market fund</td><td>President Chief Financial Officer</td><td>>NT\$100,000,000 ≤NT\$100,000,000</td><td>30% of the equity</td><td>15% of the equity</td></tr><tr><td>Other securities</td><td>Chairman President</td><td>>NT\$50,000,000 ≤NT\$50,000,000</td><td>10% of the equity</td><td>5% of the equity</td></tr></table> <p>※The Aggregate investment limit of Equity investment shall not apply to a Company's subsidiaries , whose 100% shares are held directly or indirectly by the Company.</p> <p>※Short term investment in bonds should not expand the effect on profit by leverage through hypothecation , guarantee or any means.</p>	Asset Item	Approver	Authority	Aggregate Investment Limit	Individual Investment Limit	Real property not for business use	Board of Director		30% of the equity	15% of the equity	Equity investment	Board of Director Chairman	>NT\$100,000,000 ≤NT\$100,000,000	equity	50% of the equity	Long term investment in secured bonds	Chairman President	>NT\$100,000,000 ≤NT\$100,000,000	30% of the equity	15% of the equity	Short term investment in bonds and money market fund	President Chief Financial Officer	>NT\$100,000,000 ≤NT\$100,000,000	30% of the equity	15% of the equity	Other securities	Chairman President	>NT\$50,000,000 ≤NT\$50,000,000	10% of the equity	5% of the equity	To comply with the amendments to the Regulations Governing the Acquisition and Disposal of Assets by Public Companies
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Number of Article	B e f o r e a m e n d m e n t	A f t e r a m e n d m e n t	Reason of amendment
	<p>subsidiaries , whose 100% shares are held directly or indirectly by the Company.</p> <p>※The total amount of Long term equity investment plus Short-term equity investment shall not exceed the equity of the company.</p> <p>※Short term investment in bonds should not expand the effect on profit by leverage through hypothecation 、guarantee or any means.</p>	<p>※The “equity” means the equity attributable to stockholders of the Company on the balance sheet.</p>	
Article 17	<p>The Handling Procedures were enacted on January 26, 1998;</p> <p>(omitted)</p> <p>and the sixth amendment was made on June 19, 2014.</p>	<p>The Handling Procedures were enacted on January 26, 1998;</p> <p>(omitted)</p> <p>,the sixth amendment was made on June 19, 2014, and the seventh amendment was made on June 16, 2017.</p>	<p>To add the amendment date</p>

Shareholding of All Directors

1. The Company has issued capital of the Company is NT\$2,800,000,010 representing 280,000,001 common shares. According to Article 26 of the Securities and Exchange Act, the minimum number of shares that shall be held by all directors of the company is 12,000,000.
2. As of April 18, 2017, the number of shares held by all directors is 64,486,614 shares. The actual collective shareholding of directors was shown as below:

Title	Name	Shareholders Represented	No. of Shareholding	Shareholding%
Chairman	Kai-Chien Su		4,436,947	1.58
Director	Kuen-Yao Lee		1,525,729	0.54
Director	Chi-Hong Chen	(Qisda Corporation)	58,004,667	20.72
Director	Deng-Rue Wang	(Qisda Corporation)	58,004,667	20.72
Director	Yao-Kun Tsai		519,271	0.19
Independent Director	Neng-Pai Lin		0	0.00
Independent Director	Yu-Tien Li		0	0.00
Independent Director	Hsiang-Niang Hu		0	0.00
Total			64,486,614	23.03

Rules and Procedures for Shareholders' Meeting

1. The Rules and Procedures for Shareholders' Meeting are enacted in accordance with the “ Rules Governing the Conduct of Shareholders Meetings by Public Companies ” promulgated by the Securities and Futures Commission, Ministry of Finance, (86) Tai-Tsai-Zheng (3) No.04109.
2. Shareholders or their proxies attending the shareholders' meeting (the “Meeting”) shall submit the attendance card for the purpose of signing in. The number of shares represented by shareholders or their proxies attending the Meeting shall be calculated in accordance with the attendance cards submitted by the shareholders or their proxies plus the number of shares exercised by correspondence or electronic means.
3. The quorum required for the Meeting and the votes cast by the shareholders shall be calculated in accordance with the number of shares representing by shareholders attending the Meeting.
4. The Meeting shall be held at the head office of the Company or at any other appropriate place that is convenient for the shareholders to attend. The time to start the Meeting shall not be earlier than 9:00 a.m. or later than 3:00 p.m.
5. The chairman of the Board of Directors shall be the chair presiding at the Meeting in the case that the Meeting is convened by the Board of Directors. In case the chairman of the Board of Directors is on leave or cannot exercise his power and authority for any reason, the vice chair shall act on behalf of the chair. In case the Company has no vice chairman, or the vice chairman is also on leave or unable to exercise his and authority for any reason, the chairman of the Board of Directors shall designate one of the directors to act on behalf of the chair. If the chairman does not make such designation, the directors shall elect from and among themselves an acting chair of the Board of Directors. If the Meeting is convened by the person other than the Board of Directors who is permitted to convene such Meeting, such person shall be the chair presiding the Meeting.
6. The Company may appoint designated counsel, Certified Public Accountant or other related persons to attend the Meeting.
7. The process of the Meeting shall be tape-recorded or videotaped and these tapes or videos shall be preserved for at least one year.
8. Chair shall call the Meeting to order at the time scheduled for the meeting. If the number of shares represented by the shareholders present at the Meeting has not yet constituted the

