

Quanta Computer Inc. Annual Report 2017



Report to Shareholders

The speed of information sharing accelerates as technology advances rapidly, while convenient transportation and highly effective logistics further prompt new introduction of innovative applications and services. Such phenomenon has reshaped consumer behavior and business models overnight. With the trend of globalization, there's no more boundary between knowledge sharing and competition in business operations. Developed countries face challenges from low growth rate, while emerging countries continue to face geopolitical risks. On top of that, various issues also intensify market competition including global climate changes, stricter labor regulations and rising wages. Corporates must create greater value in order to tackle numerous challenges ahead.

Year 2018 marks the 30th anniversary for Quanta Computer, we are fortunate to have accumulated strong foundation from years of hard working. However, market dynamic changes rapidly that the challenges we face today in businesses operation are much tougher compared to the challenges we faced during startup stage due to lack of experiences and resources. When facing new competition and market dynamics, we believe firmly in our ideology of "Innovation, Change and Transcend", leveraging our positive attitude to tackle challenges ahead through continuous exploration and strong desire to excel. We believe doing so would further sharpen our competitiveness and result in stronger business performance.

Quanta's performance for FY2017 and outlook for FY2018 are as follows:

I. Revenue and Income

Full year revenue resumed one trillion milestone with the consolidated revenue reported at NT\$1,021BN in FY2017. Representing 14.2% year-over-year growth compared to NT\$894BN revenue reported in FY2016. Net income after tax in FY2017 and FY2016 was NT\$14.5BN and NT\$15.4BN respectively. Net income attributable to owners of parent in FY2017 and FY2016 was NT\$14.4BN and NT\$15.1BN respectively. EPS in FY2017 was NT\$3.73, while non-operating income was NT\$2.5BN.

In response to technology advancement and labor constraint in production, Quanta continues to promote automation in manufacturing process. As we continue to upgrade manufacturing equipment and to increase adoption of automation, our production expertise is further advanced, the need for labor resources is condensed and overall work efficiency is therefore accelerated. With great efforts contributed from the entire company, we made great progress and initiated over 250 projects in automation in year 2017.

From the perspective of business operation, we continue to introduce innovative technology and launch new products in response to current market trend towards greater product variety at lesser volume. Through implementation of data analytic tools in business operation and adoption of automated production, detailed management, shortened production, simplified operation flow and effective cost control, Quanta is able to remain responsive and flexible when facing industry dynamics from integration of different technologies. Hence, we are able to sustain steady growth and development for the Company.

II. Outlook in 2018

Thirty-year anniversary marks an important milestone for Quanta, the Company will continue to follow our tradition to focus on our core business and to stay ahead of competition. By ways of dedicating efforts in developing advanced technology and improving quality and performance of high efficiency servers, we thus are able to ensure sustainable growth rate for cloud related business. Furthermore, we also devote additional resources in product development and technology integration in other IoT (Internet of Things) areas, including Virtual Reality (VR), Augmented Reality (AR), and Mixed Reality (MR) to further expand our businesses into new verticals and markets. Moreover, we are also developing innovative technology to

provide integrated solutions, extending AI applications and services into medical fields to further diversify and explore new market opportunities.

Quanta has been pushing strongly for Q-Factory (Industrial 4.0) infrastructure building and continue to advance our manufacturing technology, to raise automation standard and to solidify our leadership position in manufacturing capabilities. To take one step further, Quanta began the initiation of “Happy Factory” to build the strong bond between employees and the Company. Specific action plans are as follows:

- **Boost R&D Capabilities —**
Focus on R&D capabilities in Taiwan and continue to invest locally. To cultivate and nurture R&D talent pools and to strengthen capabilities in new product development, we thus are able to better respond to fast changes in new technology advancement. Doing so enables Quanta to quickly capture fast growing opportunities from cloud applications to Big Data and AI.
- **Deepened Detailed Management —**
“Management” itself is a piece of art, yet “Detailed Management” is an attitude that requires individuals to pay great attention to details and reach execution excellence. Detailed Management is essential to an international company like Quanta Computer with employees spread across the world. Through quality control, production management, cost control management and employee management, we strive to manage every aspect in detail to excel in business execution.
- **Implementation of Smart Factory “Q-Factory” —**
Adoption of automated production not only shortens manufacturing process, simplifies work flow, but also further lowers production costs. As manufacturing equipment are upgraded, production technologies are further enhanced and various systems are gradually integrated, Quanta is one step closer to our target of establishing smart factory, “Q-Factory”.

