

QISDA 2017 ANNUAL REPORT

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QISDA ON THE INTERNET

Qisda's Investor Relations home page on the worldwide website offers a wealth of corporate information, including the latest annual report and financial results.

Website: Qisda.com

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DOMESTIC STOCK EXCHANGE LISTING

Qisda Common shares

Taiwan Stock Exchange Corporation

<http://www.tse.com.tw/en/>

OVERSEAS SECURITY EXCHANGE LISTING

For further information, visit Qisda worldwide website and Login at Investor Relations

Qisda Global Depositary Shares

Luxemburg Stock Exchange

ISIN: US0823012010

<http://www.bourse.lu>

Message to our Shareholders

Dear esteemed Qisda shareholders,

In 2017, Qisda's consolidated revenue reached NT\$136.9 billion. The consolidated net income was NT\$3.4 billion, and the consolidated profit after tax was NT\$5.66 billion. Net profit attributable to owners of the parent company was NT\$5.29 billion, with an after tax earnings per share at NT\$2.69.

Due to the unstable global economy and the rapidly changing industry environment, the market demand for monitors and projectors was sluggish. However, the competition remained fierce. Despite the challenges, Qisda continued with its corporate transformation in business development and enhanced its competitive edges by concentrating on three main operating focuses – optimization of existing business operations, rapid expansion of the medical business, and acceleration of solution development.

1. Optimization of existing business operations: Qisda sustained a steady progress and a market leadership position with its two main product lines: monitors and projectors. The monitor product business group continued to invest in the development of professional and medical monitors, as well as high-end and high-unit-price products. As a result, 2.6 million high-end and professional monitors were sold in 2017. Taking as a whole, the monitor product business performed better than the industry average and ranked number 2 in the world. Qisda's DMS projector business has maintained the leading position worldwide with increasing sales on a wide range of products. Furthermore, automotive solutions business sustained a steady growth and profits.
2. Rapid expansion of the medical business: In 2017, Qisda's consolidated revenue from the medical business exceeded NT\$7.4 billion, and revenue from both Suzhou and Nanjing BenQ Hospitals maintained a leaping growth. Furthermore, in 2017, BenQ Dialysis Technology Corp. was certified by Taiwan Food and Drug Administration (TFDA) and allowed to sell medical products in Taiwan. Qisda has not only independently developed ultrasound tablets and probes for various hospital departments but has also expanded hearing aid market share to fulfill high demand of elderly health care.
3. Acceleration of solution development: In order to become a comprehensive hardware and software solution provider, Qisda has targeted its development strategies on smart solutions including Smart Store, Smart Factory, Smart Energy, Smart Enterprise and Smart Health Care. In 2017, Smart Energy showed a turn from loss to profit by furnishing big projects; Smart Factory has started manufacturing and fulfilled shipments in Taiwan and China; Smart Enterprise and Smart Store have maintained steady growth by focusing on introducing smart solutions into educational institutions, buildings and restaurant industry.

For 2018, Qisda will continue to aim at the three main operating focuses in order to further create long-term values for the company. The plans are as follows:

1. Optimization of existing business operations: Continue to focus on developing high-end, high-definition, large-sized and professional monitors for medical, graphic design and gaming applications to increase sales proportion and profit margin. Expand projector market share and hold the global leading position by offering 4K UHD models and increase the lineup of high-end and high brightness projectors.
2. Rapid expansion of the medical business: Prioritize sales channel penetration in China and ASEAN countries among all objectives. Develop proprietary products and technologies such as ultrasound, oral scanner and hemodialyzer. On the other hand, develop surgical equipment, supplies, professional 3D integrated implant service and digital operating room information system by integrating group resources. Win-win acquisition and joint venture strategies will also be adopted to further strengthen Qisda's share on the medical business market.
3. Acceleration of solution development: Other than speeding up the integration of group resources, Qisda will also leverage resources from 3rd parties including industrial automation companies, such as ABB, as well as resources from companies invested by Qisda, such as DFI, Partner Tech, Apex Tech and other local specialized mid-size companies. Qisda will keep finding opportunities in cooperating with influential regional system integrators.

Qisda maintains its competitive advantage by stressing on innovation and technological development. An average of 2%~3% of its annual revenue was spent each year in research and development, which earned Qisda approximately 1,120 patents around the world.

Qisda is committed to sustainable development. In 2017, Qisda remained highly transparent in sustainable indicators, such as economic, environmental, social responsibilities, etc. Qisda received not only the 2017 Taiwan Corporation Sustainability Awards from the Taiwan Institute for Sustainable Energy under the TOP 50 Corporate Sustainability Report Award category and the Best Performance for Climate Leadership category, but also StrategicRISK Risk Management Awards as the Best Business Continuity Approach of the Year. In 2018, Qisda was named one of the 2018 Top 100 Global Technology Leaders by Thomson Reuters.

Qisda is extremely grateful to shareholders for their long-term support and encouragement. The management team will continue to work relentlessly to deliver the greatest benefit to both the company and its shareholders.

Sincerely,

Peter Chen,
Chairman and President

Overview of Operations

Operational Guidelines

Business Scope

I. Overview of Business Operations

LCD Monitor: Qisda maintains the 2nd largest DMS (Design and Manufacturing Services) manufacturer in the industry. Qisda will continue to focus on fortifying relationship with customers, developing new product features and engaging in value-added vertical integration activities such as panel module design and assembly as well as in-house mechanical parts manufacture. The global market share of Qisda LCD monitors increased slightly in 2017 with the company's continuous focus on the development and growth of high-end professional, e-sports, and large-sized monitors.

Compared to 2016, LCD shipments and global market share slightly declined; the worldwide market share of BenQ brand LCD monitors increased slightly in 2017 with the company's continuous focus on the development and growth of high-end professional e-sports and large-sized monitors. Furthermore, BenQ continued with its active pursuit of research and development of new functions for professional and integrated design display solutions to capture a bigger chunk of the professional monitor market.

Projector: Qisda's DMS projector business maintained the leading position worldwide in 2017. Qisda is the only manufacturer in Taiwan that is capable of both DLP and LCD projector mass production and shipment. As to the brand business, BenQ remained the world's 2nd largest projector brand and the No.1 DLP projector brand in 2017. Compared with 2016, the global projector market volume slightly decreased; nevertheless BenQ still maintained a 12% market share. In addition, Qisda and BenQ launched worldwide first affordable 4K UHD projector product line in 2017 to aggressively address the professional audio video market. In 2018, BenQ will be the first to bring entry level 4K UHD projectors into cinemas. The world's first "CinematicColor™ technology" not only has high resolution but also meets the industry color standards of 100 % Rec. 709. BenQ plans to further cultivate vertical markets, as well as continue increasing development and marketing in the business and professional application markets.

Medical Service: Dedicated to develop Cardiology and Chest Pain Center, Nanjing BenQ Hospital obtained National Chest Pain Center Certificate in 2017. With more than 920,000 annual patient visits in 2017, Nanjing BenQ Hospital has seven major province- and city-level divisions and is currently the 2nd largest parturition hospital in Nanjing. In 2017, more than 1,200 cardiac catheterizations were performed here. Based on current foundation, intensive care, oncology, high-end obstetrics, pediatrics and postnatal care services are being developed to fulfill specific demands. Meanwhile, the Suzhou BenQ Hospital opened in May 2013, with more than 490,000 annual patient visits in 2017, which mainly focuses on medical diagnosis/treatment and high-end health examination services.

2. Product Offering

LCD Monitor: 17"/18.5"/19"/19.5"/21.5"/22"/23"/23.x"/24"/24.5"/27"/31.5"/32"/34"/35"/37.5"/49" consumer and commercial LCD monitors, wide-screen and professional LCD monitors, medical monitors, Smart monitors, wireless charging monitors and 42"/50"/ 55"/65" public displays.

Qisda group companies also offer the following monitors for different vertical segments: eye-care mainstream, professional e-sports, professional photographer, professional CAD/CAM, professional video post-production, curved multimedia monitors and monitors for medical usage.

Projector: A wide range of projectors for large venue, 4k/2k home, office and educational applications.

Medical Service: General medical diagnosis/treatment, high-end health examination, medical aesthetics and postnatal care services.

Industry Overview

1. Current Status and Trends in Development of the Industry

LCD Monitor: As indicated by market research reports, the LCD monitor market declined at an annual rate of 2.6% in 2017. The market forecast for LCD monitors in 2018 is expected to have a further decrease of 2.5% due to the impact of the substitution effect caused by handheld devices and longer replacement cycle. Moreover, the competition among system integrators will also remain severe as the result of market quantity decrease and the expansion of market share from China-based system integrator. In order to enhance the competitive edge, Qisda is planning to place its focus on value-added product development and optimization of vertical integration in supply chain with economies of scale.

Projector: According to industry analysis reports, the total number of projector shipment worldwide with brightness over 500lms was 7 million units in 2017, with a flat or minor growth expectation for 2018. The volume ratio for high brightness, high resolution and non-light ball (LED and laser) source projectors will continue to increase in the future. In addition, the growth in large venue, home and personal/mobile scenarios enables the sales volume of projectors with 1080p, 4k and 3D/HDR features to grow rapidly. Educational and office applications are supposed to decline due to the expansion of flat panel displays.

Medical Service: The medical market in China is expected to grow rapidly in parallel with the country's swift economic development and increase of medical insurance coverage. Plus, the country's governmental policies encourage the establishment of non-governmental medical institutes and such policies will further accelerate the expansion of market size of non-governmental hospitals.

2. Overview of Supply Chain

LCD Monitor: Upstream business partners consist mainly of LCD panel manufacturing and module assembling plants, including key components such as LCD panels, LED backlight modules and control chipsets. Midstream and downstream partners include system integrators and brand customers, which represent a mature and competitive market. Qisda has developed and maintained strong and long-term relationship with all of its upstream strategic suppliers and downstream brand customers.

Projector: Upstream partners consist of a line of optoelectronic device makers, including panel chipset, lens and specialized lamp/ SSL manufacturers. Midstream and downstream partners include projector manufacturers and brand customers. An intimate yet intricate relationship exists amid upstream, midstream and downstream partners as alliance and competition intertwines among business competitors.

