

Stock Code: 2385

Chicony Electronics CO., Ltd.

Handbook for the 2018 Annual Meeting of Shareholders

Date: June 5, 2018

Address: No. 69, Sec.2, Guanfu Rd., Sanchong Dist., New Taipei City

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Note: The company’s 2017 Financial Reports and 2018 Annual General Shareholders’ Meeting Agenda are available on the ”Market Observation Post System” Website; Please Visit <http://newmops.twse.com.tw/> for details.

Chicony Electronics Co., Ltd.

Procedure for the 2018 Annual Meeting of Shareholders

- i. Report Equity Shares in Attendance
- ii. Chairperson Calls the Meeting to Order
- iii. Chairperson Remarks
- iv. Management Presentations
- v. Acknowledgement Items
- vi. Discussion Items
- vii. Questions and Motions
- viii. Adjournment

Chicony Electronics Co., Ltd.

Year 2018

Agenda of Annual Meeting of Shareholders

Date : 09:00a.m., June 5, 2018

Address: No. 69, Sec.2, Guanfu Rd., Sanchong Dist., New Taipei City (Meeting Room)

Report Equity Shares in Attendance

Chairperson Calls the Meeting to Order

Chairperson Remarks

Management Presentations :

1. 2017 Operation Results
2. Supervisors' Review Report on 2017 Financial Statements
3. 2017 Employee compensation and Remuneration to directors and supervisors Distributed.
4. Amendment to the Rules of Procedure for BOD Meetings
5. Other Report Items

Acknowledgement Items :

1. Acknowledgement of the 2017 Financial Results
2. Acknowledgement of the 2017 Earnings Distribution

Discussion Items :

1. Proposal for a new share issue through capitalization of earnings for 2017
2. Amendment to the Company's Corporate Charter (Articles of Incorporation)

Questions and Motions

Adjournment

Management Presentations

1.2017 Operation Results

Please refer to Appendix 1 for 2017 Operation Report

2.Supervisors' Review Report on 2017 Financial Statements

Please refer to Appendix 2 for Supervisors' Review Report on 2017 Financial Statements

3.2017 Employee compensation and Remuneration to directors and supervisors Distributed.

- (1) According to Articles No.18 in Articles of Incorporation, we should withdraw no less than 11% for Employee Compensation and no higher than 1% for directors and supervisors remuneration from annual profit.
- (2)Approved by Board of Directors and the Remuneration Committee, we withdraw NTD\$ 607,048,008 as Employee Compensation and NTD\$ 37,714,472 as remuneration for directors and supervisors from the profit of NTD\$4,021,529,058 in 2017.
- (3) Remuneration for directors and supervisors will be distributed in cash, Parts of the Employee Compensation also will be distributed in cash, which totals are NTD\$ 154,048,030.Employee compensation NTD\$ 452,999,978 will be distributed in stock (6,154,891 shares shall be determined by the closing price NT73.6 of the day before the meeting date of the Board. After the approval of the competent authority, the new shares will be distributed by following related regulations.
- (4) The shareholder rights and obligations of the new shares are the same as those of issued shares.
- (5) The differences between estimated and actual amount in Employee compensation and remuneration for directors and supervisors will be listed by changing in accounting estimate as profit or loss in 2018.

4. Amendment to the Company's Corporate Charter (Articles of Incorporation)

5.Other Report Items : N/A

Acknowledge Items

Item 1 : Acknowledgement of the 2017 Financial Results (Proposed by the Board)

Explanation

- (1) 2017 Financial Statements and Business Report were approved by the Board of Directors meeting convened on Mar. 9, 2018.
- (2) The aforementioned financial statements have been audited by CPA Wang, Huei Shyang and CPA Lin, Chun Yaw of PwC Taiwan.
- (3) For the 2017 Business Report, please refer to Appendix 1; for the 2017 Financial Statements, please refer to Appendix 2.
- (4) Please proceed to adopt.

Resolution :

Item 2 : Acknowledgement of the 2017 Earnings Distribution (Proposed by the Board)

Explanation :

- (1) In Fiscal Year 2017, the Company made a net profit of NT\$4,021,529,058. By setting aside 10% of net profit as legal reserve of NT\$402,152,906 and special reserve of NT\$1,427,779,990, adding unallocated retained earnings of the previous year of NT\$5,122,678,888, total distributable earnings for the year amounted to NT\$7,314,275,050. NT\$3,221,684,313 will be distributed as shareholders' cash dividend, each share shall receive NT\$4.45. NT\$36,198,710 will be distributed as shareholders' stock dividends, each one thousand shares shall be distributed 5 shares.
- (2) Please refer to Appendix 3 for 2017 Profit Distribution Table
- (3) For distribution of cash dividends, it is proposed that the Board of Directors be authorized to determine the details after the Shareholders' Meeting.
- (4) In the event of buyback of the Company's shares, transfer, conversion or annulment of treasury stocks leading to a change in the number of outstanding shares and a consequent change in stock dividends and dividend yield, it is proposed that the Board of Directors are authorized to duly adjust stocks and cash to be distributed.
- (5) Please proceed to adopt

