

# DARFON ELECTRONICS CORP

## 2020 Annual General Shareholders' Meeting

### Meeting Agenda (Translation)

**Date: June 18, 2020**

**Note to Readers :**

If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language version shall prevail.

# DARFON ELECTRONICS CORP

## 2020 Annual General Shareholders' Meeting

Time: 9:00 a.m., Thursday, June 18, 2020

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 2019
  - (2) Audit Committee's review report
  - (3) To report the distribution of 2019 employees' and directors' remuneration
  - (4) To report the proposal for the 2019 Earnings Distribution of cash dividends
  - (5) To report the proposal for the subsidiary of KENSTONE METAL CO., LTD. capital loan and excess limit
4. Ratification and Discussion Items :
  - (1) To accept 2019 Business Report and Financial Statements
  - (2) To accept the proposal for the the 2019 Earnings Distribution Table
  - (3) To approve the amendment to the Articles of Incorporation
5. Extraordinary Motions
6. Meeting Adjourned

Attachment

1. 2019 Business Report
2. Independent Auditors' Report and 2019 Consolidated Financial Statements
3. Independent Auditors' Report and 2019 Parent Company Only Financial Statements
4. 2019 Earnings Distribution Table
5. Comparison Table of Amendments for the Articles of Incorporation
6. Shareholding of All Directors
7. Rules and Procedures for Shareholders' Meeting

## Report Items :

### 1. To report the business of 2019

#### Explanation:

2019 Business Report is attached hereto as Attachment 1 (page 4).

### 2. Audit Committee's Review Report

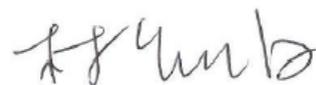
#### Explanation:

#### **Audit Committee's Review Report**

The Board of Directors has prepared the Company's Financial Statements for the year of 2019. Chang, Huei-Chen and Shih, Wei-Ming Certified Public Accountants of KPMG, have audited the Financial Statements. The 2019 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 16, 2020

### 3. To Report the distribution 2019 employees' and directors' remuneration

#### Explanation:

The distribution of 2019 directors' and employees' remuneration is stipulated in Articles of Incorporation, it is proposed to allocate NT\$ 8,326,376 for directors' remuneration and NT\$ 111,018,340 for employees' remuneration. The payment will be made in cash.

### 4. To report the proposal for the 2019 Earnings Distribution of cash dividends

#### Explanation:

(1) In accordance with the Articles of Incorporation, the distribution of earnings is distributed in the form of cash, the distribution may be approved by the Board of Directors and reported to the shareholders' meeting.

- (2) The proposed distribution is allocated from the 2019 earnings available for distribution. Each common share holder will be entitled to receive a cash dividend of NT\$2.3 per share.
- (3) The cash dividend distribution to each shareholder will be paid to the rounded-down full NT dollar, and the Chairman of Board of Directors is authorized to determine the ex-dividend date for the cash dividend distribution and other related matters.
- (4) If the dividend distribution ratio is adjusted and need to be modified due to change of the Company's total number of outstanding common shares, the Chairman of Board of Directors has full authority to adjust the distribution ratio.

**5. To report the proposal for the subsidiary of KENSTONE METAL CO., LTD. capital loan and excess limit**

**Explanation:**

- (1) In accordance with the letter of FSC on April 24, 2020, the subsidiary of KENSTONE METAL CO., LTD. (hereinafter referred to as: KST) loaned funds to its 100% holding subsidiaries KENSTONE METAL COMPANY GMBH and KENSTONE VIET NAM COMPANY LIMITED, which exceeded the total limitation of the regulations. Our company would declare the improvement status for the subsidiary's over-loan issues, report to the board of directors per quarter and update the current situation at the latest shareholders' meeting.
- (2) Reasons for excess the limit : Due to the asset partitioning by the company of KST in 2019, and the cumulative impacts of the exchange rate conversion by investing overseas subsidiaries at the end of 2019, the net worth decreased and exceeded the limit.
- (3) Improvement status : On May 5, 2020, the board of directors of the KST approved a resolution to reduce the amount of capital loans. The situation of capital loans and exceed limit has been improved.

**Ratification and Discussion Items Items :**

**1. To accept 2019 Business Report and Financial Statements (proposed by the Board of Directors)**

**Explanation:**

- (1) The 2019 Financial Statements were audited by the independent auditors, Chang, Huei-Chen and Shih, Wei-Ming of KPMG.
- (2) For the 2019 Independent Auditors' Report, and the 2019 Financial Statements, please refer to Attachments 2-3 (pages 5-24).

**Resolution:**

**2. To accept the proposal for the 2019 Earnings Distribution Table (proposed by the Board of Directors)**

**Explanation:**

- (1) The 2019 Earnings Distribution Table was approved by the Board of Directors and reviewed by the Audit Committee. The 2019 Earnings Distribution Table is attached hereto as Attachment 4 (page 25).

**Resolution:**

**3. To approve the amendment to the Articles of Incorporation (Proposed by the Board of Directors)**

**Explanation:**

According to the Executive Yuan Yuan-Tai-Jing-Zi No.1070037184 on October 26, 2018, it is proposed to amend the Articles of Incorporation. The comparison table for the "Articles of Incorporation" before and after amendment are attached hereto as Attachment 5 (pages 26-27).

**Resolution:**

**Extraordinary Motions**

**Meeting Adjourned**

## 2019 Business Report

Darfon's revenue performance for 2019 was affected due to the slow destocking of the global passive component market and the continual disputes from the US-China trade war. The annual consolidated revenue is NT\$19.1 billion, which is 5% less compared to the same period last year. However, in terms of profit, the profitability index, whether in terms of gross margin, operating income margin or net income, have remained steady and healthy. The annual consolidated net income attributed to stockholders of the company is NT\$ 0.9 billion, and the earnings per share after tax is NT\$ 3.21dollars.

In terms of operation, after competing with tablet PCs and smartphones, the industrial development for the global NB market became stable. As for the human interface devices business, not only were the qualities of existing products continually improved and the costs reduced, Darfon also strived to develop different new application technologies and products to satisfy the diverse needs of consumers. For sales, product portfolio was continually optimized and valued customers were continually focused on in order to increase profit and stay ahead in market share. As far as technology goes, product development schedules were shortened and the core competitiveness of backlight and ultra-thin keyboard products were strengthened; various high-quality gaming peripheral products were also released. Besides, there were already great results in cultivating customer relationships and the layout of differentiated products for Darfon's green business too, where the battery and pedelec bike (eBike) businesses have had significant growth and contributions. In addition, strategic alliance was formed with Kenstone to accelerate the development of Darfon's bicycle business and build potentials for future growth. Darfon's revenue and profit from the passive component business were affected due to the slow destocking of the global MLCC market channel, but Darfon will still do its best to enhance its technical improvements of passive components, product development, and channel expansion.

In management, Darfon upholds the highest standard in requirements for the quality and yield of products; smart manufacturing was deployed and designs were integrated into production to improve efficiency. Not only were manufacturing bases extended from Taiwan and China to South-East Asia and Europe, regional complementarity and supply chain management were also emphasized and cross-business integrated platforms were used to unleash economics of scale. Faced with the changes in global operations and environmental safety regulations, Darfon has responded actively and kept up with these changes by making company operations more rigorous and the corporate governance more transparent. Darfon also focused on configuration refinement when it comes to human resources, stressing on finding the right people to do the right things and cultivating key talents in response to the talent management models of the new era, and to build teams that can create value together. In addition, Darfon invested approximately 5% of its revenue each year to use as funds for R&D to invest in the research and development of products and technologies as well as the design of automated manufacturing equipment in order to strengthen its core competitiveness. The Company currently owns more than a thousand patents from various countries, showing the Company's intellectual property rights advantages and creative abilities.

Since the beginning of 2020, the whole world is currently being affected by the new coronavirus epidemic; the disputes from the US-China trade wars, the stricter international environmental regulations, and geopolitical conflicts have also continually affected global economic and trade activities as well as financial markets. Even though faced with the uncertainty of the future, Darfon will continue to push the strategies of refining internally and forming strategic alliances externally, actively integrating the internal and external resources of the Company and forming alliances with outstanding industrial partners. Darfon's three main businesses will use their competitive advantages to grasp opportunities for growth in the IT and green industries, and increase the momentum for the sustainable operation of the company by expanding its business territories.