Medical Service: The Nanjing BenQ Hospital is one of the first civil pediatric doctor standardization bases in the Jiangsu Province of China where 50 pediatric doctors were trained annually. In 2011, the hospital became the fourth clinical school of the Nanjing Medical University with 21 clinical professors and established a cooperation and transfer procedure with top-level medical centers in Jianyeh, Lishui, Pukou and Luhe District of Nanjing City as well as medical cooperation with secondary-level medical centers in nearby cities such as Yangzhou, Huaian and Ma An Shan in the same province and Chuzhou, Hefei in the Anhui Province. The Suzhou BenQ Hospital opened in May 2013 and is now building medical partnerships with town-level medical institutions in Gaoxin District, Suzhou.

3. Trends in Development and Market Competition of the Company's Product

LCD Monitor: The LCD monitor market is getting more mature and saturated in recent years. Going forward, in addition to focusing on cost-competitiveness and offering flexible delivery, Qisda aims to work closely with brand customers to develop gaming monitors and those with ultra-high resolution, cloud connectivity, wireless application and other customized and specialty application products to fulfill diverse demands of the niche market. Besides, through vertical integration of panel module design and assembly, system integrators can upgrade their value in the supply chain and increase the ability of differentiation in product design.

Projector: The projector market has expanded as improvements applied to commercial projectors accelerated due to the advent of the latest technologies. In addition to an economical price tag, projectors have become smaller and lighter while the brightness and resolution have been vastly enhanced. It is estimated that the demand for projectors may increase globally with the expansion of high-resolution and high-brightness projectors for meeting rooms and multi-media home entertainment projectors for home theaters. Meanwhile, due to the popularity of personal mobile devices and variety of wireless data applications, the growth of personal and home multimedia markets over the entertainment one is becoming a foreseeable trend in the future.

Medical Service: The Chinese government has permitted private and foreign capitals to invest in the medical service industry. In 2015, the State Council of China issued “Master plan for developing national medical service system” and “The opinion for reforming public hospital” indicates the government should inhibit the growth of public hospital and encourage private hospital. Taiwan investors, such as the Formosa Plastic group, Want Want group and BenQ group as well as a number of renowned domestic medical organizations, all actively filed applications in order to seek new opportunities abroad. In 2015, the Medical Fund Across the Taiwan Straits also invested in the establishment of a new hospital in Quenzhou City of China.

Research & Development

I. Technologies in Deployment

LCD Monitor: Super slim, HDR, HDMI2.0/DPI.4-enabled, Thunderbolt-enabled, USB-C/Power Delivery feature displays ; 4-side borderless, wide color gamut and eye-care technology monitors ; Smart device displays, medical, professional gaming and color management (photographer and post-production usages) monitors.

Projector: High brightness interchangeable lens projectors for large venue, high brightness LASER 4K UHD e-cinema projectors, 4K UHD home entertainment projectors, 4K UHD business projectors.

Medical Service: The Nanjing BenQ Hospital has already established the thoracic surgery division (a nationally recognized clinical division), the radiology division (a municipally recognized clinical division, also honored the major division of the Nanjing Medical University), as well as the urology, neurology, dermatology, surgical, nephrology and anesthesiology divisions. The Suzhou BenQ Hospital has already established oncology division (a municipally recognized clinical division), and focus on developing orthopedic, obstetrics / gynecology / pediatrics, rehabilitation, digestive medicine, cardiovascular medicine.

2. Highlights in Future Technological Development

LCD Monitor: Super slim monitors in commercial, multiple-zone and direct backlight HDR, quantum-dot coupled with cadmium-free wide color gamut, 5K3K/8K4K high-definition monitors, HDMI 2.0/DP 1.4 application monitors, medical monitors, G-sync 3/FreeSync 2 professional gaming monitors, ErP Lot 5-compliance eco-friendly monitors, wireless charging monitors, complete color adjustment solutions and complete software and hardware digital signage solutions.

Projector: LASER high brightness interchangeable projectors for large venue, LED 4K UHD home entertainment projectors, LASER ultra-short-throw 4K UHD home entertainment projectors.

Medical Service: The BenQ Hospitals have implemented the “patient-centric and complete medical care” concept to promote the medical care systems currently being adopted in Taiwan, which includes the attending physician system, nursing duty system, medical counseling/tracking system and pharmacist system. The Nanjing BenQ Hospital plans to establish 5 specific medical centers including oncology, thoracic, neurosurgery rehabilitation, obstetrics / gynecology / pediatrics and cardiovascular centers. The Suzhou BenQ Hospital plans to establish 5 specific medical centers including Chest Pain , severe illness, oncology, obstetrics/gynecology/pediatrics and health management centers. With the support from Suzhou Health and Family Commission, the Suzhou BenQ Hospital also established the Famous Doctor Studio to provide high quality medical service to citizens.

Long- and Short-term Business Development Plans

I. Short Term Business Development Plans

LCD Monitor:

- (1) Solidify the leading position and provide high-end products.
- (2) Provide all sizes of LCD displays and promote large-size, high-performance and LED backlight models while actively engaging in monitor-related application researches as ways to maintain Qisda’s position as one of the top three manufacturers worldwide.
- (3) Increase add-on value in value chains through vertical integration, such as panel module assembly, backlight module design, in-house stamping and in-house plastic injection.
- (4) Leverage BenQ’s and other Qisda Group companies’ know-how and understanding of e-sports and players’ needs in order to offer monitors that are superior to competition and meet the needs of e-sports players.
- (5) Maintain close partnership and strategic allegiances among Qisda Group companies, panel providers and system integrators in effort to develop a new display technology.

Projector:

- (1) Solidify the leading position and provide one-stop services featuring hardware and software integrated

solutions.

- (2) Expand the installation business of hardware and software integrated solutions.
- (3) Continue developing DLP and LCD projector technologies in order to maintain technological advantage and superiority within the industry.
- (4) Cultivate the home projector market utilizing comprehensive product lines. Keep developing solutions for high resolution and high brightness. Improve the quality of wireless transmission.
- (5) Continue to improve development of the exclusive dustproof mechanism for education projectors to satisfy the education market's demand in developing countries such as China and India.

Medical Service:

- (1) Strengthen cooperation with medical schools and enhance personnel training.
- (2) Enter into the hospital management business by utilizing experiences in the BenQ Hospitals and skills of the team.

2. Long Term Business Development Plans

LCD Monitor:

- (1) Enhance product customization capabilities and eliminate inefficient activities within the value chain through the synchronization of design and production process of backlight module and displays, thus offering diversified and value-added products.
- (2) Continue cooperating with Qisda Group companies. Meanwhile, form strategic alliances with other major panel suppliers.
- (3) Expand professional monitor offerings to industrial design, professional CAD/CAM usage, color management and medical application markets.
- (4) Optimize hardware and software integrated solutions to provide better user experience in order to create value-added services and increase customers' brand loyalty.
- (5) Optimize in-house hardware/software services & other integrated solutions while staying abreast of users' demands and needs through the application of digital marketing and social media, which improve user experience and create more value-added services to nurture customers' brand loyalty toward BenQ.

Projector:

- (1) Expand and enhance product diversifications for mainstream product lines.
- (2) Accelerate the development of high-end and SSL models to complete product offering.

Medical Service:

- (1) Solidify the capability of each division as a general hospital and develop specialized divisions. Develop province- and city-level divisions.
- (2) Develop the capabilities of medical services for specific demands like postnatal care and medical aesthetic services.

Markets and Sales

Market Analysis

1. Major Sales Markets

LCD Monitor: Worldwide

Projector: Worldwide

Medical Service: The cities of Nanjing and Suzhou in China

2. Market Share

LCD Monitor: Being one of the top two LCD monitor manufacturers worldwide that occupies the leading position in the industry, Qisda held an approximately 15.1% of market share in 2017. 23"-plus monitors occupy 64.6% in product portfolio, which is better than industry average.

Projector: With market share at approximately 14%, Qisda is the No. 2 projector ODM worldwide in 2017. As to the brand business, BenQ remains as the world's second largest projector brand and the largest DLP projector brand with 12% global market share.

Medical Service: The Nanjing BenQ Hospital is the only third-class general hospital in the Jianyeh District; while the Suzhou BenQ Hospital is the only third-class general hospital in the Gaoxin District.

3. Strategies Formulated Based on Future Demands, Growth, Competitive Niche, as well as Positive and Negative Factors in Market Trends

LCD Monitor:

- (1) Positive factors: As the industry consolidates, big players are likely to remain large.
- (2) Negative factors: Severe price competition in a matured market as cost and price become extremely important to brand customers and consumers. Moreover, the trend for mobile devices to replace personal computers further impacts the demands for consumer and commercial LCD monitors.
- (3) Strategies:
 - i. Provide displays with all panel sizes and promote large-size, high-performance and LED backlight monitors where Qisda is believed to possess distinct advantage over competitors.
 - ii. Cultivate and maintain strategic partnerships with top-tier panel vendors to ensure smooth supply of critical parts.
 - iii. Increase add-on value within the value chain through vertical integration, such as integrating the design/assembly process for panel module and backlight module and increasing the ratio of in-house stamping and in-house plastic injection.
 - iv. Optimize product portfolio by strengthening large-size and high-end professional models.
 - v. Product differentiation: Continue with the development of value-added products to increase profitability, avoid price wars and satisfy the demand for multiple displays per room/family.

Projector:

- (1) Positive factors: In addition to the benefit from economies of scale, leading technologies allow Qisda's projectors to remain competitive on a global scale and market share is expected to continue its growth.
- (2) Negative factors: Shorter projector product lifecycle and market price disruption caused by growing number of competitors and similar products.
- (3) Strategies:
 - i. Increase operational efficiency in order to control inventory and fulfill customer needs.
 - ii. Strengthen product lineup by increasing the ratio of products with high gross profits.
 - iii. Probe into consumer needs and accelerate product development lead-time.

- iv. Provide a comprehensive solution for SSL products.
- v. Improve price margin by enhancing high end product portfolio.

Medical Service:

- (1) Positive factors: The total medical expenditure in China increased rapidly during last decade at a 12% combine growth rate. Meanwhile, the medical expenditure to GDP ratio was only 6% in 2016, which was low comparing to the level 10% in developed countries. A high entry barrier bars competitors from entering into the general hospital business and years of hospital management experience also makes it impossible for competitors to catch up instantly.
- (2) Negative factors: Over 90% of the hospitals in China are state-owned, and doctors usually hesitate about joining private-owned hospitals. This forms an obstacle in personnel recruitment and development.
- (3) Strategies: China government encourages the investment of hospitals by private capitals. In the future, private-owned hospitals will gradually benefit from policies that were only favorable to their state-owned counterparts in the past. With highly advanced hospital management skills and an experienced team backed by the strength of vertical integration within the BenQ group, undoubtedly the BenQ Hospitals will become the leader in the field of medical industry in China.