Resolution :

Discussion Items

Item 1 : Proposal for a new share issue through capitalization of earnings for 2017 (Proposed by the Board)

Explanation :

- (1) Pursuant to the Articles of Incorporation of the Company, the capital amounts to NT\$8,000,000,000, and the paid-in capital amounts to NT\$ 7,206,051,120.
- (2) To meet the substantial need amidst business growth in the Company, it is proposed that the dividend to shareholders appropriated with the unappropriated retained earnings NT\$ 36,198,710 be converted for capital increase to issue 3,619,871 shares at NT\$10 par value. With the calculation based on the shareholders and shareholding percentages as shown through the shareholders register as of the ex-right base (reference) date, 5 shares shall be allocated for every one thousand shares. The shareholders may, at their discretion, piece together the odd shares that are less than one share after allocation, within five days after the ex-right base (reference) date. Where a shareholder fails to piece together within the specified time limit or waives the right to piece together, and for the odd shares which are still less than one share after they are pieced together, the final odd shares shall be allocated in cash rounded to the whole number of New Taiwan Dollar in accordance with Article 240 of the Company Act for which the chairman shall approach specific people to purchase at the face value.
- (3) The rights and obligations of the issue of new shares are as the same with the original shares.
- (4) It is proposed that the Board of Directors be authorized with full powers to deal with the details of new shares issue.
- (5) In the event of a change in the present capital increase to issue new shares due to amendment of laws or decision by the competent authorities of the government, it is proposed that the Board of Directors be authorized with full power to manage as appropriate.
- (6) In case of an impact upon the number of outstanding shares as a result of repurchase of shares by the Company or transfer, revocation of treasury stocks, it is proposed that the Board of Directors be authorized with full power to manage the issue as appropriate.
- (7) Please proceed to adopt.

Resolution :

Item 2 : Amendment to the Company's Corporate Charter (Articles of Incorporation) (Proposed by the Board)

Explanation :

(1) Please proceed to adopt.

Resolution :

**Questions and Motions
Adjournment**

Appendix 1

Chicony Electronics Co., Ltd. 2017 Operation Report

1. Year 2017 performance (All in NTD\$)

1.1 Operational results

Joint efforts by our management team and employees, our 2017 Consolidated Revenue reached \$78,155,686 thousands. Our Operating Profit amounted to \$4,569,330 thousands, while the Net Profit amounted to \$4,021,529 thousands.

1.2 Financial Highlights and Profitability Analysis

a. Financial Highlights

Units: NTD thousands

Item	2017	2016	Increase (decrease)
Operating Profit	4,569,330	5,028,077	(9.12%)
Net Profit	4,021,529	3,531,068	13.89%
Average Total Assets	65,876,078	61,633,936	6.88%
Average Shareholder Equity	23,976,322	23,218,652	3.26%

b. Profitability

Item	2017	2016
Return on Average Assets (%)	6.10	5.73
Return on Average Shareholder Equity (%)	16.77	15.21
Operating Profit on End-of-Period Shareholder Equity (%)	63.41	70.61
Net Profit Margin (%)	5.15	4.58
Earnings per Share (EPS) in NTD	5.92	5.24

*The 2017 EPS is unadjusted by employee bonus and plowback funding, which would affect stock share numbers.

1.3 Research and development

In 2017, Chicony spent approximately \$2,949,604 thousands on product development, automation production equipment, and process improvement. Solid R&D ability is Chicony's crucial competitiveness to face fast-changing industry environment. To cultivate and attract more and more excellent R&D talents, Chicony has cooperated with National Taipei University of Technology by providing "Chicony R&D scholarship" and has created a "C&T laboratory" for potential R&D candidates. Aiming to innovative technology trend, Chicony will continuously develop cutting edge products including keyboards, images (camera module, sports DV, IP Cam, dashboard camera), power supply, IoT-wearable device, smart building solutions, and other smart life products. Thanks to our new coming customers, Chicony has obtained quite a few business opportunities.

2 Year 2018 Outlook

2.1 2018 Goals and Outlook

According to the global economy outlook published by OECD, the 2018 global GDP growth rate is expected to be 3.7%. America's GDP growth rate is expected to be 2.3%, due to the job market may be stimulated by Trump Government's tax reduction policy and increase private final consumption expenditure. The Eurozone's GDP growth rate is expected to be 1.9%, due to easing monetary policy and lower politics risk. Japan's GDP is expected to be only 1.2%, due to its tight financing policy. China's GDP growth rate is expected to remain 6.6%, due to strengthen management toward real estate and environmental protection, and merge of state-owned enterprises. ASEAN's GDP growth rate is expected to be 4.9%, due to increasing consumption expenditure and investment of infrastructure construction. The price of oil may rise this year that lead oil supply and demand to balance level instead. The main economy's inflation rate is expected to be lower than 2%, due to rapid development in E-Commerce market, population ageing, and low labor productivity.