Thank you to the shareholders for your long-term support and encouragement to the company; the management team and all employees will continue to put in all our efforts to maximize profit for 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, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 the consolidated financial statements for the year ended December 31, 2019, our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, the Rule No. 1090360805 issued by the Financial Supervisory Commission and the auditing standards generally accepted in the Republic of China ; The consolidated financial statements for the year ended December 31, 2018, 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 significant 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, 2019 are stated as follows:

#### 1. Valuation of inventories

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

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 reviewing the inventory of aging report and analyzing the fluctuation of inventory aging; selecting samples to verify the accuracy of inventory aging; evaluating whether valuation of inventories was accounted for in accordance with the Group's accounting policies; and assessing the historical reasonableness of management's estimates of inventory provisions.

2. Business combination

Please refer to notes 4(t) and 6(j) for the accounting policy on business combination, and "Business combination" for the related disclosure, respectively, of the consolidated financial statements.

Description of key audit matter:

In 2019 the Group acquired 60%, 64.05%, and 60% ownership of Kenstone Metal Co., Ltd. (KST), San Jose Technology, Inc. (STC), and Iron Ore Company Limited. (IOC), respectively, wherein the Group is able to exercise control over it. To adopt the accounting treatment of business combination, the management needs to determine the fair value of the identifiable assets and liabilities. The assessment is complex and involves significant assumptions and estimation. Accordingly, the assessment of business combination 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 purchase price allocation report with valuation on intangible assets conducted by an external expert engaged by the management; and auditing the acquired assets and liabilities identified by the management including any fair value adjustment at the acquisition date. In doing so, we have consulted internal valuation specialists to assist in evaluating the reasonableness of the valuation model and key assumptions used. We have also confirmed that correct accounting treatment has been applied, and appropriate disclosures with respect to the acquisition has been made.

3. Impairment of goodwill

Please refer to notes 4(n) for the accounting policy on impairment of non-financial assets, notes 5(b) for the estimation uncertainty of impairment of goodwill, and 6(m) for related disclosures of impairment test of goodwill, of the consolidated financial statements.

Description of key audit matter:

Goodwill arising from acquisition of subsidiary is subject to an impairment test annually or when there are indications that goodwill may have been impaired. The assessment of the recoverable amount of goodwill from cash generating units involves management's judgment and estimation. Accordingly, the assessment of impairment of goodwill 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 assessment of impairment of goodwill provided by the management; assessing the appropriateness of the valuation model and key assumptions, including the discount rate, expected growth rate and future cash flow projections, used by the management in measuring the recoverable amount; performing a sensitivity analysis of key assumptions and results; and assessing the adequacy of the Group's disclosures with respect to the related information.

## **Other Matter**

Darfon Electronics Corp. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, 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 and issued into effect 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 maintained 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, 2019 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 Huei-Chen Chang and Wei-Ming Shih.

KPMG

Taipei, Taiwan (Republic of China)

March 16, 2020

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

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2019 and 2018**

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

| Assets                          |   | December 31, 2019    |            | December 31, 2018 |            |
|---------------------------------|---|----------------------|------------|-------------------|------------|
|                                 |   | Amount               | %          | Amount            | %          |
| <b>Current assets:</b>          |   |                      |            |                   |            |
| 1100                            | Cash and cash equivalents   | \$ 1,722,470         | 8          | 1,717,958         | 9          |
| 1110                            | Financial assets at fair value through profit or loss - current             | 350,206              | 2          | 4,656             | -          |
| 1120                            | Financial assets at fair value through other comprehensive income - current | 891,804              | 4          | 820,574           | 4          |
| 1136                            | Financial assets at amortized cost - current                                | 732,186              | 4          | 336,379           | 2          |
| 1170                            | Notes and accounts receivable, net  | 5,769,678            | 28         | 6,551,087         | 34         |
| 1180                            | Accounts receivable from related parties                                    | 54,365               | -          | 57,749            | -          |
| 1200                            | Other receivables   | 5,016                | -          | 14,855            | -          |
| 1310                            | Inventories   | 3,031,342            | 15         | 2,571,520         | 14         |
| 1479                            | Prepayments and other current assets  | 516,196              | 2          | 666,667           | 4          |
| <b>Total current assets</b>     |   | <b>13,073,263</b>    | <b>63</b>  | <b>12,741,445</b> | <b>67</b>  |
| <b>Non-current assets:</b>      |   |                      |            |                   |            |
| 1535                            | Financial assets at amortized cost - non-current                            | 810                  | -          | 12,452            | -          |
| 1550                            | Investments accounted for using equity method                               | 12,435               | -          | 11,006            | -          |
| 1600                            | Property, plant and equipment   | 5,772,601            | 27         | 4,869,743         | 26         |
| 1755                            | Right-of-use assets   | 560,443              | 3          | -                 | -          |
| 1760                            | Investment property, net  | 151,904              | 1          | 130,021           | 1          |
| 1780                            | Intangible assets   | 718,064              | 3          | 599,677           | 3          |
| 1840                            | Deferred income tax assets  | 226,304              | 1          | 233,111           | 1          |
| 1915                            | Prepayments for equipment   | 181,258              | 1          | 376,262           | 2          |
| 1920                            | Refundable deposits   | 146,884              | -          | 21,293            | -          |
| 1975                            | Net defined benefit asset - non-current                                     | 16,126               | -          | 15,426            | -          |
| 1985                            | Long-term prepaid rents   | -                    | -          | 60,775            | -          |
| 1990                            | Other non-current assets  | 27,672               | -          | 24,221            | -          |
| <b>Total non-current assets</b> |   | <b>7,814,501</b>     | <b>37</b>  | <b>6,353,987</b>  | <b>33</b>  |
| <b>Total assets</b>             |   | <b>\$ 20,887,764</b> | <b>100</b> | <b>19,095,432</b> | <b>100</b> |

(Continued)