Product Application and Manufacture Process

I. Product Application

LCD Monitor: Visual display of computer and video/audio device outputs.

Projector: Portable and multi-user capacity; specifically, conferences, meetings and trainings for commercial and educational institutions, as well as provide theater-quality videos for home theaters and gaming consoles.

Medical Service: N.A.

2. Manufacture Process

LCD Monitor: Incoming inspection → Assembly → Pre-set → Burn-in → Function test → Exterior inspection → Packaging → Inventory → Shipping.

Projector: Incoming inspection → Optical system assembly → Module assembly → Burn-in → Final test → Packaging → Inventory → Shipping.

Medical Service: N.A.

Overview of Raw Material Supply

LCD Monitor: Continue cooperating with AU Optronics Corp. to develop superior vertical integration as well as maintaining close partnerships with Taiwan, China & Korea panel vendors in order to ensure smooth supply of panels at lower costs.

Projector: The stable supply of key components, such as DMD and LCD panels, are crucial to projector business as suppliers are limited to TI, Epson and Sony. Lamp/SSL suppliers are in a similar state due to the industry's high entry barrier. Qisda has maintained close relationship with suppliers to ensure smooth supply of key components.

Medical Service: N.A.

Corporate Governance

Corporate Governance Structure

Qisda complies with Company Law, the Securities and Exchange Act, and other relevant laws and regulations of the Republic of China to formulate and implement the company's corporate governance structure. Qisda's corporate governance structure model is made up of three units, the board of directors, audit committee and remuneration committee. The audit committee is made up all of independent members of the board of directors. The remuneration committee members were appointed by resolution of the board of directors. Members of the board of directors (including independent directors) are selected based on shareholder votes. In principal, the responsibilities of the board of directors are carried out in accordance with relevant laws, company regulations, and shareholder resolutions. The board of directors is also responsible for supervision of company management and overall operational status. The audit committee's responsibilities include accurate financial reporting, selection and performance of independent accountants, effective implementation of internal controls in accordance with relevant laws and regulations, and management of existing and/or potential risk. The remuneration committee will exercise the care of a good administrator in faithfully performing the official powers, and shall submit its recommendations for deliberation by the board of directors.

Qisda has always believed that upholding shareholder rights and interests is a primary task. In addition to having a professional management team rich in experience, the board of directors also possesses the necessary executive knowledge, technological know-how, professional accomplishments, and devotion to the maximizing shareholder rights and interests. The board of directors has 7 members (including 3 independent directors). The chairman is elected by the board. Board members all have 5 or more years experience in business administration, legal, finance, accounting, or other professional experience required by the company.

Primary Roles of Governance Entities

Qisda's board of directors considers company and shareholder interests as top priorities in performing operational evaluations and passing significant resolutions. The audit committee fulfills a supervisory role through prudent and careful oversight of the operations of the company and the board of directors.

Board of Directors

According to the Securities and Exchange Act Article 26, Paragraph 3, Subparagraph 8 regulations, Qisda created the "Regulations Governing Procedure for Board of Directors Meetings". Official board of director business, operational procedures, records of official business, and announcements on company and other related matters are carried out according to these regulations. Qisda's board of directors shall convene at least once per quarter. The guiding policy of the board members shall be to maximize shareholder rights and interests through upright management, faithful obligation, the highest degree of personal oversight, and prudent application of the authority of their positions.

Audit Committee

In 2008, the company set up independent directors and an audit committee in accordance with the Securities and Exchange Act and shareholder resolutions. Through the "Audit Committee Charter" as defined by the board of directors, the audit committee preserves and strengthens the organization's strategic policies and works to increase operational efficiency through practical application of corporate governance. Qisda's audit committee must convene at least once per quarter and request the attendance of accountants, internal auditors, risk management, legal, and finance department representatives. By providing information on audit committee reports and inquiries into recent financial reporting status, the results of internal audits, significant litigation, and financial operating status, the audit committee can assist investors in ensuring that company governance is transparent and shareholder rights and interests are safeguarded.

Remuneration Committee

The remuneration committee will exercise the care of a good administrator in faithfully performing the official powers listed below, and shall submit its recommendations for deliberation by the board of directors; A. Prescribe and review the performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers. B. Evaluate and prescribe the remuneration of directors, supervisors, and managerial officers.

Board of Directors

Board Members

Date: April 23, 2018

Title	Name	Education & Experience	Current Positions
Honorary Chairman	K.Y. Lee	MBA, Switzerland IMD B.S., Electrical Engineering, National Taiwan University VP, Acer PC Product Marketing	Chairman: BenQ Corp., BenQ Foundation Director: AU Optronics Corp., Darfon Electronics Corp., BenQ Materials Corporation, BenQ BM Holding Cayman Corp., BenQ BM Holding Corp.
Chairman	Peter Chen	M.S., International Business Management, Thunderbird School of Global Management B.S., Electrical Engineering, National Cheng Kung University Technology Product Center EVP, BenQ Corp.	Chairman: BenQ Medical Technology Corporation, Partner Tech Corp., DFI Inc President: Qisda Corp. Director: BenQ AB Dentcare Corporation, AU Optronics Corp., BenQ Materials Corporation, Darfon Electronics Corp., BenQ Corp., Darly Venture Inc., Darly 2 Venture, Ltd., Darly Consulting Corporation, BenQ Foundation, Nanjing BenQ Hospital Co., Ltd., Suzhou BenQ Hospital Co., Ltd., BenQ Hospital Management Consulting (Nanjing) Co., Ltd., BenQ Healthcare Consulting Corporation, BenQ BM Holding Cayman Corp., BenQ BM Holding Corp., Qisda (L) Corp., Qisda (Hong Kong) Limited, Darly Venture (L) Ltd., BenQ Guru Holding Corp., BenQ Europe B.V., MainteQ Europe B.V.
Director	AU Optronics Corp. -Paul Peng	MBA, Heriot-Watt University Chief Executive Officer, AU Optronics Corp. Director, Qisda Corp.	Chairman and Chief Executive Officer: AU Optronics Corp. Chairman: Konly Venture Corp., Ronly Venture Corp., AU Optronics (Xiamen) Corp., AU Optronics (Suzhou) Corp., Ltd., AU Optronics Manufacturing (Shanghai) Corp., AU Optronics (Kunshan) Corp., Ltd. Director: Darwin Precisions Corp., AU Optronics (L) Corp., AU Optronics Singapore Pte. Ltd.,
Director	BenQ Foundation -Joe Huang	EMBA, Tsing Hua University in Beijing	Chairman: Qisda Optronics Corp. Director: BenQ Medical Technology Corporation, Qisda America Corp.
Independent Director	Kane K. Wang	Ph.D., The Structure of Technology, Demand, and Market of US Automobile Industry, MIT M.S., Transportation Planning and B.S., Civil Engineering, National Taiwan University Director and Professor, Graduate Institution of Industrial Economics, National Central University	Chief Professor: China University of Technology Independent Director: Formosa Taffeta Co., Ltd, Formosa Chemicals & Fibre Corp. Supervisor: Platinum Optics Technology Inc.
Independent Director	Allen Fan	B.S., Electrical Engineering, National Taiwan University General Manager, WK Technology Fund President, Microsoft Taiwan VP, Twinhead International Corp. VP, HP Taiwan	Chairman: Yu Xuan Corp. Director: Belden International Inc. Independent Director: Wistron Information Technology and Services Corporation
Independent Director	Jeffrey Y.C. Shen	EMBA certificate, University of Michigan B.S., Mechanical Engineering, National Cheng Kung University President, Changan Ford Mazda Automobile Company President, Ford Lio Ho Motor Company President of Asia-Pacific, Eagle Ottawa, LLC	Independent Director: Waffer Technology Corp.

Material Resolutions Approved by Board Meetings

Date	Approval Events
2017.03.09	1. Public tender offer of common stock of Partner Tech Corporation. 2. Approved Qisda's financial results of 2016 3. Approved the proposal for distribution of 2016 profits 4. Approved the issuance of new common shares for cash to sponsor issuance of the overseas depositary shares and/or issuance of new common shares for cash in public offering and/or issuance of new common shares for cash in private placement and/or issuance of overseas or domestic convertible bonds in private placement 5. Approved to convene 2017 Qisda Annual General Meeting 6. Approved to donate to BenQ Foundation NT\$7.5 million
2017.05.04	1. Approved Qisda's consolidated financial results of 2017 Q1 2. Approved to provide Guarantees USD 60M for Qisda (L) Corp. 3. Internal Audit Officer change
2017.06.22	1. Elected Peter Chen as Chairman
2017.08.09	1. Approved Qisda's consolidated financial results of 2017 1H
2017.09.05	1. Public tender offer of common stock of DFI Inc.
2017.11.07	1. Approved Qisda's consolidated financial results of 2017 Q3 2. Approved to provide Guarantees USD 30M for Qisda (L) Corp.
2018.03.07	1. Participates in Alpha Networks Inc.'s private placement of common shares for cash capital increase.
2018.03.16	1. Approved Qisda's financial results of 2017 2. Approved the proposal for distribution of 2017 profits 3. Approved the issuance of new common shares for cash to sponsor issuance of the overseas depositary shares and/or issuance of new common shares for cash in public offering and/or issuance of new common shares for cash in private placement and/or issuance of overseas or domestic convertible bonds in private placement 4. Approved to convene 2018 Qisda Annual General Meeting 5. Approved to donate to BenQ Foundation NT\$5 million