According to recent industry research, CAGR of personal computing device global shipment units in 2021 will be -1.7% and amount to 398 million units. CAGR of PC and tablet shipment units in 2021 will be -0.9% and -3%. Shipment of tablet in 2018 is expected to be 120 million units. Due to increasing demands of NB replacement in 2018, the NB shipment growth rate in 2018 is expected to be 2.7% which amount to 160 million units. However, the NB market share may be decreased by increasing demands of AI or AR products. Therefore, CAGR of global NB shipment units from 2018 to 2022 is expected to be -3.2%. On the other hand, increasing demands of cloud computing, IOT, 5G, and AI technology lead to greater demands to servers. CAGR of global server shipment units from 2018 to 2022 is expected to be 6.5%. In 2017, due to increasing smartphone demands in emerging market and smartphone replacement demands every 2 years, the total smartphone shipment units grew 1.7% to 1.5 billion units compare to 2016. We expect the yearly growth rate of smartphone may reach 3-5% in the following 4 years. The shipment of smartphone in 2021 is expected to be 1.73 billion units which may also encourage greater growth momentum of advanced camera modules.

Chicony's keyboard, images (camera module, sports DV, IP Cam, dashboard camera), and power supply products steadily grew well last year. Furthermore, value-added products such as smart home and gaming NB/PC grew strongly in 2017 and created better revenues and profits for the company. In 2018, Chicony will integrate unique technology advantages including image, WiFi, power control, and software development to create more competitive products in smart home, IP Cam, and IOT markets. Our main growth momentum this year will come from cloud computing and gaming power supply products, smart home products and smart building solution, 2-in-1 device keyboards, LED backlight keyboards, and gaming keyboards. In 2018, although the global economy is gradually recover from downside, and high-end electronic products market may be boosted by increasing demands of developed countries, fast-changing technology industry still cause heavy pressures to electronic components manufacturers in Taiwan. Sooner or later, the economic advantages of Taiwan may be replaced by China. Chicony is facing tough challenges like other Taiwan technology companies.

However, our experienced management team members have strong confidence to raise up revenue growth rate yearly. By integrating Chicony group resources, Chicony not only continuously keeps cultivating advanced keyboard, digital image, and power supply products, but also aggressively devotes to develop other Non-PC and niche products like smart home, IP Cam, and IOT products. Considering market

analysis above, estimated customer demands, and Chicony's operation experience and current production plan, Chicony would create 217.1 million units products (including PC peripherals, digital image, consumer electronics and other electronics products) this year. Besides, two subsidiaries, Chicony Power and Xavi would create 159.7 million units and 15.0 million units products (including PC peripherals, gaming console, and networking products) respectively in 2018.

2.2 Business strategies

Following the principles of "No Quality, No sales" and "Integrity" which claimed by Vice Chairman & CEO M.K. Lin, Chicony would devote to continuous operation and bring the best contribution to shareholders, employees, and society. Chicony's strategies for products, production, marketing, R&D, human resource, and financial management are as follows:

a. Products

- (1) Keep cultivating keyboard, digital image, power supply, and other high value-added and differentiated products.
- (2) Integrate unique technology advantages including image, WiFi, power control, and software development to create higher value-added products.
- (3) Escalate Non-PC products revenue proportion including cloud computing and gaming power supply products, smart home products and smart building solution applications, and IOT-wearable devices.

b. Production

- (1) Expand economics of scale in keyboard, image, and power supply products, escalate efficiency of productivity, and produce high quality products.
- (2) Enhance the VMI (Vendor Managed Inventory) system with the information provided by EDI and ERP to react customer needs in time, so as to reduce storage cost and improve flexibility and efficiency of delivery and production.
- (3) Enhance bargain power by integrating Chicony group procurement resources.
- (4) Purchase key components directly from the original suppliers to reduce material costs.
- (5) Keep finding more appropriate suppliers of key components, to create strategic vertical integration and expand economics of scale.
- (6) Cultivate deeper relationship with suppliers of China to localize procurement process. Response currency market to reduce the material cost and to enlarge the CRP amount.
- (7) Increase percentage of automation production and develop innovative manufacturing processes so as to escalate production efficiency.

c. Marketing

- (1) Provide customer "one-stop shopping" menu by integrating Chicony group product lines so as to create the greatest profits by the most efficient marketing resources.
- (2) Keep strive for new customers and expand market shares of keyboard, DV, NB and smartphone build-in camera module, and power supply products.
- (3) Expand new products including smart home, IP Cam, IOT-wearable devices, and drones.
- (4) Create CFT(Customer Focus Team) so as to integrate Chicony group marketing resources and deeply cultivate crucial customers.

d. Research and Development

- (1) Collaborate with crucial international hardware/software customers and suppliers so as to control key technologies and create valuable new products together.
- (2) Create technology advantages by I.P. Know-How so as to set entry barriers.
- (3) Keep developing VA/VE (value analysis/value engineering) and improve product design to increase productivity efficiency and reduce production cost.
- (4) Provide “Chicony R&D scholarship” to encourage more excellent R&D talents for developing greater R&D ability and efficiency.
- (5) New Product Business Division keeps developing new product opportunities so as to create more blue-ocean market for Chicony.
- (6) Establish Intellectual Property Center to obtain and protect patents belongs to Chicony group as well as manage cross-licensing of patents.