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

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**

**Consolidated Balance Sheets (Continued)**

**December 31, 2019 and 2018**

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

| Liabilities and Equity                                     |   | December 31, 2019    |            | December 31, 2018 |            |
|--|---|----------------------|------------|-------------------|------------|
|  |   | Amount               | %          | Amount            | %          |
| <b>Current liabilities:</b>                                |   |                      |            |                   |            |
| 2100   | Short-term borrowings   | \$ 2,434,527         | 12         | 938,369           | 5          |
| 2110   | Short-term notes and bills payable  | 199,989              | 1          | -                 | -          |
| 2170   | Notes and accounts payable  | 3,877,127            | 19         | 4,292,332         | 22         |
| 2180   | Accounts payable to related parties   | 415                  | -          | 953               | -          |
| 2200   | Other payables  | 2,510,561            | 12         | 3,020,418         | 16         |
| 2220   | Other payables to related parties   | 5,763                | -          | 13,433            | -          |
| 2280   | Lease liabilities - current   | 54,886               | -          | -                 | -          |
| 2322   | Current installments of long-term borrowings  | 1,431                | -          | -                 | -          |
| 2399   | Other current liabilities   | 637,114              | 3          | 702,937           | 4          |
| <b>Total current liabilities</b>                           |   | <b>9,721,813</b>     | <b>47</b>  | <b>8,968,442</b>  | <b>47</b>  |
| <b>Non-current liabilities:</b>                            |   |                      |            |                   |            |
| 2540   | Long-term borrowings  | 1,005,070            | 5          | 440,000           | 2          |
| 2550   | Provisions - non-current  | 67,583               | -          | 78,992            | 1          |
| 2570   | Deferred income tax liabilities   | 80,799               | -          | 69,145            | -          |
| 2580   | Lease liabilities - non-current   | 161,042              | 1          | -                 | -          |
| 2640   | Net defined benefit liability - non-current   | 72,810               | -          | 84,789            | 1          |
| 2670   | Other non-current liabilities   | 11,056               | -          | 11,081            | -          |
| <b>Total non-current liabilities</b>                       |   | <b>1,398,360</b>     | <b>6</b>   | <b>684,007</b>    | <b>4</b>   |
| <b>Total liabilities</b>                                   |   | <b>11,120,173</b>    | <b>53</b>  | <b>9,652,449</b>  | <b>51</b>  |
| <b>Equity attributable to shareholders of the Company:</b> |   |                      |            |                   |            |
| 3110   | Common stock  | 2,800,000            | 14         | 2,800,000         | 15         |
| 3200   | Capital surplus   | 3,802,120            | 18         | 3,802,120         | 20         |
| Retained earnings:   |   |                      |            |                   |            |
| 3310   | Legal reserve   | 934,042              | 4          | 782,016           | 4          |
| 3320   | Special reserve   | 366,541              | 2          | 329,048           | 2          |
| 3350   | Unappropriated earnings   | 1,270,104            | 6          | 1,563,882         | 8          |
|  |   | <u>2,570,687</u>     | <u>12</u>  | <u>2,674,946</u>  | <u>14</u>  |
| Other components of equity:                                |   |                      |            |                   |            |
| 3410   | Foreign currency translation differences  | (499,270)            | (2)        | (297,250)         | (2)        |
| 3420   | Unrealized gain (loss) from financial assets at fair value through other comprehensive income | 38,323               | -          | (32,907)          | -          |
| 3445   | Remeasurement of defined benefit obligation   | (31,323)             | -          | (36,384)          | -          |
|  |   | <u>(492,270)</u>     | <u>(2)</u> | <u>(366,541)</u>  | <u>(2)</u> |
| Equity attributable to shareholders of the Company         |   | <u>8,680,537</u>     | <u>42</u>  | <u>8,910,525</u>  | <u>47</u>  |
| 36XX   | Non-controlling interests   | 1,087,054            | 5          | 532,458           | 2          |
| <b>Total equity</b>  |   | <b>9,767,591</b>     | <b>47</b>  | <b>9,442,983</b>  | <b>49</b>  |
| <b>Total liabilities and equity</b>                        |   | <b>\$ 20,887,764</b> | <b>100</b> | <b>19,095,432</b> | <b>100</b> |

(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, 2019 and 2018**

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

|   | 2019               |             | 2018               |             |
|---|--------------------|-------------|--------------------|-------------|
|   | Amount             | %           | Amount             | %           |
| 4000 Net sales  | \$ 19,137,173      | 100         | 20,113,619         | 100         |
| 5000 Cost of sales  | (15,594,059)       | (81)        | (15,799,142)       | (79)        |
| <b>Gross profit</b>   | <b>3,543,114</b>   | <b>19</b>   | <b>4,314,477</b>   | <b>21</b>   |
| <b>Operating expenses :</b>   |                    |             |                    |             |
| 6100 Selling expenses   | (1,117,766)        | (6)         | (1,047,992)        | (5)         |
| 6200 Administrative expenses  | (608,582)          | (3)         | (530,110)          | (3)         |
| 6300 Research and development expenses  | (752,650)          | (4)         | (839,651)          | (4)         |
| 6000 <b>Total operating expenses</b>  | <b>(2,478,998)</b> | <b>(13)</b> | <b>(2,417,753)</b> | <b>(12)</b> |
| <b>Operating income</b>   | <b>1,064,116</b>   | <b>6</b>    | <b>1,896,724</b>   | <b>9</b>    |
| <b>Non-operating income and loss :</b>  |                    |             |                    |             |
| 7010 Other income   | 165,367            | -           | 140,059            | 1           |
| 7020 Other gains and losses   | 52,396             | -           | (60,912)           | -           |
| 7050 Finance costs  | (46,649)           | -           | (40,207)           | -           |
| 7060 Share of the loss of joint ventures accounted for using the equity method  | 1,495              | -           | (777)              | -           |
| <b>Total non-operating income and loss</b>  | <b>172,609</b>     | <b>-</b>    | <b>38,163</b>      | <b>1</b>    |
| 7900 <b>Income before income tax</b>  | <b>1,236,725</b>   | <b>6</b>    | <b>1,934,887</b>   | <b>10</b>   |
| 7950 <b>Income tax expenses</b>   | <b>(267,332)</b>   | <b>(1)</b>  | <b>(409,039)</b>   | <b>(2)</b>  |
| 8200 <b>Net income</b>  | <b>969,393</b>     | <b>5</b>    | <b>1,525,848</b>   | <b>8</b>    |
| <b>Other comprehensive income:</b>  |                    |             |                    |             |
| 8310 <b>Items that will not be reclassified subsequently to profit or loss:</b>   |                    |             |                    |             |
| 8311 Remeasurements of defined benefit plans  | 5,594              | -           | (8,709)            | -           |
| 8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | 71,230             | -           | (49,334)           | (1)         |
| 8349 Income tax related to items that will not be reclassified subsequently to profit or loss                                   | (1,182)            | -           | 2,983              | -           |
|   | <u>75,642</u>      | <u>-</u>    | <u>(55,060)</u>    | <u>(1)</u>  |
| 8360 <b>Items that may be reclassified subsequently to profit or loss:</b>  |                    |             |                    |             |
| 8361 Exchange differences on translation of foreign operations  | (208,691)          | (1)         | 17,601             | -           |
| 8370 Share of the other comprehensive income of joint ventures accounted for using the equity method                            | (66)               | -           | 539                | -           |
| 8399 Income tax related to items that may be reclassified subsequently to profit or loss  | -                  | -           | -                  | -           |
|   | <u>(208,757)</u>   | <u>(1)</u>  | <u>18,140</u>      | <u>-</u>    |
| <b>Other comprehensive income for the year, net of income tax</b>   | <b>(133,115)</b>   | <b>(1)</b>  | <b>(36,920)</b>    | <b>(1)</b>  |
| 8500 <b>Total comprehensive income for the year</b>   | <b>\$ 836,278</b>  | <b>4</b>    | <b>1,488,928</b>   | <b>7</b>    |
| <b>Net income attributable to:</b>  |                    |             |                    |             |
| 8610 Shareholders of the Company  | \$ 899,950         | 5           | 1,520,258          | 8           |
| 8620 Non-controlling interests  | 69,443             | -           | 5,590              | -           |
|   | <u>\$ 969,393</u>  | <u>5</u>    | <u>1,525,848</u>   | <u>8</u>    |
| <b>Total comprehensive income attributable to:</b>  |                    |             |                    |             |
| 8710 Shareholders of the Company  | \$ 774,221         | 4           | 1,482,764          | 7           |
| 8720 Non-controlling interests  | 62,057             | -           | 6,164              | -           |
|   | <u>\$ 836,278</u>  | <u>4</u>    | <u>1,488,928</u>   | <u>7</u>    |
| <b>Earnings per share (in New Taiwan dollars) :</b>   |                    |             |                    |             |
| 9750 Basic earnings per share   | \$ 3.21            |             | 5.43               |             |
| 9850 Diluted earnings per share   | \$ 3.18            |             | 5.33               |             |