quorum at the time scheduled for the Meeting, the chair may postpone the time for the Meeting. The postponements shall be limited to two times at the most and Meeting shall not be postponed for longer than one hour in the aggregate. If after two postponements no quorum can yet be constituted but the shareholders present at the Meeting represent more than one-third of the total outstanding shares of the Company, tentative resolutions may be made in accordance with Paragraph 1, Article 175 of the Company Act of the Republic of China. If during the process of the Meeting the number of shares represented by the shareholders present becomes sufficient to constitute the quorum, the chair may submit the tentative resolutions to the Meeting--- for approval in accordance with Article 174 of the Company Act of the Republic of China.

9. The agenda of the Meeting shall be set by the Board of Directors, if the Meeting is convened by the Board of Directors. The Meeting shall proceed in accordance with the agenda unless otherwise resolved at the Meeting. During the Meeting, the chair may, at his/her discretion, set time for intermission. Unless otherwise resolved at the Meeting, the chair cannot announce adjournment of the Meeting before all the discussion items listed in the agenda are resolved. The shareholders cannot designated any other person as chair and continue the Meeting in the same or other place after the Meeting is adjourned.
10. When a shareholder present at the Meeting wishes to speak, a speech note should be filled out with summary of the speech, the shareholder's number, and the name of the shareholder. The sequence of speeches by shareholders should be decided by the chair. If any shareholder presenting the Meeting submits a speech note but does not speak, no speech should be deemed to have been made by such shareholder. In case the contents of the speech of a shareholder are inconsistent with the contents of the speech note, the contents of actual speech shall prevail. Unless otherwise permitted by the chair and the shareholder in speaking, no shareholder shall interrupt the speeches of the other shareholder, otherwise the chair shall stop such interruption.
11. Unless otherwise permitted by the chair, each shareholder shall not, for each discussion item, speak more than two times or longer than 5 minutes each time. In case the speech of any shareholder violates this provision or exceeds the scope of the discussion item, the chair may stop the speech of such shareholder.
12. Any legal entity designated as proxy by a shareholder(s) to be present at the Meeting may appoint only one representative to attend the Meeting. If a legal entity is a shareholder and designates two or more representatives to attend the Meeting, only one representative can speak for each discussion item.
13. After the speech of a shareholder, the chair may respond him/herself or appoint an appropriate person to respond.

14. The chair may announce to end the discussion of any discussion item and go into voting if the chair deems it appropriate.
15. The person(s) to monitor and the person(s) to count the ballots shall be appointed by the chair. The person(s) monitoring the ballots shall be a shareholder(s). The result of voting shall be announced at the Meeting and recorded in the minutes of the Meeting.
16. Except otherwise provided in the Company Act of the Republic of China or the Articles of Incorporation of the Company, a resolution shall be adopted by a majority of the votes represented by the shareholders present at the Meeting. The resolution shall be deemed adopted and shall have the same effect as if it was voted by casting ballots if no objection is voiced after solicitation by the chair.
17. If there is amendment to or substitute for a discussion item, the chair shall decide the sequence of voting for such discussion item, the amendment or the substitute. If any of them has been adopted, the other shall be deemed vetoed and no further voting is necessary.
18. The chair may require or supervise the disciplinary officers or the security guards to assist in keeping order of the Meeting place. Such disciplinary officers or security guards shall wear badges marked "Disciplinary Officer" for identification purpose.
19. In case of incident due to force majeure, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed.
20. Any matter not provided in the Rules and Procedures shall be handled in accordance with the Company Act of Republic of China and the Articles of Incorporation of the Company.
21. The Rules and Procedures shall become effective from the date on which the Rules and Procedures are approved by the Meeting. The same shall apply to amendments to the Rules and Procedures.