e. Human Resources

- (1) Keep providing profession and management training courses to cultivate employees’ professional technique and self-development.
- (2) Help employees develop stable self-career plan with position rotation and job deputy, and, there through, the work capacity and position experience can be continuously applied and inherited for eternal operation purpose.
- (3) Promote corporate social responsibility activities and allocate certain ratio of the company’s profits to help disadvantaged minorities. Cooperate with known colleges to cultivate young talents for potential manpower cultivation.
- (4) Keep pace with HR development and policy trend globally and react in time to maintain mutual benefits for both employer and employee.
- (5) Concern our employees thoroughly to keep excellent manpower with the profound retaining system

f. Finance

- (1) Supervise budget control and carefully manage accounts receivable, inventory, and cash turnover.
- (2) Strictly manage the tax-preserving materials and ensure the conduct of tax-preserving materials follow the legal regulation in other countries to make sure the company can benefit from the custom tax.
- (3) Keep improve debt ratio, stock and finance affairs, and corporate governance.
- (4) Adequately hedge against fluctuations in exchange rates and raw material costs.
- (5) Conduct appropriate tax planning for entire Chicony group by thorough study of relevant tax law and regulation in related countries.
- (6) Minimize the interest cost and plan the middle and long term fund facility according to the trend of interest rate.
- (7) Keep seeking companies with growth potential or complementary strengths as for investment object or future strategic alliance.

2.3 Important production and marketing policies

- a. Focus on the top 10 global brands of manufacturers in personal computers, notebooks, image products, and smartphone. By increasing our business shares among these growing companies, we are able to expand our global market shares and strengthen our position.

- b. Integrate our competitive advantages of multiple product lines, cross-selling, and collaborate material procurement resources.
- c. Establish in-time warehouses logistic system to shorten product delivery time and gain advantages compare to our competitors.
- d. Review and adjust production process to the optimum status. Adopt automatic production to increase productivity efficiency.
- e. Establish VMI (Vendor Managed Inventory) system to enhance material delivery efficiency and reduce stocks of inventory.
- f. Enhance current ERP system and provide management index information. Establish Business Policy Making room with timely information for decision making.

Chairman: Kent Hsu

Vice Chairman & CEO: MK Lin

Chief Accounting Officer: Molly Lin

Appendix 2

Chicony Electronics Co., Ltd. Supervisors' Review Report on 2017 Financial Statements

To: Shareholders' Meeting 2018

The Board of Directors of Chicony Electronics Co., Ltd prepared and presented the 2017 business report, financial statements, and the statement of retained earnings. The financial statements were audited by the PwC Taiwan, appointed by Board, and an independent auditor's report was issued by it.

Supervisors have audited the above-mentioned reports that were composed and presented by the Board of Directors. They have been audited and it is concluded the reports are presented fairly according to Corporate Law and other related regulation ; therefore, a Supervisor's Report is hereby issued in accordance with Company Law Article 219.

Supervisor:
Jing Yuan Investment Co., Ltd. Legal Representative: Huang, Chin Shun

Supervisor:
Hua Tai Investment Co., Ltd. Legal Representative: Chang, Su-Chen

Supervisor:
Dong Ling Investment Co., Ltd. Legal Representative: Ku, Chi-Hsuan

9th March, 2018

Appendix 3

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of CHICONY ELECTRONICS CO., LTD.

Opinion

We have audited the accompanying consolidated balance sheets of Chicony Electronics Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the *reports of other independent accountants (please refer to the “Other matter” section of our report)*, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Independent accountant’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Appropriateness of cut-off of warehouse operating revenue

Description

For accounting policy of revenue recognition and the content of revenue, please refer to Notes 4(29) and 6(23).

The Group has two types of sales delivery forms: Factory direct shipment and Warehouse sales. Warehouse sales revenue is recognized when the goods are dispatched from the warehouses (transfer of significant risk and rewards of ownership) and is based on the reports and other relevant information provided by the warehouse custodians.

The Group's warehouses are located in multiple countries, and the revenue recognition process involves several manual operations. Thus, we determine the warehouse sales income cut-off as one of the key areas of focus for this fiscal year's audit.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. We evaluated the internal controls for regular reconciliation between the Group and custodians.
2. The sales receipt transactions for a certain period of time before and after the cut-off date have been checked for the cut-off test and includes the inspection of supporting documents of the custodian and reviewing the accounting records of changes in inventories and cost of goods sold.
3. We confirmed the inventory quantities with hub custodian or performed physical inventory count observation and agreed the results to accounting records. Clarified the difference between physical counts or confirmation and accounting records, and tested significant reconciliation items to confirm that the significant difference has been adjusted and recorded.