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

Equity attributable to shareholders of the Company

|  | Retained earnings |                 |               |                 |                         |           | Other components of equity               |  |   |   |           |  |                           | Total equity |
|--|-------------------|-----------------|---------------|-----------------|-------------------------|-----------|--|--|---|---|-----------|--|---------------------------|--------------|
|  | Common stock      | Capital Surplus | Legal reserve | Special reserve | Unappropriated earnings | Subtotal  | Foreign currency translation differences | Unrealized gains (losses) from fair value through other comprehensive income | Unrealized gain (loss) from available-for-sale financial assets | Remeasurements of defined benefit plans | Subtotal  | Equity attributable to shareholders of the Company | Non-controlling interests |              |
|  |                   |                 |               |                 |                         |           |  |  |   |   |           |  |                           |              |
| <b>Balance at January 1, 2018</b>  | \$ 2,800,000      | 4,026,120       | 723,947       | -               | 766,741                 | 1,490,688 | (315,244)                                | -  | 16,427  | (30,230)                                | (329,047) | 7,987,761  | 30,390                    | 8,018,151    |
| Effects of retrospective application   | -                 | -               | -             | -               | -                       | -         | -  | 16,427   | (16,427)  | -                                       | -         | -  | -                         | -            |
| Balance at January 1, 2018 after adjustments   | 2,800,000         | 4,026,120       | 723,947       | -               | 766,741                 | 1,490,688 | (315,244)                                | 16,427   | -   | (30,230)                                | (329,047) | 7,987,761  | 30,390                    | 8,018,151    |
| Net income in 2018   | -                 | -               | -             | -               | 1,520,258               | 1,520,258 | -  | -  | -   | -                                       | -         | 1,520,258  | 5,590                     | 1,525,848    |
| Other comprehensive income in 2018, net of income tax  | -                 | -               | -             | -               | -                       | -         | 17,994                                   | (49,334)   | -   | (6,154)                                 | (37,494)  | (37,494)   | 574                       | (36,920)     |
| Total comprehensive income in 2018   | -                 | -               | -             | -               | 1,520,258               | 1,520,258 | 17,994                                   | (49,334)   | -   | (6,154)                                 | (37,494)  | 1,482,764  | 6,164                     | 1,488,928    |
| Appropriation of earnings:   |                   |                 |               |                 |                         |           |  |  |   |   |           |  |                           |              |
| Appropriation of legal reserve   | -                 | -               | 58,069        | -               | (58,069)                | -         | -  | -  | -   | -                                       | -         | -  | -                         | -            |
| Appropriation of special reserve   | -                 | -               | -             | 329,048         | (329,048)               | -         | -  | -  | -   | -                                       | -         | -  | -                         | -            |
| Cash dividends distributed to shareholders   | -                 | -               | -             | -               | (336,000)               | (336,000) | -  | -  | -   | -                                       | -         | (336,000)  | -                         | (336,000)    |
| Cash dividends from capital surplus  | -                 | (224,000)       | -             | -               | -                       | -         | -  | -  | -   | -                                       | -         | (224,000)  | -                         | (224,000)    |
| Acquisition of subsidiary's interests from non-controlling interests                               | -                 | -               | -             | -               | -                       | -         | -  | -  | -   | -                                       | -         | -  | (800)                     | (800)        |
| Acquisition of subsidiaries  | -                 | -               | -             | -               | -                       | -         | -  | -  | -   | -                                       | -         | -  | 496,704                   | 496,704      |
| <b>Balance at December 31, 2018</b>  | 2,800,000         | 3,802,120       | 782,016       | 329,048         | 1,563,882               | 2,674,946 | (297,250)                                | (32,907)   | -   | (36,384)                                | (366,541) | 8,910,525  | 532,458                   | 9,442,983    |
| Net income in 2019   | -                 | -               | -             | -               | 899,950                 | 899,950   | -  | -  | -   | -                                       | -         | 899,950  | 69,443                    | 969,393      |
| Other comprehensive income in 2019, net of income tax  | -                 | -               | -             | -               | -                       | -         | (202,020)                                | 71,230   | -   | 5,061                                   | (125,729) | (125,729)  | (7,386)                   | (133,115)    |
| Total comprehensive income in 2019   | -                 | -               | -             | -               | 899,950                 | 899,950   | (202,020)                                | 71,230   | -   | 5,061                                   | (125,729) | 774,221  | 62,057                    | 836,278      |
| Appropriation of earnings:   |                   |                 |               |                 |                         |           |  |  |   |   |           |  |                           |              |
| Appropriation of legal reserve   | -                 | -               | 152,026       | -               | (152,026)               | -         | -  | -  | -   | -                                       | -         | -  | -                         | -            |
| Appropriation of special reserve   | -                 | -               | -             | 37,493          | (37,493)                | -         | -  | -  | -   | -                                       | -         | -  | -                         | -            |
| Cash dividends distributed to shareholders   | -                 | -               | -             | -               | (980,000)               | (980,000) | -  | -  | -   | -                                       | -         | (980,000)  | -                         | (980,000)    |
| Acquisition of subsidiary's interests from non-controlling interests                               | -                 | -               | -             | -               | -                       | -         | -  | -  | -   | -                                       | -         | -  | (54,350)                  | (54,350)     |
| Differences between acquisition price and carrying amount arising from acquisition of subsidiaries | -                 | -               | -             | -               | (24,209)                | (24,209)  | -  | -  | -   | -                                       | -         | (24,209)   | 24,209                    | -            |
| Acquisition of subsidiaries  | -                 | -               | -             | -               | -                       | -         | -  | -  | -   | -                                       | -         | -  | 553,091                   | 553,091      |
| Distribution of dividend by subsidiaries to non-controlling interests                              | -                 | -               | -             | -               | -                       | -         | -  | -  | -   | -                                       | -         | -  | (37,019)                  | (37,019)     |
| Stock option compensation cost of subsidiary   | -                 | -               | -             | -               | -                       | -         | -  | -  | -   | -                                       | -         | -  | 6,608                     | 6,608        |
| <b>Balance at December 31, 2019</b>  | \$ 2,800,000      | 3,802,120       | 934,042       | 366,541         | 1,270,104               | 2,570,687 | (499,270)                                | 38,323   | -   | (31,323)                                | (492,270) | 8,680,537  | 1,087,054                 | 9,767,591    |

(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, 2019 and 2018**

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

|  | 2019         | 2018        |
|--|--------------|-------------|
| <b>Cash flows from operating activities:</b>   |              |             |
| Income before income tax   | \$ 1,236,725 | 1,934,887   |
| <b>Adjustments:</b>  |              |             |
| <b>Adjustments to reconcile profit or loss:</b>  |              |             |
| Depreciation   | 643,333      | 522,841     |
| Amortization   | 90,529       | 79,556      |
| Expected credit loss   | 5,716        | 11,619      |
| Interest expense   | 46,649       | 40,207      |
| Interest income  | (42,736)     | (35,501)    |
| Dividend income  | (36,178)     | (56,210)    |
| Share-based compensation cost  | 6,608        | -           |
| Share of losses ( gains ) of joint ventures  | (1,495)      | 777         |
| Gains on disposal and retirement of property, plant and equipment, net                 | (5,194)      | (8,077)     |
| Gains on bargain purchase  | (11,116)     | -           |
| Gains on disposal of investments   | -            | (48,121)    |
| Impairment losses on property, plant and equipment                                     | -            | 113,930     |
| Fire loss  | -            | 8,741       |
| Total adjustments to reconcile profit or loss  | 696,116      | 629,762     |
| <b>Changes in operating assets and liabilities:</b>                                    |              |             |
| <b>Changes in operating assets:</b>  |              |             |
| Decrease in financial assets mandatorily measured at fair value through profit or loss | 10,400       | 18,967      |
| Decrease ( increase ) in notes and accounts receivable                                 | 1,202,609    | (767,984)   |
| Decrease ( increase ) in accounts receivable from related parties                      | 3,384        | (22,195)    |
| Decrease in other receivable   | 19,175       | 12,313      |
| Decrease ( increase ) in inventories   | 48,750       | (457,420)   |
| Decrease ( increase ) in prepayments and other current assets                          | 45,123       | (58,822)    |
| Total changes in operating assets  | 1,329,441    | (1,275,141) |
| <b>Changes in operating liabilities:</b>   |              |             |
| Increase ( decrease ) in notes and accounts payable                                    | (629,382)    | 566,808     |
| Increase ( decrease ) in accounts payable to related parties                           | (538)        | 245         |
| Increase ( decrease ) in other payables  | (342,115)    | 686,849     |
| Increase ( decrease ) in other payables to related parties                             | (7,670)      | 7,462       |
| Decrease in provisions   | (9,439)      | (984)       |
| Increase (decrease) in other current liabilities                                       | (147,231)    | 167,886     |
| Decrease in net defined benefit liability  | (7,656)      | (10,646)    |
| Total changes in operating liabilities   | (1,144,031)  | 1,417,620   |
| Total changes in operating assets and liabilities                                      | 185,410      | 142,479     |
| <b>Total adjustments</b>   | 881,526      | 772,241     |
| Cash inflow generated from operations  | 2,118,251    | 2,707,128   |
| Interest received  | 44,782       | 36,853      |
| Interest paid  | (47,369)     | (39,786)    |
| Income taxes paid  | (407,886)    | (399,907)   |
| <b>Net cash provided by operating activities</b>                                       | 1,707,778    | 2,304,288   |