Corporate Executive Officers

Date: April 23, 2018

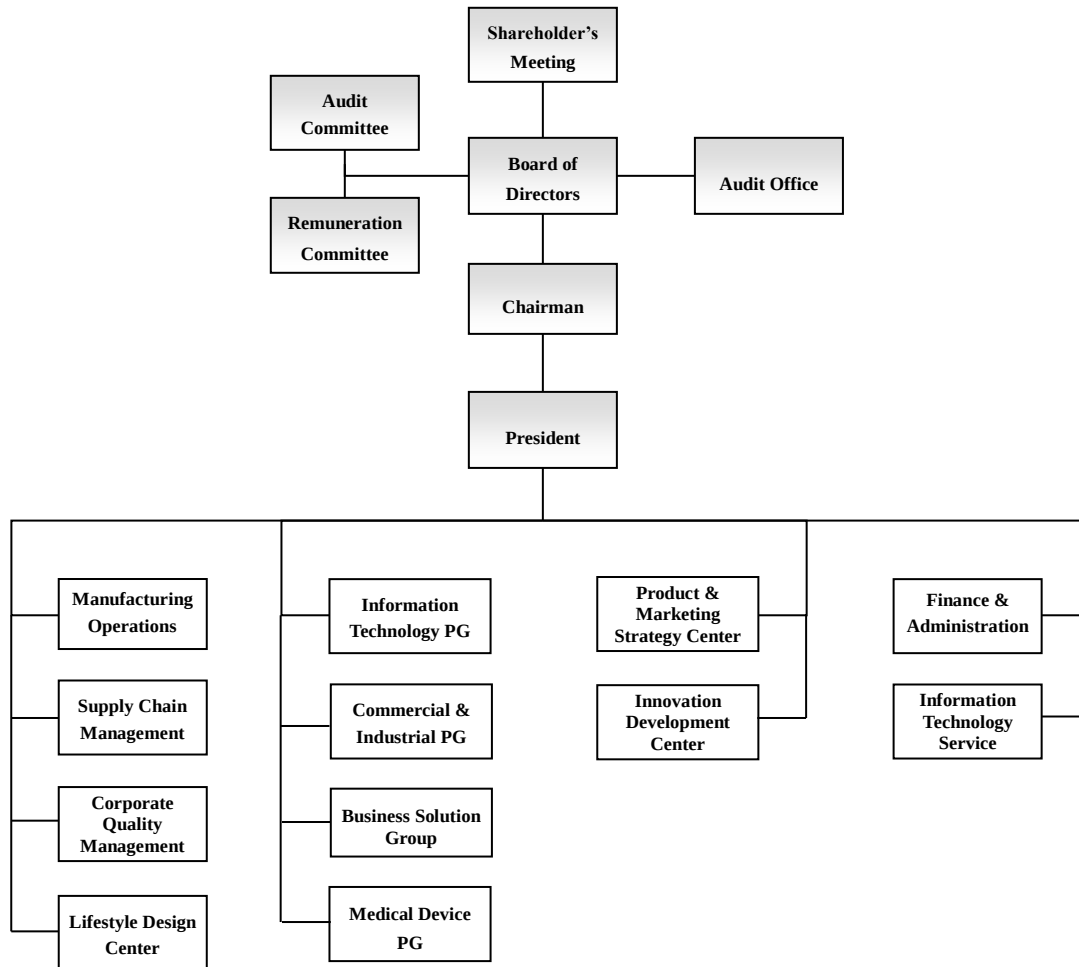
Title	Name	Personnel Education & Experience	Other Current Positions
Chairman and President	Peter Chen	M.S., International Business Management, Thunderbird School of Global Management B.S., Electrical Engineering, National Cheng Kung University Technology Product Center EVP, BenQ Corp.	Chairman and President: Qisda Corp. Chairman: BenQ Medical Technology Corporation, Partner Tech Corp., DFI Inc. Director: BenQ AB Dentcare Corporation, AU Optronics Corp., BenQ Materials Corporation, Darfon Electronics Corp., BenQ Corp., Darly Venture Inc., Darly 2 Venture, Ltd., Darly Consulting Corporation, BenQ Foundation, Nanjing BenQ Hospital Co., Ltd., Suzhou BenQ Hospital Co., Ltd., BenQ Hospital Management Consulting (Nanjing) Co., Ltd., BenQ Healthcare Consulting Corporation, BenQ BM Holding Cayman Corp., BenQ BM Holding Corp., Qisda (L) Corp., Qisda (Hong Kong) Limited, Darly Venture (L) Ltd., BenQ Guru Holding Corp. BenQ Europe B.V., MainteQ Europe B.V.
Senior Vice President	Joe Huang	EMBA, Tsing Hua University in Beijing	Chairman: Qisda Optronics Corp. Director: BenQ Medical Technology Corporation, Qisda America Corp.
Senior Vice President	C.M. Wu	EMBA, Pacific Western University	Director: Qisda (Suzhou) Co., Ltd., Qisda Electronics (Suzhou) Co. Ltd., Qisda Optronics (Suzhou) Co., Ltd., Qisda Precision Industry (Suzhou) Co., Ltd., Qisda (Shanghai) Co., Ltd.
Senior Vice President	Mark Hsiao	B.S., Chemical Engineering, Tamkang University	Chairman: Qisda (Suzhou) Co., Ltd., Qisda Electronics (Suzhou) Co. Ltd., Qisda Optronics (Suzhou) Co., Ltd., Qisda (Shanghai) Co., Ltd., Qisda Precision Industry (Suzhou) Co., Ltd., Nanjing BenQ Hospital Co., Ltd., BenQ Hospital Management Consulting (Nanjing) Co., Ltd., BenQ Healthcare Consulting Corporation, Suzhou BenQ Investment Co., Ltd. Director: BenQ BM Holding Corp., BenQ BM Holding Cayman Corp., Suzhou BenQ Hospital Co., Ltd.
Senior Vice President	David Wang	EMBA, National Taiwan University	Chairman: Darly Venture Inc., Darly 2 Venture, Ltd., Darly Consulting Corporation Director: Qisda (L) Corp., Qisda (Hong Kong) Limited, Qisda Sdn. Bhd., Darly Venture (L) Ltd., BenQ BM Holding Corp., BenQ BM Holding Cayman Corp., Nanjing BenQ Hospital Co., Ltd., Suzhou BenQ Hospital Co., Ltd., BenQ Hospital Management Consulting (Nanjing) Co., Ltd., BenQ Healthcare Consulting Corporation, Suzhou BenQ Investment Co., Ltd., BenQ Guru Holding Limited, BenQ Medical Technology Corporation, Darfon Electronics Corp., Partner Tech Corp., Q.S. Control Corp., DFI Inc. Supervisor: Qisda (Suzhou) Co., Ltd., Qisda Precision Industry (Suzhou) Co., Ltd., Qisda Japan Co., Ltd., BenQ Corp.
Vice President	April Huang	EMBA, National Taiwan University	Director: Qisda Optronics Corp., Apex Technology Inc.
Vice President	TL Tseng	M.S., Industrial Engineering, University of Florida	Chairman: BenQ ESCO Corp., BenQ Guru Corporation, BenQ Guru Software Co., Ltd.
Vice President	James T. Wang	Ph.D., Mechanical Engineering, Ohio State University	Director: Qisda (Suzhou) Co., Ltd., Qisda Electronics (Suzhou) Co. Ltd., Qisda Optronics (Suzhou) Co., Ltd., Qisda (Shanghai) Co., Ltd., Qisda Precision Industry (Suzhou) Co., Ltd. President: Qisda Precision Industry (Suzhou) Co., Ltd.
Vice President	CY Ho	EMBA, National Taiwan University	Chairman: Qisda Japan Co., Ltd.
Vice President	S.C. Chao	M.S., Electrical Engineering, Utah State University	-

Title	Name	Personnel Education & Experience	Other Current Positions
Vice President	Harry Yang	M.S., Computer Science, University of Florida	Chairman: BenQ Dialysis Technology Corp., BenQ Medical (Shanghai) Co., Ltd, AsiaConnect international trade Co., Ltd, Lily Medical Co., Ltd, BenQ AB Dentcare Co., Ltd, BenQ Hearing Solution Co., Ltd, New Best Hearing International Trade Co. Ltd.

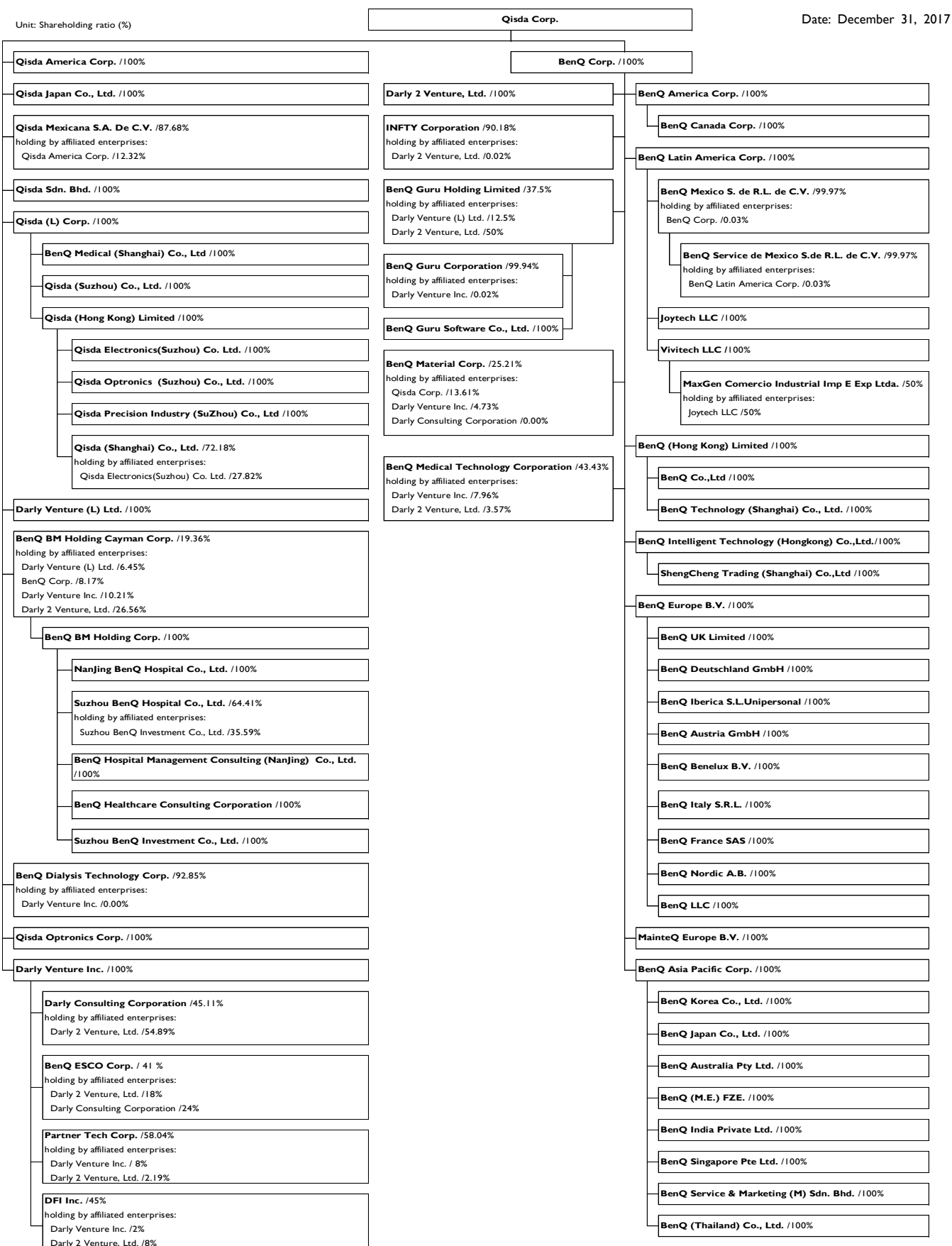
Group Organization

Company Organization Chart

Date: April 23, 2018



Affiliated Enterprises



Note: The Affiliated Enterprises of BenQ Material Corp., BenQ Medical Technology Corp., Partner Tech Corp. and DFI Inc. please refer to each company's Annual Report.