Valuation of inventory

Description

Please refer to Notes 4(12), 5(2) and 6(7) for the description of accounting policy, critical accounting estimates, uncertainty of assumption and details of accounts.

The Group's main inventories are keyboard, power supplies, camera modules and other electronic products. The prices of such inventories are affected by market demand and the rapid technological changes. Therefore, there was higher risk of market decline. As the assessment of net realisable value of inventories was subject to management judgement, we consider the valuation of inventory as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Assessed whether the Group's accounting policies comply with the relevant standards and the Group's industry practice and the reasonability of management's evaluation process, including the determination of net realisable value of inventories, the sales expenses and the judgement of obsolete inventories. Checked the provision policies were consistently adopted in the reporting periods.
2. Obtained net realisable value statement of inventories to confirm that the calculation logic was adopted consistently, and test the data sources of selected samples which includes inventory price or purchase price to verify the net realisable value used by the management was comply with its policies, and recalculated the accuracy of allowance for inventory valuation losses.

Other matter - Audit of other independent accountants

We did not audit the financial statements of certain consolidated subsidiaries and investments accounted for under the equity method that are included in the consolidated financial statements. Those financial statements were audited by other independent accountants, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements and the information disclosed in Note 13 was based solely on the reports of other independent accountants. Total assets (including investments accounted for under the equity method) of NT\$ 1,334,746 thousand and NT\$ 1,361,720 thousand, constituted 1.98% and 2.12% of consolidated total assets as of December 31, 2017 and 2016, respectively. Total sales revenue of NT\$ 2,786,115 thousand

and NT\$ 2,739,798 thousand, constituted 3.56% and 3.56% of consolidated total sales revenue for the years ended December 31, 2017 and 2016, respectively.

Other matter - Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of Chicony Electronics Co., Ltd. as at and for the years ended December 31, 2017 and 2016.

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 Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 Supervisors, are responsible for overseeing the Group’s financial reporting process.

Independent accountant’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 ROC GAAS 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 ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess 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 controls.
2. Obtain an understanding of internal controls 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 controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate 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. Obtain 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 communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Lin, Chun-Yao

Weng, Shih-Jung

For and on behalf of PricewaterhouseCoopers, Taiwan

March 9, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Assets	Notes	December 31, 2017	December 31, 2016
Current assets			
1100	Cash and cash equivalents	\$ 2,679,941	\$ 3,076,607
1110	Financial assets at fair value		
	through profit or loss - current	412,311	237,458
1125	Available-for-sale financial assets		
	- current	6,734,294	4,321,515
1150	Notes receivable, net	842,816	667,235
1170	Accounts receivable, net	18,060,476	18,890,909
1180	Accounts receivable - related		
	parties	325,997	473,676
1200	Other receivables	503,149	446,761
130X	Inventories, net	12,458,261	10,294,196
1410	Prepayments	1,401,826	1,248,502
1470	Other current assets	51,723	165,633
11XX	Current Assets	<u>43,470,794</u>	<u>39,822,492</u>
Non-current assets			
1523	Available-for-sale financial assets		
	- non-current	883,509	1,388,312
1543	Financial assets carried at cost -		
	non-current	2,266,656	1,836,330
1550	Investments accounted for under		
	equity method	45,719	837,950
1600	Property, plant and equipment,		
	net	13,554,882	13,495,266
1760	Investment property, net	5,517,981	5,547,494
1780	Intangible assets, net	249,404	255,143
1840	Deferred income tax assets	162,296	147,971
1900	Other non-current assets	1,303,139	966,818
15XX	Non-current assets	<u>23,983,586</u>	<u>24,475,284</u>
1XXX	Total assets	<u>\$ 67,454,380</u>	<u>\$ 64,297,776</u>

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Liabilities and Equity	Notes	December 31, 2017	December 31, 2016
Current liabilities			
2100	Short-term borrowings	\$ 4,246,383	\$ 2,101,177
2120	Financial liabilities at fair value through profit or loss - current	488,548	93,327
2150	Notes payable	2,187	6,819
2170	Accounts payable	20,737,567	20,182,530
2180	Accounts payable - related parties	482,419	605,394
2200	Other payables	9,125,867	8,481,776
2230	Current income tax liabilities	1,564,325	1,329,482
2300	Other current liabilities	226,178	264,263
21XX	Current Liabilities	<u>36,873,474</u>	<u>33,064,768</u>
Non-current liabilities			
2540	Long-term borrowings	1,831,281	2,352,377
2570	Deferred income tax liabilities	230,809	121,917
2600	Other non-current liabilities	243,421	233,781
25XX	Non-current liabilities	<u>2,305,511</u>	<u>2,708,075</u>
2XXX	Total Liabilities	<u>39,178,985</u>	<u>35,772,843</u>
Equity attributable to owners of parent			
Share capital			
3110	Share capital - common stock	7,206,051	7,120,820
Capital surplus			
3200	Capital surplus	5,136,660	4,629,152
Retained earnings			
3310	Legal reserve	4,215,046	3,861,939
3320	Special reserve	433,524	951,488
3350	Unappropriated retained earnings	9,144,208	8,049,113
Other equity interest			
3400	Other equity interest	(1,824,687)	63,660
3500	Treasury stocks	(517,165)	(517,165)
31XX	Equity attributable to owners of the parent	<u>23,793,637</u>	<u>24,159,007</u>
36XX	Non-controlling interest	<u>4,481,758</u>	<u>4,365,926</u>
3XXX	Total equity	<u>28,275,395</u>	<u>28,524,933</u>
Significant contingent liabilities and unrecognised contract commitments			
Significant events after the balance sheet date			
3X2X	Total liabilities and equity	<u>\$ 67,454,380</u>	<u>\$ 64,297,776</u>