(Continued)

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

**DARFON ELECTRONICS CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Continued)**  
**For the years ended December 31, 2019 and 2018**  
**(Expressed in Thousands of New Taiwan Dollars)**

|  | 2019                | 2018               |
|--|---------------------|--------------------|
| <b>Cash flows from investing activities:</b>                                     |                     |                    |
| Purchase of financial assets at fair value through other comprehensive income    | -                   | (667,208)          |
| Purchase of financial assets at amortized cost                                   | (2,181,288)         | (1,951,351)        |
| Proceeds from repayments of financial assets at amortized cost                   | 1,796,874           | 2,441,842          |
| Acquisitions of financial assets at fair value through profit or loss            | (687,775)           | -                  |
| Disposals of financial assets at fair value through profit or loss               | 340,743             | -                  |
| Net cash outflow arising from acquisition of subsidiaries                        | (661,361)           | (652,384)          |
| Additions to property, plant and equipment (including prepayments for equipment) | (936,609)           | (613,691)          |
| Proceeds from disposal of property, plant and equipment                          | 14,494              | 23,005             |
| Decrease (increase) in refundable deposits                                       | (125,295)           | 6,638              |
| Additions to intangible assets   | (9,325)             | (120)              |
| Acquisition of use-of-right assets   | (231,118)           | -                  |
| Increase in other non-current assets   | (17,049)            | (40,781)           |
| Dividends received   | 36,178              | 56,210             |
| <b>Net cash flows provided by (used in) investing activities</b>                 | <b>(2,661,531)</b>  | <b>(1,397,840)</b> |
| <b>Cash flows from financing activities:</b>                                     |                     |                    |
| Increase in short-term borrowings  | 1,451,217           | 437,057            |
| Increase in short-term notes and bills payable                                   | 199,989             | -                  |
| Increase in long-term borrowings   | 600,000             | 85,000             |
| Repayments of long-term borrowings   | (40,115)            | (125,000)          |
| Payments of lease liabilities  | (70,020)            | -                  |
| Decrease in other non-current liabilities  | (956)               | -                  |
| Cash dividends distributed to shareholders                                       | (980,000)           | (336,000)          |
| Cash dividends from capital surplus  | -                   | (224,000)          |
| Cash dividends paid to non-controlling interests by subsidiaries                 | (37,019)            | -                  |
| Acquisition of subsidiary's interests from non-controlling interests             | (54,350)            | (800)              |
| <b>Net cash used in financing activities</b>                                     | <b>1,068,746</b>    | <b>(163,743)</b>   |
| <b>Effects of exchange rate changes</b>  | <b>(110,481)</b>    | <b>(40,139)</b>    |
| <b>Net increase in cash and cash equivalents</b>                                 | <b>4,512</b>        | <b>702,566</b>     |
| <b>Cash and cash equivalents at beginning of year</b>                            | <b>1,717,958</b>    | <b>1,015,392</b>   |
| <b>Cash and cash equivalents at end of year</b>                                  | <b>\$ 1,722,470</b> | <b>1,717,958</b>   |

See accompanying notes to consolidated financial statements.

## 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, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### Basis for Opinion

We conducted the parent-company-only financial statements for the year ended December 31, 2019, our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, the Rule No. 1090360805 issued by the Financial Supervisory Commission and the auditing standards generally accepted in the Republic of China ; The parent-company-only financial statements for the year ended December 31, 2018, 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, 2019 are stated as follows:

#### 1. Valuation of inventories

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

#### 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 reviewing the inventory of aging report and analyzing the fluctuation of inventory aging; selecting 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.

2. Investment in the subsidiaries

Please refer to notes 4(i) and 6(g) for the accounting policy on business combination, and "Investment in the subsidiaries" for the related disclosure, respectively, of the notes to the parent-company-only financial statements.

Description of key audit matter:

In 2019 the Company and its subsidiaries acquired 60%, 64.05%, and 60% ownership of Kenstone Metal Co., Ltd. (KST), San Jose Technology, Inc. (STC), and Iron Ore Company Limited. (IOC), respectively, where in the Company is able to exercise control over it. To adopt the accounting treatment of business combination, the management needs to determine the fair value of the identifiable assets and liabilities. The assessment is complex and involves significant assumptions and estimation. Accordingly, investment in the subsidiaries 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 purchase price allocation report with valuation on intangible assets conducted by an external expert engaged by the management; and auditing the acquired assets and liabilities identified by the management including any fair value adjustment at the acquisition date. In doing so, we have consulted internal valuation specialists to assist in evaluating the reasonableness of the valuation model and key assumptions used. We have also confirmed that correct accounting treatment has been applied, and appropriate disclosures with respect to the acquisition has been made.

3. Impairment of goodwill included in the carrying amount of investment in the subsidiaries

Please refer to notes 4(m) for the accounting policy on impairment of non-financial assets, notes 5(b) for the estimation uncertainty of impairment of goodwill, and 6(g) for related disclosures of impairment test of goodwill, of the parent-company-only financial statements.

Description of key audit matter:

Goodwill arising from acquisition of subsidiaries, which are included in the carrying amount of investments accounted for using equity method. Goodwill are annually subject to impairment test or when there are indications that goodwill may have been impaired. The assessment of the recoverable amount of goodwill involves management's judgment and estimation. Accordingly, the assessment of impairment of goodwill 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 assessment of impairment of goodwill provided by the management; assessing the appropriateness of the valuation model and key assumptions, including the discount rate, expected growth rate and future cash flow projections, used by the management in measuring the recoverable amount; performing a sensitivity analysis of key assumptions and results; and assessing the adequacy of the Company's disclosures with respect to the related information.

**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 the investees accounted for using equity method to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of the audit. We remained 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, 2019 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 Huei-Chen Chang and Wei-Ming Shih.

KPMG

Taipei, Taiwan (Republic of China)

March 16, 2020

#### **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.

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

**DARFON ELECTRONICS CORP.**

**Balance Sheets**

**December 31, 2019 and 2018**

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

| Assets   | December 31,<br>2019 |            | December 31,<br>2018 |            |
|--|----------------------|------------|----------------------|------------|
|  | Amount               | %          | Amount               | %          |
| <b>Current assets:</b>   |                      |            |                      |            |
| 1100 Cash and cash equivalents   | \$ 121,380           | 1          | 60,217               | -          |
| 1110 Financial assets at fair value through profit or loss - current             | 2,670                | -          | 4,656                | -          |
| 1120 Financial assets at fair value through other comprehensive income - current | 778,707              | 4          | 720,212              | 4          |
| 1136 Financial assets at amortized cost - current                                | 224,857              | 1          | -                    | -          |
| 1170 Notes and accounts receivable, net  | 3,587,481            | 20         | 4,686,265            | 27         |
| 1180 Accounts receivable from related parties                                    | 797,886              | 5          | 1,108,077            | 7          |
| 1310 Inventories   | 997,318              | 6          | 935,084              | 5          |
| 1470 Prepayments and other current assets  | 87,022               | -          | 57,899               | -          |
| <b>Total current assets</b>  | <b>6,597,321</b>     | <b>37</b>  | <b>7,572,410</b>     | <b>43</b>  |
| <b>Non-current assets:</b>   |                      |            |                      |            |
| 1550 Investments accounted for using equity method                               | 8,430,918            | 48         | 7,524,764            | 43         |
| 1600 Property, plant and equipment   | 2,345,890            | 13         | 1,850,138            | 11         |
| 1780 Intangible assets   | -                    | -          | 4,284                | -          |
| 1840 Deferred income tax assets  | 195,923              | 1          | 225,092              | 1          |
| 1915 Prepayments for equipment   | 35,976               | -          | 253,716              | 2          |
| 1920 Refundable deposits   | 123,978              | -          | 3,195                | -          |
| 1990 Other non-current assets  | 16,121               | -          | 13,999               | -          |
| <b>Total non-current assets</b>  | <b>11,148,806</b>    | <b>63</b>  | <b>9,875,188</b>     | <b>57</b>  |
| <b>Total assets</b>  | <b>\$ 17,746,127</b> | <b>100</b> | <b>\$ 17,447,598</b> | <b>100</b> |