Company Financials

Capital and Shares

Shares Type and Shares Outstanding

Shares Type	Authorized Shares			Notes
	Outstanding shares	Un-issued shares	Total shares	
Common Shares	1,966,781,958	3,033,218,042	5,000,000,000	-

Ownership and Distribution of Shares

	As of April 23, 2018		
	Number of shareholders	Number of shares held	% of shares held
Government Agencies	4	2,102,500	0.11%
Domestic Financial Institutions	51	191,157,964	9.72%
Other Domestic Corporations	173	317,156,936	16.12%
Domestic Individuals	130,145	994,425,495	50.56%
Foreign Institutions and Individuals	428	461,939,063	23.49%
Total	130,081	1,966,781,958	100.00%

Unit: NT\$; Per 1,000 Share

		Mar. 31, 2018	2017	2016
Market Price Per Share (Note 1)	Highest Market Price	22.20	25.85	15.90
	Lowest Market Price	19.25	15.05	9.30
	Average Market Price	21.22	20.96	12.56
Net Worth Per Share (Note 2)	Before Distribution	(Note 7)	15.74	15.00
	After Distribution	-	(Note 9)	13.68
Earnings Per Share (EPS)	Weighted Average Shares	1,966,782	1,966,782	1,966,782
	EPS	(Note 7)	2.69	2.21
	EPS-adjusted	-	(Note 9)	2.21
Dividends Per Share	Cash dividends	-	(Note 9)	1.32
	Stock dividends- Earnings	-	(Note 9)	-
	Stock dividends- Capital Surplus	-	(Note 9)	-
	Accumulated Undistributed Dividend	-	(Note 9)	-
Return on Investment	Price/Earnings Ratio (Note 3)	(Note 7)	7.79	5.68
	Price/Dividend Ratio (Note 4)	-	(Note 9)	9.52
	Cash Dividend Yield Rate (Note 5)	-	(Note 9)	10.5%

Note 1: The highest and lowest of common stock. The average market value is calculated using the trading volume and price for each year.

Note 2: Subject to change after shareholders' meeting resolution.

Note 3: Price/Earnings ratio = Average market price/Earnings per share.

Note 4: Price/Dividend ratio = Average market price/Cash dividends per share.

Note 5: Cash dividend yield rate = Cash dividends per share/ Average market price.

Note 6: The annual report was published on 2018/04/23; hence the closing date of its content was 2018/03/31.

Note 7: There are no audited numbers from the CPA until the annual report is published.

Note 8: The financial information in this annual report was made according to IFRS.

Note 9: To be decided during the 2018 shareholder meeting.

Dividend Policy

According to Qisda's Article of Incorporation, the company's dividend policy is as follows:

After making the final settlement of account, the Company shall allocate the net profit, if any, according to the following sequences: paying the taxes, making up loss for preceding years, setting aside 10% thereof for legal reserve, setting aside or reversing special reserve in accordance with the regulations of the competent authorities. If there is any residual amount after deducting the amounts stated above, together with accumulated unappropriated retained earnings can be distributed after the distribution plan proposed by the Board and approved by the shareholders' meeting.

The Company is belonged to technological and capital capacity high tech industry and is in the growing period. In order to execute long-term capital planning and satisfy the shareholders with cash flow demand, the Company adopts dividend surplus as its dividend policy. Therefore, the Company could keep growing and operating ever. If the Company has surplus profit at the end of the fiscal year, when distributing dividend, the Company should consider the future expanding and cash flow demand and distribute dividend by stock mainly and cash partially. Principally, the ratio of cash dividend to total dividend should not lower than 10% of total dividend.

Most Recent 5-year Financial Analysis

1. Consolidated Financial Analysis under International Financial Reporting Standards (“IFRS”)

Item		Year				
		2017	2016	2015	2014	2013
Financial ratio	Total liabilities to total assets (%)	66	65	69	71	74
	Financial capital to fixed assets (%)	263	237	246	243	208
Ability to Pay off debt	Current ratios (%)	106	103	107	105	97
	Quick ratios (%)	69	69	75	73	66
	Time interest earned	10.72	9.02	4.64	5.21	2.70
Ability to Operate	A/R turnover (times)	5.12	5.14	5.00	6.11	8.57
	A/R turnover days	71	71	73	60	43
	Inventory turnover (times)	6.47	6.78	6.94	7.30	7.18
	A/P turnover (times)	4.56	4.33	4.37	4.44	4.65
	Inventory turnover days	56	54	53	50	51
	Fixed assets turnover (times)	7.05	6.75	6.75	6.66	5.90
	Total assets turnover (times)	1.34	1.32	1.29	1.36	1.35
Earning Ability	Return on assets (%)	6	5	3	4	3
	Return on equity (%)	16	13	7	12	6
	Operating income to paid-in-capital (%)	17	23	13	15	8
	PBT to paid-in-capital (%)	33	25	15	19	9
	Net income ratio (%)	4	3	2	2	1
	EPS (NT\$)	2.69	2.21	1.10	1.51	0.36
Cash Flow	Cash flow ratio (%)	1	16	10	(9)	12
	Cash flow adequacy (%)	54	65	29	9	1
	Cash reinvestment ratio (%)	(6)	15	11	(17)	18
Leverage	Operating leverage	6	4	7	6	10
	Financial Leverage	1	1	1	1	3

2. Parent-company-only Financial Analysis under International Financial Reporting Standards (“IFRS”)

Item		Year				
		2017	2016	2015	2014	2013
Financial ratio	Total liabilities to total assets (%)	59	57	60	63	62
	Financial capital to fixed assets (%)	2,588	2,332	2,401	2,258	1,817
Ability to Pay off debt	Current ratios (%)	82	89	94	93	85
	Quick ratios (%)	73	81	84	84	72
	Time interest earned	24.53	25.67	8.90	9.77	2.93
Ability to Operate	A/R turnover (times)	3.59	3.47	3.47	4.14	5.53
	A/R turnover days	102	105	105	88	66
	Inventory turnover (times)	28.51	27.4	27.8	27.87	24.18
	A/P turnover (times)	3.13	2.98	3.30	3.74	4.51
	Inventory turnover days	13	13	13	13	15
	Fixed assets turnover (times)	59.36	55.10	59.22	58.04	45.75
	Total assets turnover (times)	1.23	1.23	1.33	1.48	1.47
Earning Ability	Return on assets (%)	8	7	3	5	2
	Return on equity (%)	18	15	8	13	4
	Operating income to paid-in-capital (%)	1	14	6	6	0
	PBT to paid-in-capital (%)	28	23	12	15	4
	Net income ratio (%)	6	5	2	3	1
	EPS (NT\$)	2.69	2.21	1.1	1.51	0.36
Cash Flow	Cash flow ratio (%)	(3.87)	22.71	5.84	(0.41)	(2)
	Cash flow adequacy (%)	82	160	142	13	3
	Cash reinvestment ratio (%)	(11)	15	2	(4)	(2)
Leverage	Operating leverage	24	1	4	4	-
	Financial Leverage	-	1	1	1	0

Attachment I : Independent Auditor's Report & Audited Financial Statements

Independent Auditors' Report

The Board of Directors
Qisda Corporation:

Opinion

We have audited the consolidated financial statements of Qisda Corporation (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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, 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 Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, interpretations, as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and 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 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 for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of 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, 2017 are stated as follows:

1. Revenue recognition

Please refer to notes 4(r) and 6(v) for the accounting policy on revenue recognition and "Revenue" for the related disclosures, respectively, of the notes to the consolidated financial statements.

Description of key audit matter:

The Group has several operating segments. Each segment engages in different business activities. In addition, the Group has operations spread globally. The Group recognizes its revenue depending on the various trade terms in each individual sale transaction and service rendered, which are considered to be complex in determining the timing of revenue recognition. Therefore, revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matters above, our principal audit procedures included testing the design and operating effectiveness of the Group's internal controls over financial reporting in the sales and collection cycle; assessing whether revenue is recognized based on the trade terms with customers through reviewing the related sales contracts or other trade documents; performing a sample test on sales transactions that took place before and after the balance sheet date to identify the timing of transfer of risks and rewards of ownership of the goods and assessing the reasonableness of the timing of revenue recognition; reviewing and understanding the reasonableness for any identified significant sales returns and allowances that took place after the balance sheet date, as well as assessing whether the revenue and related

sales returns and allowances is recognized in appropriate period.

2. Valuation of inventories

Please refer to notes 4(h), 5 and 6(e) for the inventory accounting policy, “Critical accounting judgments and key sources of estimation uncertainty” for estimation uncertainty of inventory valuation, and “Inventories” for the related disclosures, respectively, of the notes to 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 innovations and highly competitive environments in the electronic industry, the life cycle of certain products of the Group are short and their market prices fluctuate rapidly, which could possibly result in a price decline and obsolescence of inventory, wherein the inventory cost may exceed its net realizable value. 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 the net realizable value of inventories and inventory aging report prepared by the Group; 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 on inventory provisions. Moreover, verifying the inventory provisions recognized in the current year to evaluate their reasonableness.

3. Business combination

Please refer to notes 4(v) and 6(h) for the accounting policy on business combination, and “Business Combination” for the related disclosures, respectively, of the notes to the consolidated financial statements.