The implementation of Q-Factory is achieved through the adoption of QEMS, Quanta Equipment Management System, and QPMS, Quanta Production Management System. With information collected and data analyzed through big data platforms, we were able to establish Quanta smart factory and move towards our goal of Industrial 4.0. As a result, Quanta’s competitive edge and core corporate value are further accelerated to the next level.

- **Be the “Best Place to Work For” —**
Happy employees build the most fundamental foundation for any company’s competitive edge. Company with high efficiency is made possible only when employees feel the sense of belonging and are willing to proactively devote themselves into the work they do. Quanta is dedicated in creating a healthy work environment through the development of various welfare programs and on-line employee feedbacks system. We provide professional assistance and resources to employees on work supports and personal consultation. Furthermore, we thoroughly designed a “Happy Index” to re-enforce people management from multiple aspects. Doing so, we believe employee satisfaction and happiness are encouraged, creating a win-win relationship for both employees and the Company.

- Strict cost control —

Uncertainties from the rise of labor costs, increased awareness of environmental protection and volatility of component prices all challenge enterprises' capability to better manage costs. At Quanta, we award innovative design wins, focus on organizational optimization, promote simplified work flow, implement automation process in testing, packaging and logistics. Our strict cost control policy has enabled us to reduce man power, to minimize waste and to further optimize Company's profitability.

Looking ahead, Quanta will continue to follow our corporate value of "Truthfulness, Kindness and Beauty" as well as "Honesty, Trust and Caring". The Company will continue to "Innovate, Change and Transcend." Leveraging our core competence of innovative R&D capabilities to provide high quality manufacturing services, to create value for our customers and to seek win-win and sustainable partnerships. We strive to deliver strong and solid results as ways of appreciation to our shareholders and employees for their long-term supports.

Chairman:

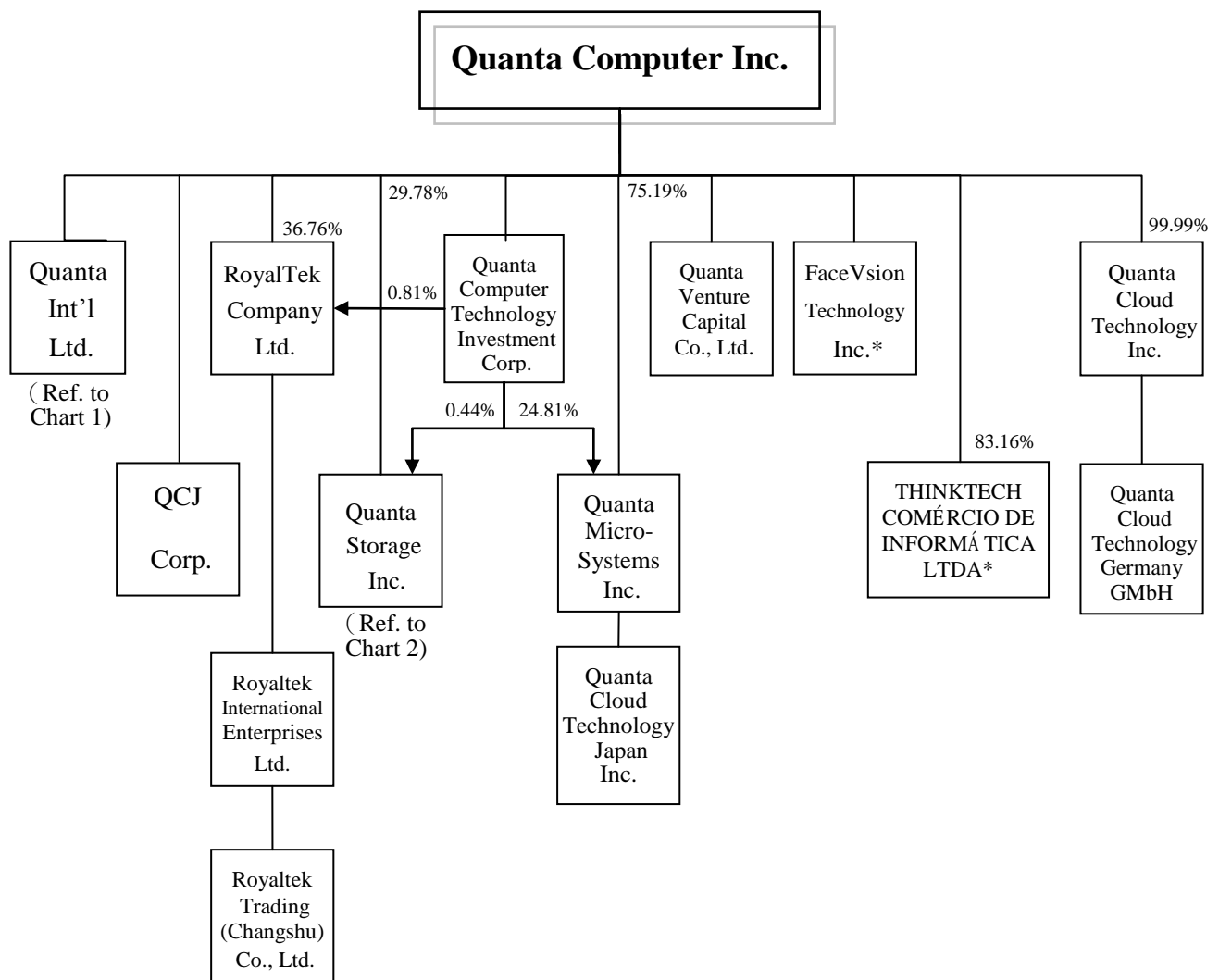
Barry Lam

Vice Chairman & President:

C.C. Leung

Chief Financial Officer:

Elton Yang

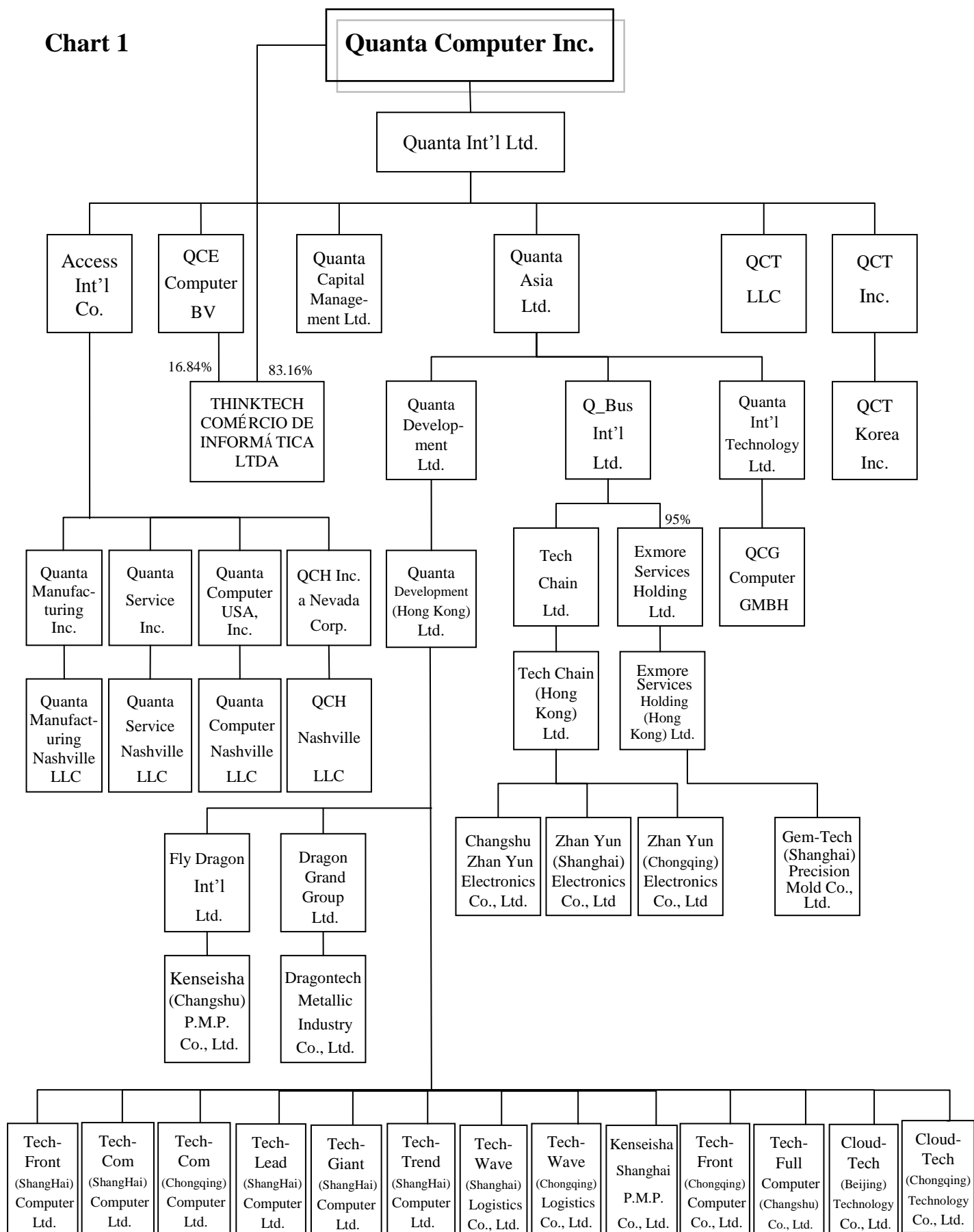


* Note 1: Ownership is 100% unless otherwise specified.

* Note 2: FaceVtion Technology Inc. filed for liquidation on March, 2018.