(Continued)

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

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

**DARFON ELECTRONICS CORP.**

**Balance Sheets (Continued)**

**December 31, 2019 and 2018**

(Expressed in Thousands of New Taiwan Dollars)

|                                      |   | December 31,<br>2019 |            | December 31,<br>2018 |            |
|--------------------------------------|---|----------------------|------------|----------------------|------------|
|                                      |   | Amount               | %          | Amount               | %          |
| <b>Liabilities and Equity</b>        |   |                      |            |                      |            |
| <b>Current liabilities:</b>          |   |                      |            |                      |            |
| 2100                                 | Short-term borrowings   | \$ 2,000,000         | 11         | 938,369              | 5          |
| 2110                                 | Short-term notes and bills payable  | 199,989              | 1          | -                    | -          |
| 2170                                 | Notes and accounts payable  | 357,765              | 2          | 489,665              | 3          |
| 2180                                 | Accounts payable to related parties   | 3,799,097            | 22         | 4,339,054            | 25         |
| 2200                                 | Other payables  | 1,063,571            | 6          | 1,551,144            | 9          |
| 2220                                 | Other payables to related parties   | 12,193               | -          | 15,113               | -          |
| 2300                                 | Other current liabilities   | 503,180              | 3          | 607,246              | 4          |
| <b>Total current liabilities</b>     |   | <b>7,935,795</b>     | <b>45</b>  | <b>7,940,591</b>     | <b>46</b>  |
| <b>Non-current liabilities:</b>      |   |                      |            |                      |            |
| 2540                                 | Long-term borrowings  | 1,000,000            | 6          | 440,000              | 3          |
| 2550                                 | Provisions - non-current  | 67,583               | -          | 78,992               | -          |
| 2570                                 | Deferred income tax liabilities   | -                    | -          | 931                  | -          |
| 2640                                 | Net defined benefit liability-non-current   | 62,185               | -          | 76,509               | -          |
| 2670                                 | Other non-current liabilities   | 27                   | -          | 500                  | -          |
| <b>Total non-current liabilities</b> |   | <b>1,129,795</b>     | <b>6</b>   | <b>596,482</b>       | <b>3</b>   |
| <b>Total liabilities</b>             |   | <b>9,065,590</b>     | <b>51</b>  | <b>8,537,073</b>     | <b>49</b>  |
| <b>Equity :</b>                      |   |                      |            |                      |            |
| 3110                                 | Common stock  | 2,800,000            | 16         | 2,800,000            | 16         |
| 3200                                 | Capital surplus   | 3,802,120            | 21         | 4,026,120            | 22         |
| <b>Retained earnings:</b>            |   |                      |            |                      |            |
| 3310                                 | Legal reserve   | 934,042              | 5          | 782,016              | 4          |
| 3320                                 | Special reserve   | 366,541              | 2          | 329,048              | 2          |
| 3350                                 | Unappropriated earnings   | 1,270,104            | 8          | 1,563,882            | 9          |
|                                      |   | <b>2,570,687</b>     | <b>15</b>  | <b>2,674,946</b>     | <b>15</b>  |
| <b>Other components of equity:</b>   |   |                      |            |                      |            |
| 3410                                 | Foreign currency translation differences  | (499,270)            | (3)        | (297,250)            | (2)        |
| 3420                                 | Unrealized gain (loss) from financial assets at fair value through other comprehensive income | 38,323               | -          | (32,907)             | -          |
| 3445                                 | Remeasurement of defined benefit obligation   | (31,323)             | -          | (36,384)             | -          |
|                                      |   | <b>(492,270)</b>     | <b>(3)</b> | <b>(366,541)</b>     | <b>(2)</b> |
| <b>Total equity</b>                  |   | <b>8,680,537</b>     | <b>49</b>  | <b>8,910,525</b>     | <b>51</b>  |
| <b>Total liabilities and equity</b>  |   | <b>\$ 17,746,127</b> | <b>100</b> | <b>\$ 17,447,598</b> | <b>100</b> |

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, 2019 and 2018**

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

|   | 2019          |      | 2018         |      |
|---|---------------|------|--------------|------|
|   | Amount        | %    | Amount       | %    |
| 4000 Net sales  | \$ 13,851,669 | 100  | 16,123,527   | 100  |
| 5000 Cost of sales  | (12,294,179)  | (89) | (13,281,815) | (82) |
| 5900 Gross profit   | 1,557,490     | 11   | 2,841,712    | 18   |
| 5910 Unrealized (realized) profit on sales  | 94,016        | 1    | (273,643)    | (2)  |
| 5950 Realized gross profit  | 1,651,506     | 12   | 2,568,069    | 16   |
| 6000 Operating expenses:  |               |      |              |      |
| 6100 Selling expenses   | (407,051)     | (3)  | (421,335)    | (3)  |
| 6200 Administrative expenses  | (275,700)     | (2)  | (330,395)    | (2)  |
| 6300 Research and development expenses  | (536,523)     | (4)  | (653,344)    | (4)  |
| 6000 Total operating expenses   | (1,219,274)   | (9)  | (1,405,074)  | (9)  |
| 6900 Operating income   | 432,232       | 3    | 1,162,995    | 7    |
| 7000 Non-operating income and loss:   |               |      |              |      |
| 7010 Other income   | 41,248        | -    | 66,441       | -    |
| 7020 Other gains and losses   | 79,496        | 1    | (20,008)     | -    |
| 7050 Finance costs  | (34,877)      | -    | (40,105)     | -    |
| 7070 Share of the profit of subsidiaries accounted for using equity method  | 472,740       | 3    | 562,266      | 4    |
| Total non-operating income and loss   | 558,607       | 4    | 568,594      | 4    |
| 7900 Income before income tax   | 990,839       | 7    | 1,731,589    | 11   |
| 7950 Income tax expenses  | (90,889)      | -    | (211,331)    | (2)  |
| 8200 Net income   | 899,950       | 7    | 1,520,258    | 9    |
| Other comprehensive income:   |               |      |              |      |
| 8310 Items that will not be reclassified subsequently to profit or loss:  |               |      |              |      |
| 8311 Remeasurements of defined benefit plans  | 6,990         | -    | (9,657)      | -    |
| 8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | 58,495        | -    | (44,379)     | -    |
| 8330 Share of the other comprehensive income of subsidiaries accounted for using equity method                                  | 12,204        | -    | (4,435)      | -    |
| 8349 Income tax related to items that will not be reclassified subsequently to profit or loss                                   | (1,398)       | -    | 2,983        | -    |
|   | 76,291        | -    | (55,488)     | -    |
| 8360 Items that may be reclassified subsequently to profit or loss:   |               |      |              |      |
| 8361 Exchange differences on translation of foreign operations  | (192,180)     | (1)  | 17,457       | -    |
| 8380 Share of the other comprehensive income of subsidiaries and joint ventures accounted for using equity method               | (9,840)       | -    | 537          | -    |
| 8399 Income tax related to items that may be reclassified subsequently to profit or loss  | -             | -    | -            | -    |
|   | (202,020)     | (1)  | 17,994       | -    |
| Other comprehensive income for the year, net of income tax  | (125,729)     | (1)  | (37,494)     | -    |
| 8500 Total comprehensive income for the year  | \$ 774,221    | 6    | 1,482,764    | 9    |
| Earnings per share (in New Taiwan dollars) :  |               |      |              |      |
| 9750 Basic earnings per share   | \$ 3.21       |      | 5.43         |      |
| 9850 Diluted earnings per share   | \$ 3.18       |      | 5.33         |      |