Description of key audit matter:

The Group acquired 42.06% and 46.28% ownership of Partner Tech Corp. and DFI Inc., respectively, in 2017 through tender offer, resulting in the Group’s interest in Partner Tech Corp. and DFI Inc. to increase to 68.23% and 55.00%, respectively, wherein the Group is able to exercise control over them. 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.

4. Impairment of goodwill

Please refer to notes 4(p), 5 and 6(k) for the accounting policy on impairment of non-financial assets, “Critical accounting judgments and key sources of estimation uncertainty” for estimation uncertainty of impairment of goodwill, and “Intangible assets” for the related disclosures, respectively, of the notes to consolidated financial statements.

Description of key audit matter:

Goodwill arising from acquisition of subsidiaries 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 goodwill impairment 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

Qisda Corporation has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, 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 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. Evaluated 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 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 consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)

March 16, 2018

Notes to Readers

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

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

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

QISDA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016				December 31, 2017		December 31, 2016								
		Amount	%	Amount	%			Amount	%	Amount	%							
Assets																		
Current assets:																		
1100	Cash and cash equivalents (notes 6(a) and (y))	\$	6,636,634	6	6,825,353	7	2100	Short-term borrowings (notes 6(l) and (y) and 8)	\$	16,262,262	15	8,070,512	8					
1110	Financial assets at fair value through profit or loss—current (notes 6(b) and (y))		1,043,701	1	373,349	-	2120	Financial liabilities at fair value through profit or loss—current (notes 6(b) and (y))		67,531	-	111,454	-					
1125	Available-for-sale financial assets—current (notes 6(c) and (y))		29,605	-	239,660	-	2170	Notes and accounts payable (note 6(y))		24,243,393	22	24,585,553	26					
1170	Notes and accounts receivable, net (notes 6(d) and (y))		23,887,642	22	20,957,048	22	2180	Accounts payable to related parties (notes 6(y) and 7)		1,626,103	2	2,423,924	3					
1181	Notes and accounts receivable from related parties (notes 6(d) and (y) and 7)		4,237,646	4	4,374,388	5	2200	Other payables (notes 6(w) and (y))		11,064,170	10	9,973,358	10					
1200	Other receivables (notes 6(d) and (y) and 7)		222,320	-	173,978	-	2220	Other payables to related parties (notes 6(y) and 7)		5,946	-	21,710	-					
1210	Other receivables from related parties (notes 6(d) and (y) and 7)		7,412	-	7,537	-	2300	Other current liabilities (notes 6(n) and (y))		893,907	1	745,703	1					
130X	Inventories (note 6(e))		20,179,338	19	17,065,196	18	2322	Current portion of long-term debt (notes 6(m) and (y) and 8)		1,704,031	2	4,346,257	5					
1470	Other current assets (note 7)		1,928,422	2	1,467,073	2	2250	Provisions—current (note 6(o))		470,787	-	350,934	-					
1476	Other financial assets—current (notes 6(a) and (y) and 8)		1,205,612	1	784,598	1		Total current liabilities		56,338,130	52	50,629,405	53					
1461	Non-current assets held for sale (notes 6(f) and 11)		155,220	-	-	-		Non-current liabilities:										
	Total current assets		59,533,552	55	52,268,180	55	2503	Financial liabilities at fair value through profit or loss—non-current (notes 6(b) and (y))		9,628	-	-	-					
Non-current assets:												2540	Long-term debt (notes 6(m) and (y) and 8)		13,005,122	12	8,980,990	9
1523	Available-for-sale financial assets—non-current (notes 6(c) and (y))		637,649	1	991,686	1	2613	Lease obligations payable—non-current (notes 6(n) and (y))		31,726	-	1,181,632	1					
1550	Investments accounted for using equity method (notes 6(g) and 8)		16,748,411	15	15,682,210	16	2550	Provisions—non-current (note 6(o))		563,666	1	656,632	1					
1600	Property, plant and equipment (notes 6(i) and (n), 7 and 8)		19,991,519	18	18,860,162	20	2570	Deferred income tax liabilities (note 6(r))		528,599	-	121,108	-					
1760	Investment property (note 6(j))		2,527,582	2	2,651,784	3	2670	Other non-current liabilities (notes 6(q) and (y))		918,059	1	797,112	1					
1780	Intangible assets (notes 6(g) and (k))		5,004,450	5	202,892	-		Total non-current liabilities		15,056,800	14	11,737,474	12					
1840	Deferred income tax assets (note 6(r))		1,676,767	2	1,725,549	2		Total liabilities		71,394,930	66	62,366,879	65					
1900	Other non-current assets (note 6(q))		153,818	-	149,875	-	Equity attributable to shareholders of the Company (notes 6(r) and (s)):											
1980	Other financial assets—non-current (notes 6(n) and (y) and 8)		218,089	-	186,155	-	3110	Common stock		19,667,820	18	19,667,820	21					
1985	Long-term prepaid rents (notes 6(j) and 8)		2,447,579	2	2,593,717	3	3260	Capital surplus		2,173,633	2	2,177,332	2					
	Total non-current assets		49,405,864	45	43,044,030	45	3300	Retained earnings		9,501,437	9	6,806,202	7					
							3400	Other equity		(383,980)	(1)	858,692	1					
								Total equity attributable to shareholders of the Company		30,958,910	28	29,510,046	31					
							36XX	Non-controlling interests (notes 6(h) and (s))		6,585,576	6	3,435,285	4					
								Total equity		37,544,486	34	32,945,331	35					
								Total liabilities and equity		\$ 108,939,416	100	95,312,210	100					
	Total assets		\$ 108,939,416	100	95,312,210	100												

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
QISDA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

		2017		2016	
		Amount	%	Amount	%
4000	Net sales (notes 6(p) and (v), 7 and 14)	\$ 136,862,492	100	129,553,540	100
5000	Cost of sales (notes 6(e), (i), (j), (k), (o), (p), (q), (t) and (w), 7 and 12)	120,529,445	88	113,350,633	87
	Gross profit	16,333,047	12	16,202,907	13
	Operating expenses (notes 6(d), (i), (k), (o), (p), (q), (t) and (w), 7 and 12):				
6100	Selling expenses	6,572,404	5	5,576,393	5
6200	Administrative expenses	2,731,022	2	2,594,744	2
6300	Research and development expenses	3,565,713	3	3,304,725	3
6400	Other operating expenses	62,000	-	239,769	-
	Total operating expenses	12,931,139	10	11,715,631	10
	Operating income	3,401,908	2	4,487,276	3
	Non-operating income and loss:				
7010	Other income (notes 6(x) and 7)	233,562	-	324,632	-
7020	Other gains and losses—net (notes 6(c), (g), (h), (i), (k), (p), (x), (y) and (z) and 7)	1,048,133	1	(66,075)	-
7050	Finance costs (note 6(x))	(660,210)	-	(603,614)	-
7060	Shares of profits of associates and joint ventures (note 6(g))	2,395,799	2	701,562	1
	Total non-operating income and loss	3,017,284	3	356,505	1
	Income before income tax	6,419,192	5	4,843,781	4
7950	Income tax expense (note 6(r))	762,822	1	776,010	1
	Net income	5,656,370	4	4,067,771	3
	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans (notes 6(q) and (s))	5,861	-	(83,303)	-
8320	Shares of other comprehensive income of associates and joint ventures (notes 6(g) and (s))	(6,222)	-	(17,084)	-
8349	Less: income tax related to items that will not be reclassified subsequently to profit or loss	-	-	-	-
		(361)	-	(100,387)	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign operations (note 6(s))	(967,810)	(1)	(773,104)	(1)
8362	Changes in fair value of available-for-sale financial assets (notes 6(s) and (y))	(181,851)	-	102,209	-
8370	Shares of other comprehensive income of associates and joint ventures (notes 6(g) and (s))	(126,978)	-	(408,468)	-
8399	Less: income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
		(1,276,639)	(1)	(1,079,363)	(1)
	Other comprehensive income for the year, net of income tax	(1,277,000)	(1)	(1,179,750)	(1)
	Total comprehensive income for the year	\$ 4,379,370	3	2,888,021	2
	Net income attributable to:				
8610	Shareholders of the Company	\$ 5,291,387	4	4,342,267	3
8620	Non-controlling interests	364,983	-	(274,496)	-
		\$ 5,656,370	4	4,067,771	3
	Total comprehensive income attributable to:				
8710	Shareholders of the Company	\$ 4,048,715	3	3,321,600	3
8720	Non-controlling interests	330,655	-	(433,579)	(1)
		\$ 4,379,370	3	2,888,021	2
	Earnings per share (in New Taiwan dollars) (note 6(u)) :				
9750	Basic earnings per share	\$ 2.69		2.21	
9850	Diluted earnings per share	\$ 2.66		2.18	