The accompanying notes are an integral part of these consolidated financial statements.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	Year ended December 31		
		2017	2016	
4000	Sales revenue	6(23) and 7	\$ 78,155,686	\$ 77,018,060
5000	Operating costs	6(7)(26)(27) and 7	(64,701,349)	(63,500,611)
5900	Net operating margin		13,454,337	13,517,449
	Operating expenses	6(26)(27)		
6100	Selling expenses		(3,544,903)	(3,679,579)
6200	General and administrative expenses		(2,390,500)	(2,498,969)
6300	Research and development expenses		(2,949,604)	(2,310,824)
6000	Total operating expenses		(8,885,007)	(8,489,372)
6900	Operating profit		4,569,330	5,028,077
	Non-operating income and expenses			
7010	Other income	6(24)	780,659	591,925
7020	Other gains and losses	6(25)	969,738	(49,844)
7050	Finance costs	6(28)	(104,700)	(77,983)
7060	Share of loss of associates and joint ventures accounted for under equity method	6(8)	(125,008)	(132,814)
7000	Total non-operating income and expenses		1,520,689	331,284
7900	Profit before income tax		6,090,019	5,359,361
7950	Income tax expense	6(29)	(1,217,803)	(1,050,290)
8200	Profit for the year		\$ 4,872,216	\$ 4,309,071

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)

Items	Notes	Year ended December 31	
		2017	2016
Other comprehensive income			
Components of other comprehensive income that will not be reclassified to profit or loss			
8311	Actuarial loss on defined benefit plan	6(17)	(\$ 23,363) (\$ 26,861)
8312	Other comprehensive income, before tax, gains (losses) on revaluation	6(9)	- 1,473,052
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		- (152)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		- (84,773)
8310	Components of other comprehensive income that will not be reclassified to profit or loss		(23,363) 1,361,266
Components of other comprehensive income that will be reclassified to profit or loss			
8361	Financial statements translation differences of foreign operations		(1,110,924) (1,466,409)
8362	Unrealized (loss) gain on valuation of available-for-sale financial assets		(1,264,999) 1,113,482
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		(3,984) (28,833)
8360	Components of other comprehensive income that will be reclassified to profit or loss		(2,379,907) (381,760)
8300	Total other comprehensive (loss) income for the year		(\$ 2,403,270) \$ 979,506
8500	Total comprehensive income for the year		\$ 2,468,946 \$ 5,288,577
Profit attributable to:			
8610	Owners of the parent		\$ 4,021,529 \$ 3,531,068
8620	Non-controlling interest		\$ 850,687 \$ 778,003
Comprehensive income attributable to:			
8710	Owners of the parent		\$ 2,113,156 \$ 4,526,727
8720	Non-controlling interest		\$ 355,790 \$ 761,850
Earnings per share 6(30)			
9750	Total basic earnings per share		\$ 5.92 \$ 5.21
9850	Total diluted earnings per share		\$ 5.84 \$ 5.15