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, 2019 and 2018**

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

|  | Retained earnings   |                  |                |                 |                         | Other components of equity |  |  |   |   |                  | Total equity     |
|--|---------------------|------------------|----------------|-----------------|-------------------------|----------------------------|--|--|---|---|------------------|------------------|
|  | Common stock        | Capital Surplus  | Legal reserve  | Special reserve | Unappropriated earnings | Subtotal                   | Foreign currency translation differences | Unrealized gains (losses) from financial assets at fair value through other comprehensive income | Unrealized gain (loss) from available-for-sale financial assets | Remeasurements of defined benefit plans | Subtotal         |                  |
| <b>Balance at January 1, 2018</b>  | \$ 2,800,000        | 4,026,120        | 723,947        | -               | 766,741                 | 1,490,688                  | (315,244)                                | -  | 16,427  | (30,230)                                | (329,047)        | 7,987,761        |
| Effects of retrospective application   | -                   | -                | -              | -               | -                       | -                          | -  | 16,427   | (16,427)  | -                                       | -                | -                |
| Balance at January 1, 2018 after adjustments   | 2,800,000           | 4,026,120        | 723,947        | -               | 766,741                 | 1,490,688                  | (315,244)                                | 16,427   | -   | (30,230)                                | (329,047)        | 7,987,761        |
| Net income in 2018   | -                   | -                | -              | -               | 1,520,258               | 1,520,258                  | -  | -  | -   | -                                       | -                | 1,520,258        |
| Other comprehensive income in 2018, net of income tax  | -                   | -                | -              | -               | -                       | -                          | 17,994                                   | (49,334)   | -   | (6,154)                                 | (37,494)         | (37,494)         |
| Total comprehensive income in 2018   | -                   | -                | -              | -               | 1,520,258               | 1,520,258                  | 17,994                                   | (49,334)   | -   | (6,154)                                 | (37,494)         | 1,482,764        |
| Appropriation of earnings:   |                     |                  |                |                 |                         |                            |  |  |   |   |                  |                  |
| Appropriation of legal reserve   | -                   | -                | 58,069         | -               | (58,069)                | -                          | -  | -  | -   | -                                       | -                | -                |
| Appropriation of special reserve   | -                   | -                | -              | 329,048         | (329,048)               | -                          | -  | -  | -   | -                                       | -                | -                |
| Cash dividends distributed to shareholders   | -                   | -                | -              | -               | (336,000)               | (336,000)                  | -  | -  | -   | -                                       | -                | (336,000)        |
| Cash dividends from capital surplus  | -                   | (224,000)        | -              | -               | -                       | -                          | -  | -  | -   | -                                       | -                | (224,000)        |
| Balance at December 31, 2018   | 2,800,000           | 3,802,120        | 782,016        | 329,048         | 1,563,882               | 2,674,946                  | (297,250)                                | (32,907)   | -   | (36,384)                                | (366,541)        | 8,910,525        |
| Net income in 2019   | -                   | -                | -              | -               | 899,950                 | 899,950                    | -  | -  | -   | -                                       | -                | 899,950          |
| Other comprehensive income in 2019, net of income tax  | -                   | -                | -              | -               | -                       | -                          | (202,020)                                | 71,230   | -   | 5,061                                   | (125,729)        | (125,729)        |
| Total comprehensive income in 2019   | -                   | -                | -              | -               | 899,950                 | 899,950                    | (202,020)                                | 71,230   | -   | 5,061                                   | (125,729)        | 774,221          |
| Appropriation of earnings:   |                     |                  |                |                 |                         |                            |  |  |   |   |                  |                  |
| Appropriation of legal reserve   | -                   | -                | 152,026        | -               | (152,026)               | -                          | -  | -  | -   | -                                       | -                | -                |
| Appropriation of special reserve   | -                   | -                | -              | 37,493          | (37,493)                | -                          | -  | -  | -   | -                                       | -                | -                |
| Cash dividends distributed to shareholders   | -                   | -                | -              | -               | (980,000)               | (980,000)                  | -  | -  | -   | -                                       | -                | (980,000)        |
| Differences between acquisition price and carrying amount arising from acquisition of subsidiaries | -                   | -                | -              | -               | (24,209)                | (24,209)                   | -  | -  | -   | -                                       | -                | (24,209)         |
| <b>Balance at December 31, 2019</b>  | <b>\$ 2,800,000</b> | <b>3,802,120</b> | <b>934,042</b> | <b>366,541</b>  | <b>1,270,104</b>        | <b>2,570,687</b>           | <b>(499,270)</b>                         | <b>38,323</b>  | <b>-</b>  | <b>(31,323)</b>                         | <b>(492,270)</b> | <b>8,680,537</b> |

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 Cash Flows**

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

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

|  | 2019               | 2018               |
|--|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>                           |                    |                    |
| Income before income tax   | \$ 990,839         | 1,731,589          |
| <b>Adjustments:</b>  |                    |                    |
| <b>Adjustments to reconcile profit or loss:</b>                        |                    |                    |
| Depreciation   | 116,431            | 94,413             |
| Amortization   | 29,160             | 42,063             |
| Expected credit loss   | 2,616              | 8,429              |
| Interest expense   | 34,877             | 40,105             |
| Interest income  | (1,298)            | (1,061)            |
| Dividend income  | (31,075)           | (49,355)           |
| Share of the profit of subsidiaries accounted for using equity method  | (472,740)          | (562,266)          |
| Gains on disposal and retirement of property, plant and equipment, net | (5,751)            | (9,287)            |
| Gains on bargain purchase  | (1,414)            | -                  |
| Impairment losses on property, plant and equipment                     | 3,733              | 9,998              |
| Unrealized (realized) profit from sales                                | (94,016)           | 273,643            |
| Total adjustments to reconcile profit or loss                          | <u>(419,477)</u>   | <u>(153,318)</u>   |
| <b>Changes in operating assets and liabilities:</b>                    |                    |                    |
| <b>Changes in operating assets:</b>                                    |                    |                    |
| Decrease in financial assets at fair value through profit or loss      | 1,986              | 18,967             |
| Decrease ( increase ) in notes and accounts receivable                 | 1,096,168          | (617,733)          |
| Decrease ( increase ) in accounts receivable from related parties      | 310,191            | (424,499)          |
| Increase in inventories  | (62,234)           | (281,661)          |
| Decrease ( increase ) in prepayments and other current assets          | (39,652)           | 79,921             |
| Total changes in operating assets                                      | <u>1,306,459</u>   | <u>(1,225,005)</u> |
| <b>Changes in operating liabilities:</b>                               |                    |                    |
| Increase ( decrease ) in notes and accounts payable                    | (131,900)          | 236,197            |
| Increase ( decrease ) in accounts payable to related parties           | (539,957)          | 714,331            |
| Increase ( decrease ) in other payables                                | (249,819)          | 447,611            |
| Increase ( decrease ) in other payables to related parties             | (6,235)            | 10,137             |
| Decrease in provisions   | (11,409)           | (984)              |
| Increase ( decrease ) in other current liabilities                     | (104,590)          | 199,247            |
| Decrease in net defined benefit liability                              | (6,884)            | (10,859)           |
| Total changes in operating liabilities                                 | <u>(1,050,794)</u> | <u>1,595,680</u>   |
| Total changes in operating assets and liabilities                      | <u>255,665</u>     | <u>370,675</u>     |
| <b>Total adjustments</b>   | <u>(163,812)</u>   | <u>217,357</u>     |
| Cash inflow generated from operations                                  | 827,027            | 1,948,946          |
| Interest received  | 1,298              | 1,061              |
| Dividends received from subsidiaries                                   | -                  | 8,250              |
| Interest paid  | (35,745)           | (39,684)           |
| Income taxes paid  | (303,831)          | (53,434)           |
| <b>Net cash provided by operating activities</b>                       | <u>488,749</u>     | <u>1,865,139</u>   |

(Continued)