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

QISDA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Attributable to shareholders of the Company											
	Retained earnings						Total other equity interest					
	Common stock	Capital Surplus	Legal reserve	Unappropriate d earnings	Subtotal	Foreign currency translation differences	Unrealized gain (loss) from available-for-s ale financial assets	Remeasurements of defined benefit plans	Subtotal	Total equity of the Company	Non-controlli ng interests	Total equity
Balance at January 1, 2016	\$ 19,667,820	2,179,038	242,689	3,302,976	3,545,665	2,097,271	(27,522)	(190,390)	1,879,359	27,271,882	4,098,841	31,370,723
Appropriation of earnings:												
Legal reserve	-	-	216,918	(216,918)	-	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(1,081,730)	(1,081,730)	-	-	-	-	(1,081,730)	-	(1,081,730)
Changes in equity of associates and joint ventures accounted for using equity method	-	599	-	-	-	-	-	-	-	599	-	599
Stock option compensation cost of subsidiary	-	-	-	-	-	-	-	-	-	-	10,016	10,016
Distribution of cash dividend by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(246,821)	(246,821)
Difference between consideration and carrying amount arising from acquisition or disposal of shares in subsidiaries	-	(734)	-	-	-	-	-	-	-	(734)	(566)	(1,300)
Changes in ownership interests in subsidiaries	-	(1,571)	-	-	-	-	-	-	-	(1,571)	1,571	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	5,823	5,823
Net income in 2016	-	-	-	4,342,267	4,342,267	-	-	-	-	4,342,267	(274,496)	4,067,771
Other comprehensive income in 2016	-	-	-	-	-	(1,078,657)	159,319	(101,329)	(1,020,667)	(1,020,667)	(159,083)	(1,179,750)
Total comprehensive income in 2016	-	-	-	4,342,267	4,342,267	(1,078,657)	159,319	(101,329)	(1,020,667)	3,321,600	(433,579)	2,888,021
Balance at December 31, 2016	19,667,820	2,177,332	459,607	6,346,595	6,806,202	1,018,614	131,797	(291,719)	858,692	29,510,046	3,435,285	32,945,331
Appropriation of earnings:												
Legal reserve	-	-	434,227	(434,227)	-	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(2,596,152)	(2,596,152)	-	-	-	-	(2,596,152)	-	(2,596,152)
Changes in equity of associates and joint ventures accounted for using equity method	-	35,636	-	-	-	-	-	-	-	35,636	-	35,636
Stock option compensation cost of subsidiary	-	-	-	-	-	-	-	-	-	-	3,673	3,673
Distribution of cash dividend by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(35,137)	(35,137)
Difference between consideration and carrying amount arising from acquisition or disposal of shares in subsidiaries	-	(2,706)	-	-	-	-	-	-	-	(2,706)	(794)	(3,500)
Changes in ownership interests in subsidiaries	-	(56,756)	-	-	-	-	-	-	-	(56,756)	56,756	-
Capital injection from non-controlling interest	-	20,127	-	-	-	-	-	-	-	20,127	2,054	22,181
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	2,793,084	2,793,084
Net income in 2017	-	-	-	5,291,387	5,291,387	-	-	-	-	5,291,387	364,983	5,656,370
Other comprehensive income in 2017	-	-	-	-	-	(1,139,104)	(101,431)	(2,137)	(1,242,672)	(1,242,672)	(34,328)	(1,277,000)
Total comprehensive income in 2017	-	-	-	5,291,387	5,291,387	(1,139,104)	(101,431)	(2,137)	(1,242,672)	4,048,715	330,655	4,379,370
Balance at December 31, 2017	\$ 19,667,820	2,173,633	893,834	8,607,603	9,501,437	(120,490)	30,366	(293,856)	(383,980)	30,958,910	6,585,576	37,544,486

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

QISDA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities:		
Income before income tax	\$ 6,419,192	4,843,781
Adjustments for:		
Depreciation	1,815,685	1,733,007
Amortization	262,892	189,561
Bad debt expense	22,563	28,259
Interest expense	660,210	603,614
Interest income	(84,640)	(74,168)
Dividend income	(93,842)	(46,859)
Share-based compensation cost	3,673	10,016
Shares of profits of associates and joint ventures	(2,395,799)	(701,562)
Gains on disposal of property, plant and equipment	(182,793)	(7,023)
Gains on disposal of investments	(597,977)	(197,070)
Impairment losses on financial assets	1,755	91,307
Impairment losses on non-financial assets	1,455	249
Gains on bargain purchase	-	(29,718)
Impairment losses on investment accounted for using equity method	7,098	-
Total non-cash profit and loss	(579,720)	1,599,613
Changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	303,516	137,334
Increase in notes and accounts receivable	(1,958,405)	(514,357)
Decrease in notes and accounts receivable from related parties	377,687	280,614
Decrease (increase) in other receivables	21,192	(90,613)
Decrease in other receivables from related parties	425	19,852
Increase in inventories	(1,948,916)	(672,417)
Decrease (increase) in other current assets	(272,674)	101,897
Decrease in other non-current assets	79,427	15,834
Net changes in operating assets	(3,397,748)	(721,856)
Increase (decrease) in financial liabilities at fair value through profit or loss	(34,480)	39,194
Increase (decrease) in notes and accounts payable	(1,548,801)	1,509,900
Increase (decrease) in accounts payable to related parties	(798,153)	143,975
Increase (decrease) in other payables to related parties	(15,764)	4,954
Decrease in provisions	(41,074)	(164,196)
Increase in other current liabilities	799,581	1,252,905
Increase (decrease) in other non-current liabilities	(12,761)	22,935
Net changes in operating liabilities	(1,651,452)	2,809,667
Total changes in operating assets and liabilities	(5,049,200)	2,087,811
Cash provided by operations	790,272	8,531,205
Interest received	78,389	141,621
Dividend received	624,912	482,495
Interest paid	(587,669)	(585,692)
Income taxes paid	(570,095)	(621,602)
Net cash provided by operating activities	335,809	7,948,027

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

QISDA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from investing activities:		
Purchase of available-for-sale financial assets	(43,467)	(123,403)
Proceeds from sale of available-for-sale financial assets	539,525	16,939
Purchase of investments accounted for using equity method	-	(18,896)
Proceeds from disposal of investments accounted for using equity method	-	182,491
Additions to property, plant and equipment	(3,515,652)	(1,734,596)
Proceeds from disposal of property, plant and equipment	281,822	15,002
Decrease in loan receivables from related parties	-	181,191
Additions to intangible assets	(80,060)	(73,019)
Increase in long-term prepaid rents	-	(2,102)
Additions to investment property	(50,623)	(50,728)
Decrease (increase) in other financial assets	(410,210)	1,947,091
Acquisition of a subsidiary, net of cash used	(3,572,131)	(43,834)
Net cash flows provided by (used in) investing activities	(6,850,796)	296,136
Cash flows from financing activities:		
Increase in short-term borrowings	11,207,863	9,640,529
Decrease in short-term borrowings	(2,916,514)	(15,791,844)
Increase in long-term debt	12,881,188	8,149,850
Repayment of long-term debt	(11,234,255)	(10,978,770)
Decrease in lease obligations payable	(49,380)	(38,287)
Cash dividends distributed to shareholders	(2,596,152)	(1,081,730)
Acquisition of subsidiary's interests from non-controlling interests	(3,500)	(1,300)
Capital injection from non-controlling interests	22,181	-
Cash dividends paid to non-controlling interests	(35,137)	(246,821)
Net cash provided by (used in) financing activities	7,276,294	(10,348,373)
Effects of foreign exchange rate changes	(950,026)	(106,487)
Net decrease in cash and cash equivalents	(188,719)	(2,210,697)
Cash and cash equivalents at beginning of year	6,825,353	9,036,050
Cash and cash equivalents at end of year	\$ 6,636,634	6,825,353

Independent Auditors' Report

The Board of Directors
Qisda Corporation:

Opinion

We have audited the Parent Company Only financial statements of Qisda Corporation (the "Company"), which comprise the Parent Company Only balance sheets as of December 31, 2017 and 2016, and the Parent Company Only 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 Parent Company Only financial position of the Company as of December 31, 2017 and 2016, and its Parent Company Only financial performance and its Parent Company Only 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 our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and 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 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 for 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 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, 2017 are stated as follows:

1. Revenue recognition

Please refer to notes 4(o) and 6(q) for the accounting policy on revenue recognition and "Revenue" for the related disclosures, respectively, of the notes to the Parent Company Only financial statements.

Description of key audit matter:

The Company recognizes its revenue depending on the various trade terms in each individual sale transaction and service rendered, which are considered to be complex in determining the timing of revenue recognition. Therefore, revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matters above, our principal audit procedures included testing the design and operating effectiveness of the Company's internal controls over financial reporting in the sales and collection cycle; assessing whether revenue is recognized based on the trade terms with customers through reviewing the related sales contracts or other trade documents; performing a sample test on sales transactions that took place before and after the balance sheet date to identify the timing of transfer of risks and rewards of ownership of the goods and assessing the reasonableness of the timing of revenue recognition; reviewing and understanding the reasonableness for any identified significant sales returns and allowances that took place after the balance sheet date, as well as assessing whether the revenue and related sales returns and allowances is recognized in appropriate period.

2. Valuation of inventories

Please refer to notes 4(g), 5 and 6(e) for the inventory accounting policy, "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of inventory valuation, and "Inventories" for the

related disclosures, respectively, of the notes to 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 innovations and highly competitive environments in the electronic industry, the life cycle of certain products of the Company are short and their market prices fluctuate rapidly, which could possibly result in a price decline and obsolescence of inventory, wherein the inventory cost may exceed its net realizable value. 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 the net realizable value of inventories and inventory aging report prepared by the Company; 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 on inventory provisions. Moreover, verifying the inventory provisions recognized in the current year to evaluate their reasonableness.

3. Investment in the subsidiaries

Please refer to notes 4(i) and 6(f) for the accounting policy on business combination, and "Investment in the subsidiaries" for the related disclosures, respectively, of the notes to the Parent Company Only financial statements.

Description of key audit matter:

The Company and its subsidiaries acquired 42.06% and 46.28% ownership of Partner Tech Corp. and DFI Inc., respectively, in 2017 through tender offer, resulting in the Company and its subsidiaries' interest in Partner Tech Corp. and DFI Inc. to increase to 68.23% and 55.00%, respectively, wherein the Company is able to exercise control over them. 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.

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

Please refer to notes 4(m), 5 and 6(f) for the accounting policy on impairment of non-financial assets, "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of impairment of goodwill, and "Intangible assets" for the related disclosures, respectively, of the notes to Parent Company Only financial statements.