The accompanying notes are an integral part of these consolidated financial statements.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Notes	Equity attributable to owners of the parent										Total equity	
	Retained Earnings				Other equity interest							
	Share capital - common stock	Total capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets	Asset revaluation increment	Treasury stocks	Total		Non-controlling interest
Year ended December 31, 2016												
Balance at January 1, 2016	\$ 7,038,101	\$ 4,090,426	\$ 3,477,140	\$ 433,524	\$ 8,591,961	\$ 1,404,049	(\$ 2,355,538)	\$ -	(\$ 311,277)	\$ 22,368,386	\$ 3,836,131	\$ 26,204,517
Effect of retrospective application and restatement	-	-	-	-	(86,493)	(3,596)	-	-	-	(90,089)	-	(90,089)
Balance at 1 January, 2016 after adjustments	7,038,101	4,090,426	3,477,140	433,524	8,505,468	1,400,453	(2,355,538)	-	(311,277)	22,278,297	3,836,131	26,114,428
Appropriation of 2015 earnings	-	-	-	-	(384,799)	-	-	-	-	-	-	-
Appropriation of legal reserve	-	-	384,799	517,964	(517,964)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	-	(35,191)	-	-	-	-	-	-	-
Distribution of stock dividends	35,191	-	-	-	(3,026,383)	-	-	-	-	(3,026,383)	-	(3,026,383)
Cash dividends	-	-	-	-	-	-	-	-	-	375,000	-	375,000
Employees' stock dividends	47,528	327,472	-	-	-	-	-	-	-	3,531,068	778,003	4,309,071
Profit for 2016	-	-	-	-	3,531,068	-	-	-	-	995,659	(16,153)	979,506
Other comprehensive income (loss) for 2016	-	-	-	-	(23,086)	(1,345,442)	975,908	1,388,279	(205,888)	(205,888)	-	(205,888)
Purchase of treasury share	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid to the subsidiaries	-	158,276	-	-	-	-	-	-	-	158,276	-	158,276
Difference between proceeds from addition and disposal of subsidiary and book value	-	11,848	-	-	-	-	-	-	-	11,848	(11,848)	-
Adjustments to share of changes in equity of associates and joint ventures	-	-	-	-	-	-	-	-	-	40,284	190,669	230,953
Changes in equity of associates and joint ventures accounted for using equity method	-	846	-	-	-	-	-	-	-	846	-	846
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Non-controlling interest adjustment	-	-	-	-	-	-	-	-	-	-	(438,376)	(438,376)
Balance at December 31, 2016	\$ 7,120,820	\$ 4,629,152	\$ 3,861,939	\$ 951,488	\$ 8,049,113	\$ 55,011	(\$ 1,379,630)	\$ 1,388,279	(\$ 517,165)	\$ 24,159,007	\$ 4,365,926	\$ 28,524,933

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Notes	Equity attributable to owners of the parent							Total	Non-controlling interest	Total equity		
	Share capital - common stock	Total capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets				Asset revaluation increment	Treasury stocks
Year ended December 31, 2017												
Balance at January 1, 2017	\$ 7,120,820	\$ 4,629,152	\$ 3,861,939	\$ 951,488	\$ 8,049,113	\$ 55,011	(\$ 1,379,630)	\$ 1,388,279	(\$ 517,165)	\$ 24,159,007	\$ 4,365,926	\$ 28,524,933
6(21) Appropriation of 2016 earnings	-	-	353,107	-	(353,107)	-	-	-	-	-	-	-
Reversal of legal reserve	-	-	-	(517,964)	517,964	-	-	-	-	-	-	-
Reversal of special reserve	35,712	-	-	(35,712)	35,712	-	-	-	-	-	-	-
Distribution of stock dividends	-	-	-	-	(3,035,553)	-	-	-	-	(3,035,553)	-	(3,035,553)
Cash dividends	-	310,481	-	-	-	-	-	-	-	360,000	-	360,000
Employees' stock dividends	49,519	-	-	-	-	-	-	-	-	4,021,529	850,687	4,872,216
Profit for 2017	-	-	-	-	4,021,529	-	-	-	-	4,021,529	850,687	4,872,216
6(22) Other comprehensive loss for 2017	-	-	-	-	(20,026)	(1,064,485)	(823,862)	-	-	(1,908,373)	(494,897)	(2,403,270)
Cash dividends paid to the subsidiaries	-	157,218	-	-	-	-	-	-	-	157,218	-	157,218
Difference between proceeds from addition and disposal of subsidiary and book value	-	7	-	-	-	-	-	-	-	7	(7)	-
Adjustments to share of changes in equity of associates and joint ventures	-	111,028	-	-	-	-	-	-	-	111,028	335,297	446,325
Changes in equity of associates and joint ventures accounted for using equity method	-	(71,229)	-	-	-	-	-	-	-	(71,229)	-	(71,229)
Cash dividends distributed by subsidiaries	-	3	-	-	-	-	-	-	-	3	(570,579)	(570,579)
Other (overdue dividends)	-	-	-	-	-	-	-	-	-	3	-	3
Non-controlling interest adjustment	-	-	-	-	-	-	-	-	-	-	(4,669)	(4,669)
Balance at December 31, 2017	\$ 7,206,051	\$ 5,136,660	\$ 4,215,046	\$ 433,524	\$ 9,144,208	(\$ 1,009,474)	(\$ 2,203,492)	\$ 1,388,279	(\$ 517,165)	\$ 23,793,637	\$ 4,481,758	\$ 28,275,395