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

|  | <u>2019</u>              | <u>2018</u>          |
|--|--------------------------|----------------------|
| <b>Cash flows from investing activities:</b>                                     |                          |                      |
| Purchase of financial assets at fair value through other comprehensive income    | -                        | (658,841)            |
| Purchase of financial assets at amortized cost                                   | (224,857)                | -                    |
| Purchase of investments accounted for using equity method                        | (829,624)                | (984,396)            |
| Increase in other receivables from related parties                               | -                        | (210)                |
| Proceed from capital reduction of equity-accounted investees                     | -                        | 141,417              |
| Additions to property, plant and equipment (including prepayments for equipment) | (379,334)                | (277,198)            |
| Proceeds from disposal of property, plant and equipment                          | 11,102                   | 3,124                |
| Increase in refundable deposits  | (120,783)                | (2,218)              |
| Increase in other non-current assets   | (37,392)                 | (21,612)             |
| Dividends received   | 312,792                  | 49,355               |
| <b>Net cash flows provided by (used in) investing activities</b>                 | <u>(1,268,096)</u>       | <u>(1,750,579)</u>   |
| <b>Cash flows from financing activities:</b>                                     |                          |                      |
| Increase in short-term borrowings  | 1,061,631                | 437,057              |
| Increase in short-term notes and bills payable                                   | 199,989                  | -                    |
| Increase in long-term borrowings   | 600,000                  | 85,000               |
| Repayments of long-term borrowings   | (40,000)                 | (125,000)            |
| Payments of lease liabilities  | (610)                    | -                    |
| Increase ( decrease ) in other non-current liabilities                           | (500)                    | 500                  |
| Cash dividends distributed to shareholders                                       | (980,000)                | (336,000)            |
| Cash dividends from capital surplus  | -                        | (224,000)            |
| <b>Net cash used in financing activities</b>                                     | <u>840,510</u>           | <u>(162,443)</u>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                      | <u>61,163</u>            | <u>(47,883)</u>      |
| <b>Cash and cash equivalents at beginning of year</b>                            | <u>60,217</u>            | <u>108,100</u>       |
| <b>Cash and cash equivalents at end of year</b>                                  | <u><b>\$ 121,380</b></u> | <u><b>60,217</b></u> |

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

**DARFON ELECTRONICS CORP**  
**2019 Earnings Distribution Table**

( Unit: NTD \$ )

| Items  | Amount               |
|--|----------------------|
| <b>Unappropriated retained earnings of prior years</b>   | <b>394,363,250</b>   |
| Less: Difference between consideration and carrying amount arising from acquisition of shares in subsidiaries  | (24,208,804)         |
| Add: Net profit after tax  | 899,949,648          |
| Less: 10% provisioned as legal reserve   | (89,994,965)         |
| Reversal of special reserve  | (125,728,702)        |
| <b>Distributable net profit</b>  | <b>1,054,380,427</b> |
| Distributable item:  |                      |
| Cash dividends to common shareholders  | (644,000,003)        |
| <b>Unappropriated retained earnings</b>  | <b>410,380,424</b>   |
| Notes:<br>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. |                      |

## Comparison Table of the Articles of Incorporation

| Number of Article | Before amendment   | After amendment  | Reason of amendment                          |
|-------------------|--|--|--|
| Article 8         | <p>The share certificates of the Company shall be all in registered form. The share certificates shall be affixed with the signatures or personal seals of <del>three directors or more</del>, and shall be duly certified or authenticated under the laws before issuance.</p> <p>The Company may, pursuant to the applicable laws and regulations, deliver shares or other securities in book-entry form, instead of delivering physical certificates evidencing shares or other securities.</p>   | <p>The share certificates of the Company shall be all in registered form. The share certificates shall be affixed with the signatures or personal seals of <u>the director representing the company</u>, and shall be duly certified or authenticated <u>by the bank which is competent to certify shares</u> under the laws before issuance.</p> <p>The Company may, pursuant to the applicable laws and regulations, deliver shares or other securities in book-entry form, instead of delivering physical certificates evidencing shares or other securities.</p>   | To comply with the amendments of Company ACT |
| Article 19        | <p>Where the Company has a profit before tax for each fiscal year, the Company shall first reserve certain amount of the profit to recover losses for preceding years, and then set aside 5%-20% of the remaining profit for distribution to employees as remuneration and no more than 1% of the remaining profit for distribution to directors as remuneration.</p> <p>The Company may allocate employee's remuneration prescribed in the preceding paragraph in the form of stock or cash to employees of parent company or subsidiary meeting certain conditions. The Board or the person duly designated by the Board is authorized to decide the conditions and allocation method.</p> <p><del>The distribution of earnings in the preceding paragraph is distributed in the form of cash, the distribution may be approved by the Board of Directors and reported to the shareholders' meeting.</del></p> | <p>Where the Company has a profit before tax for each fiscal year, the Company shall first reserve certain amount of the profit to recover losses for preceding years, and then set aside 5%-20% of the remaining profit for distribution to employees as remuneration and no more than 1% of the remaining profit for distribution to directors as remuneration.</p> <p>The Company may allocate employee's remuneration prescribed in the preceding paragraph in the form of stock or cash to employees of parent company or subsidiary meeting certain conditions. The Board or the person duly designated by the Board is authorized to decide the conditions and allocation method.</p> | To comply with the amendments of Company ACT |
| Article 19-1      | <p>Where the Company has a profit at the end of each fiscal year, the Company shall first allocate the profit to pay taxes and cover accumulated losses, and then 10% of the remaining net earnings shall be allocated as the Company's legal reserve and certain amount shall be further allocated as special reserve or the special reserve shall be reversed in accordance with applicable laws and regulation. The balance ( if any ) together with accumulated unappropriated retained earnings can be distributed after the</p>  | <p>Where the Company has a profit at the end of each fiscal year, the Company shall first allocate the profit to pay taxes and cover accumulated losses, and then 10% of the remaining net earnings shall be allocated as the Company's legal reserve and certain amount shall be further allocated as special reserve or the special reserve shall be reversed in accordance with applicable laws and regulation. The balance ( if any ) together with accumulated unappropriated retained earnings can be distributed after the</p>  | To comply with the amendments of Company ACT |

| Number of Article | Before amendment  | After amendment   | Reason of amendment       |
|-------------------|---|---|---------------------------|
|                   | <p>distribution plan proposed by the Board and approved by the shareholders' meeting.</p> <p>The Company distributing dividends and bonus in the form of new shares to be issued by the company in accordance with Company Law.</p> <p>When the legal reserve and capital surplus are to be distributed in cash, the distribution may be approved by the Board of Directors in accordance with Paragraphs2, Article 241 of the Company Law and reported to the shareholders' meeting.</p> | <p>distribution plan proposed by the Board and approved by the shareholders' meeting. <u>The distribution of earnings is distributed in the form of cash, the distribution may be approved by the Board of Directors and reported to the shareholders' meeting.</u></p> <p>The Company distributing dividends and bonus in the form of new shares to be issued by the company in accordance with Company Law.</p> <p>When the legal reserve and capital surplus are to be distributed in cash, the distribution may be approved by the Board of Directors in accordance with Paragraphs2, Article 241 of the Company Law and reported to the shareholders' meeting.</p> |                           |
| Article 22        | <p>These Articles of Incorporation were approved on April 30, 1997</p> <p>( Omitted )</p> <p>The twenty-first amendment was approved on June 13, 2019</p>   | <p>These Articles of Incorporation were approved on April 30, 1997</p> <p>( Omitted )</p> <p>The twenty-first amendment was approved on June 13, 2019</p> <p><u>The twenty-second amendment was approved on June 18, 2020</u></p>   | To add the amendment date |

## 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 20, 2020, the number of shares held by all directors is 64,108,114 shares. The actual collective shareholding of directors was shown as below:

| Title                | Name                               | Shareholders Represented | No. of Shareholding | Shareholding% |
|----------------------|------------------------------------|--------------------------|---------------------|---------------|
| Chairman             | Kai-Chien Su                       |                          | 4,058,447           | 1.45          |
| Director             | Kuen-Yao Lee                       |                          | 1,525,729           | 0.54          |
| Director             | Chi-Hong Chen (Qisda Corporation)  |                          | 58,004,667          | 20.72         |
| Director             | Chiu-Chin Hung (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          |
| <b>Total</b>         |                                    |                          | <b>64,108,114</b>   | <b>22.90</b>  |

## 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 designate 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.