Description of key audit matter:

Goodwill arising from acquisition of subsidiaries is included in the carrying amount of investment in the subsidiaries in the Parent Company Only financial statements. 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 goodwill impairment 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 maintained 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. Evaluated 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 entities or business activities within the Company to express an opinion on the Parent Company Only financial statements. We are responsible for the direction, supervision and performance of the Company 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, 2017 and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)

March 16, 2018

Notes to Readers

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

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

QISDA CORPORATION
Parent Company Only Balance Sheets
December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016				December 31, 2017		December 31, 2016	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets											
Current assets:											
I100	Cash and cash equivalents	\$ 1,794,339	2	2,449,331	4	2100	Short-term borrowings	\$ 5,827,600	8	-	-
I110	Financial assets at fair value through profit or loss—current	1,824	-	89,110	-	2120	Financial liabilities at fair value through profit or loss—current	14,850	-	-	-
I125	Available-for-sale financial assets—current	-	-	69,421	-	2170	Notes and accounts payable	2,094,550	3	3,125,898	5
I170	Notes and accounts receivable, net	11,292,878	15	11,182,508	16	2180	Accounts payable to related parties	24,616,014	32	24,567,581	36
I181	Notes and accounts receivable from related parties	14,240,434	19	12,799,071	19	2200	Other payables	3,094,992	4	2,824,196	4
I200	Other receivables	313	-	953	-	2220	Other payables to related parties	7,076	-	5,039	-
I210	Other receivables from related parties	1,180	-	967	-	2322	Current portion of long-term debt	1,500,000	2	2,153,750	3
I30X	Inventories	3,381,551	4	2,587,087	4	2250	Provisions—current	22,947	-	28,032	-
I470	Other current assets	64,371	-	84,655	-	2300	Other current liabilities	341,619	-	243,928	1
Total current assets		30,776,890	40	29,263,103	43	Total current liabilities		37,519,648	49	32,948,424	49
Non-current assets:											
I523	Available-for-sale financial assets—non-current	35,000	-	572,492	1	2540	Long-term debt	7,262,800	10	5,021,500	7
I550	Investments accounted for using equity method	42,957,769	57	35,597,339	52	2550	Provisions—non-current	94,515	-	125,148	-
I600	Property, plant and equipment	1,493,157	2	1,501,273	2	2570	Deferred income tax liabilities	3,088	-	15,149	-
I780	Intangible assets	7,931	-	11,451	-	2600	Other non-current liabilities	325,438	-	334,376	1
I840	Deferred income tax assets	830,116	1	944,118	2	Total non-current liabilities		7,685,841	10	5,496,173	8
I990	Other non-current assets	26,572	-	29,678	-	Total liabilities		45,205,489	59	38,444,597	57
I980	Other financial assets—non-current	36,964	-	35,189	-	Equity :					
Total non-current assets		45,387,509	60	38,691,540	57	3110	Common stock	19,667,820	26	19,667,820	29
						3200	Capital surplus	2,173,633	3	2,177,332	3
						3300	Retained earnings	9,501,437	12	6,806,202	10
						3400	Other equity	(383,980)	-	858,692	1
						Total equity		30,958,910	41	29,510,046	43
						Total liabilities and equity		\$ 76,164,399	100	67,954,643	100
Total assets		\$ 76,164,399	100	67,954,643	100						

QISDA CORPORATION
Parent Company Only Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

		2017		2016	
		Amount	%	Amount	%
4000	Net sales	\$ 88,869,603	100	83,560,114	100
5000	Cost of sales	85,094,519	96	77,509,690	93
	Gross profit	3,775,084	4	6,050,424	7
5910	Realized inter-company profit	78,512	-	63,401	-
	Realized gross profit	3,853,596	4	6,113,825	7
	Operating expenses:				
6100	Selling expenses	967,745	1	804,525	1
6200	Administrative expenses	564,890	1	460,342	1
6300	Research and development expenses	2,151,889	2	2,133,069	2
	Total operating expenses	3,684,524	4	3,397,936	4
	Operating income	169,072	-	2,715,889	3
	Non-operating income and loss:				
7010	Other income	71,547	-	82,993	-
7020	Other gains and losses — net	407,644	-	33,971	-
7050	Finance costs	(234,791)	-	(183,594)	-
7375	Share of profit of subsidiaries, associates and joint ventures	5,111,045	6	1,880,157	2
	Total non-operating income and loss	5,355,445	6	1,813,527	2
	Income before income tax	5,524,517	6	4,529,416	5
7950	Income tax expense	233,130	-	187,149	-
	Net income	5,291,387	6	4,342,267	5
	Other comprehensive income:				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	7,013	-	(76,390)	-
8330	Share of other comprehensive income of subsidiaries, associates and joint ventures	(9,150)	-	(24,939)	-
8349	Less: income tax related to items that will not be reclassified subsequently to profit or loss	-	-	-	-
		(2,137)	-	(101,329)	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign operations	(1,139,104)	(1)	(1,078,657)	(1)
8362	Change in fair value of available-for-sale financial assets	(61,062)	-	84,354	-
8380	Share of other comprehensive income of subsidiaries, associates and joint ventures	(40,369)	-	74,965	-
8399	Less: income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
		(1,240,535)	(1)	(919,338)	(1)
	Other comprehensive income for the year, net of income tax	(1,242,672)	(1)	(1,020,667)	(1)
	Total comprehensive income for the year	\$ 4,048,715	5	3,321,600	4
	Earnings per share (in New Taiwan dollars):				
9750	Basic earnings per share	\$ 2.69		2.21	
9850	Diluted earnings per share	\$ 2.66		2.18	

QISDA CORPORATION
Parent Company Only Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings					Other equity				
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	Total	Foreign currency translation differences	Unrealized gain (loss) from available-for-sale financial assets	Remeasurements of defined benefit plans	Total	Total equity
Balance at January 1, 2016	\$ 19,667,820	2,179,038	242,689	3,302,976	3,545,665	2,097,271	(27,522)	(190,390)	1,879,359	27,271,882
Appropriation of earnings:										
Legal reserve	-	-	216,918	(216,918)	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(1,081,730)	(1,081,730)	-	-	-	-	(1,081,730)
Changes in equity of subsidiaries, associates and joint ventures accounted for using equity method	-	(972)	-	-	-	-	-	-	-	(972)
Difference between consideration and carrying amount arising from acquisition or disposal of shares in subsidiaries	-	(734)	-	-	-	-	-	-	-	(734)
Net income in 2016	-	-	-	4,342,267	4,342,267	-	-	-	-	4,342,267
Other comprehensive income in 2016	-	-	-	-	-	(1,078,657)	159,319	(101,329)	(1,020,667)	(1,020,667)
Total comprehensive income in 2016	-	-	-	4,342,267	4,342,267	(1,078,657)	159,319	(101,329)	(1,020,667)	3,321,600
Balance at December 31, 2016	19,667,820	2,177,332	459,607	6,346,595	6,806,202	1,018,614	131,797	(291,719)	858,692	29,510,046
Appropriation of earnings:										
Legal reserve	-	-	434,227	(434,227)	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(2,596,152)	(2,596,152)	-	-	-	-	(2,596,152)
Changes in equity of subsidiaries, associates and joint ventures accounted for using equity method	-	(993)	-	-	-	-	-	-	-	(993)
Difference between consideration and carrying amount arising from acquisition or disposal of shares in subsidiaries	-	(2,706)	-	-	-	-	-	-	-	(2,706)
Net income in 2017	-	-	-	5,291,387	5,291,387	-	-	-	-	5,291,387
Other comprehensive income in 2017	-	-	-	-	-	(1,139,104)	(101,431)	(2,137)	(1,242,672)	(1,242,672)
Total comprehensive income in 2017	-	-	-	5,291,387	5,291,387	(1,139,104)	(101,431)	(2,137)	(1,242,672)	4,048,715
Balance at December 31, 2017	\$ 19,667,820	2,173,633	893,834	8,607,603	9,501,437	(120,490)	30,366	(293,856)	(383,980)	30,958,910

(note) For the years ended December 31, 2017 and 2016, the Company estimated the remuneration to directors amounting to \$45,160 thousand and \$37,500 thousand, respectively, the remuneration to employees amounting to \$451,600 thousand and \$386,355 thousand, respectively. These amounts are expensed in the statements of comprehensive income.

QISDA CORPORATION
Parent Company Only Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities:		
Income before income tax	\$ 5,524,517	4,529,416
Adjustments for:		
Depreciation	76,568	75,694
Amortization	6,520	9,605
(Reversal of provision for bad debts) bad debt expense	(776)	4,071
Interest expense	234,791	183,594
Interest income	(8,891)	(3,358)
Dividend income	(47,298)	(34,716)
Share of profit of subsidiaries, associates and joint ventures	(5,111,045)	(1,880,157)
Gain on disposal of property, plant and equipment	(1,580)	-
Gain on disposal of investments	(320,046)	-
Impairment loss on financial assets	-	43,263
Realized inter-company profit	(78,512)	(63,401)
Total non-cash profit and loss	(5,250,269)	(1,665,405)
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	87,286	(6,956)
Increase in notes and accounts receivable	(109,594)	(269,111)
Decrease (increase) in notes and accounts receivable from related parties	(1,441,363)	455,495
Decrease in other receivables	780	25,311
Decrease (increase) in other receivables from related parties	(213)	18
Decrease (increase) in inventories	(794,464)	484,492
Decrease (increase) in other current assets	19,851	(3,660)
Increase in other non-current assets	(10,802)	(2,199)
Net changes in operating assets	(2,248,519)	683,390
Increase in financial liabilities at fair value through profit or loss	14,850	-
Increase (decrease) in notes and accounts payable	(1,031,348)	382,370
Increase in accounts payable to related parties	48,433	3,043,646
Increase (decrease) in other payables to related parties	2,037	(118,324)
Decrease in provisions	(35,718)	(82,428)
Increase in other payables and other current liabilities	295,390	487,931
Increase (decrease) in other non-current liabilities	(1,925)	53,938
Net changes in operating liabilities	(708,281)	3,767,133
Total changes in operating assets and liabilities	(2,956,800)	4,450,523
Cash provided by (used in) operations	(2,682,552)	7,314,534
Interest received	8,751	3,394
Dividend received	1,501,804	443,776
Interest paid	(217,126)	(179,170)
Income taxes paid	(61,416)	(99,979)
Net cash provided by (used in) operating activities	(1,450,539)	7,482,555

QISDA CORPORATION (Continued)
Parent Company Only Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from investing activities:		
Purchase of available-for-sale financial assets	-	(29,375)
Proceeds from sale of available-for-sale financial assets	137,286	-
Purchase of investments accounted for using equity method	(4,089,090)	(110,000)
Proceeds from investees' capital reduction	-	550,000
Additions to property, plant and equipment	(69,297)	(45,097)
Proceeds from disposal of property, plant and equipment	2,425	-
Decrease in loan receivables from related parties	-	16,419
Additions to intangible assets	(3,000)	(4,934)
Decrease (increase) in other financial assets	(1,775)	718,354
Net cash flows provided by (used in) investing activities	<u>(4,023,451)</u>	<u>1,095,367</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	5,827,600	(3,743,575)
Increase in long-term debt	7,560,595	5,137,350
Repayment of long-term debt	(5,973,045)	(7,301,600)
Cash dividends distributed to shareholders	(2,596,152)	(1,081,730)
Net cash provided by (used in) financing activities	<u>4,818,998</u>	<u>(6,989,555)</u>
Net increase (decrease) in cash and cash equivalents	(654,992)	1,588,367
Cash and cash equivalents at beginning of year	<u>2,449,331</u>	<u>860,964</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,794,339</u></u>	<u><u>2,449,331</u></u>

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