The accompanying notes are an integral part of these consolidated financial statements.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Notes	Years ended December 31,	
		2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 6,090,019	\$ 5,359,361
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(9)(26)	1,969,888	2,002,577
Intangible assets amortization	6(11)(26)	71,006	76,757
Other non-current assets recognized as expenses	6(26)	56,895	92,252
Long-term prepaid rent expense	6(12)(26)	8,281	8,757
(Reversal of) provision for allowance for uncollectible accounts		(7,620)	9,580
Interest expense	6(28)	104,700	77,983
Share-based payments	6(18)	51,951	106,379
Interest income	6(24)	(38,665)	(34,953)
Dividend income	6(24)	(186,211)	(196,714)
Net loss on financial assets and liabilities at fair value through profit or loss	6(2)(25)	949,378	304,315
Share of loss of associates accounted for using equity method	6(8)	125,008	132,814
Gain on disposal of investments accounted for using equity method	6(8)	(776,362)	-
Gain on disposal of property, plant and equipment	6(25)	(30,484)	(19,829)
Loss on disposal of intangible assets		-	1,387
Gain on disposal of investments	6(25)	(654,696)	(1,087,648)
Impairment loss of financial assets	6(25)	-	1,403,575
Impairment loss of non-financial assets	6(11)(25)	96	-
Gain on fair value adjustment of investment property	6(10)(25)	(51,789)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets and liabilities at fair value through profit or loss - current		(729,010)	(118,416)
Notes receivable		(175,581)	(400,779)
Accounts receivable		838,053	(826,528)
Accounts receivable - related parties		147,679	(144,237)
Other receivables		(39,103)	(60,346)
Inventories		(2,164,065)	(880,615)
Prepayments		(153,324)	(275,821)
Other current assets		(25,441)	(25,561)
Changes in operating liabilities			
Notes payable		(4,632)	(9,479)
Accounts payable		555,037	1,594,335
Accounts payable - related parties		(122,975)	105,144
Other payables		1,350,540	1,279,772
Other current liabilities		(38,085)	(9,453)
Other non-current liabilities		(13,723)	(1,247)
Cash inflow generated from operations		7,106,765	8,465,856
Interest received		39,314	34,456
Dividend received		186,211	197,808
Interest paid		(104,720)	(78,611)
Income tax paid		(888,393)	(815,469)
Net cash flows from operating activities		6,339,177	7,804,040

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Notes	Years ended December 31,	
		2017	2016
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Proceeds from government grants		\$ -	\$ 19,760
Decrease in other current assets		139,351	1,746
Acquisition of available-for-sale financial assets		(3,737,027)	(3,294,633)
Proceeds from disposal of available-for-sale financial assets		2,751,917	3,927,233
Acquisition of financial assets carried at cost		(624,605)	(955,981)
Proceeds from disposal of assets carried at cost		69,211	35,263
Acquisition of investments accounted for using equity method		(279,814)	-
Proceeds from disposal of investments accounted for using equity method		120,454	-
Acquisition of property, plant and equipment	6(31)	(2,364,589)	(2,433,718)
Proceeds from disposal of property, plant and equipment		193,375	152,096
Acquisition of investment property	6(10)	(588)	-
Acquisition of intangible assets	6(11)	(70,529)	(62,860)
Increase in other non-current assets		(653,086)	(154,404)
(Increase) decrease in refundable deposits		(15,675)	186,107
Net cash flows used in investing activities		(4,471,605)	(2,579,391)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in short-term borrowings		2,145,206	(372,039)
Increase in long-term borrowings		401,853	260,000
Decrease in long-term borrowings		(874,381)	(320,000)
Treasury stock transferred to employees		141,171	-
Change in non-controlling interests		(4,669)	27,500
Cash dividend distributed by subsidiaries		(570,579)	(438,376)
Payment of cash dividends		(2,878,335)	(2,868,107)
Payments to acquire treasury shares		-	(205,888)
Overdue stock dividends		3	-
Net cash flows used in financing activities		(1,639,731)	(3,916,910)
Effect of exchange rate changes		(624,507)	(580,731)
Net (decrease) increase in cash and cash equivalents		(396,666)	727,008
Cash and cash equivalents at beginning of year	6(1)	3,076,607	2,349,599
Cash and cash equivalents at end of year	6(1)	<u>\$ 2,679,941</u>	<u>\$ 3,076,607</u>

The accompanying notes are an integral part of these consolidated financial statements.

Appendix 4

Chicony Electronics Co., Ltd. 2017 Profit Distribution Table

Unit: NTD

Item	Amount
Undistributed Earnings after Adjustment	
Undistributed Earnings at the Beginning of the Period (Note 1)	\$5,142,705,155
deduct : Adjustment for Retained Earnings of 2017(Note 2)	(20,026,267)
Total	\$5,122,678,888
Distributable Earnings from Current Year	
Net Income of 2017	\$4,021,529,058
deduct : 10% Legal Reserve	(402,152,906)
deduct : Special Reserve	(1,427,779,990)
Total	\$2,191,596,162
Distributable Earnings as of the end of the Year	\$7,314,275,050
Dividends Distribution	
Cash Dividends (4.45per share)	(\$3,221,684,313)
Stock Dividends (0.05 per share)	(36,198,710)
Total	(\$3,257,883,023)
Undistributed Earnings at the end of the Period	4,056,392,027
Note :	
1. Undistributed earnings after the resolution for the 2016 earning distribution on 2017 Shareholders' Meeting	
2. Adjustment for Retained Earnings resulting from accounting conduct in 2017, which include:	
(1) Defined pension benefit plan actuarial losses (\$16,980,356)	
(2) Retained Earnings Adjustment due to investment with equity method (\$3,045,911)	
3. The aggregate total of the outstanding shares: 723,974,003 shares.	