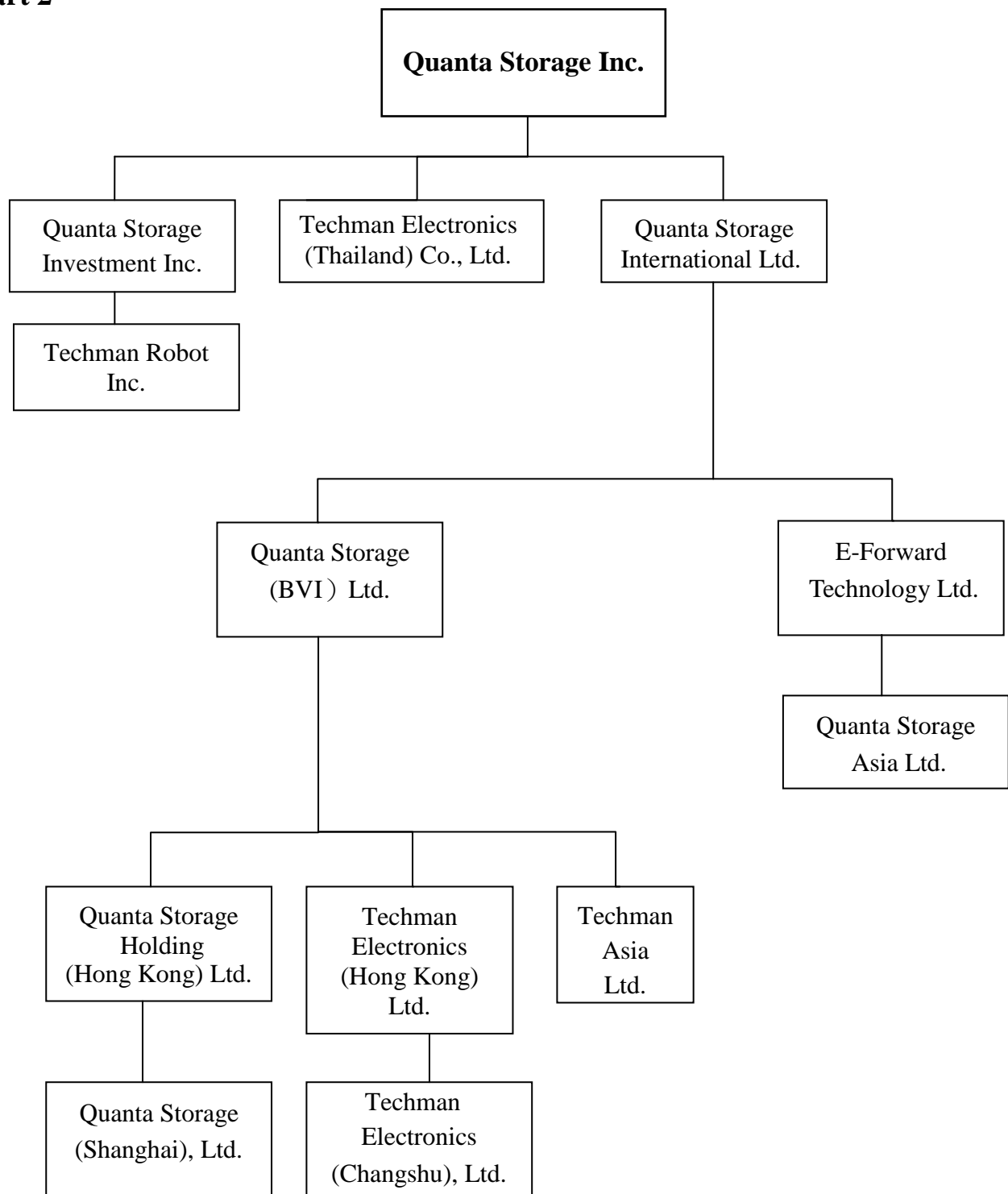
* Note 3: ThinkTech Ind. E Com. DE Informatica SA applied for name change to THINKTECH COMÉRCIO DE INFORMÁTICA LTDA on October, 2017.

Chart 1



* Note: ownership is 100% unless otherwise specified

Chart 2



* Note: Ownership is 100% unless otherwise specified

(English Translation of Financial Report Originally Issued In Chinese)

Independent Auditors' Report

To the Board of Directors of Quanta Computer Inc.:

Opinion

We have audited the consolidated financial statements of Quanta Computer Inc. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the consolidated statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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 ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' 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 of our opinion.

Key Audit Matters

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

1. Revenue Recognition

Please refer to Note (4)(q) for accounting policies of revenue recognition.

Description of the key audit matter:

The Group engages primarily in the manufacturing, processing, and sales of laptop computers and telecommunication products. Varying transaction terms will cause different timing for risks and rewards of products' ownership being transferred. Therefore, the timing for revenue recognition has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our key audit procedures include understanding and testing the design and implementation of internal control over revenue recognition; understanding the Group's main sources of revenues, contract provisions, and transaction terms to evaluate the adequacy of revenue recognition period; applying computer audit for selected samples to evaluate whether the data collected from external system is consistent with those input to the internal system; and analyzing the agreements of selected customers to understand the sales terms and conditions for revenue recognition, and to further inspect related transaction document to ensure that the revenue is recorded in the appropriate period.

2. Allowance for Inventory Valuation and Obsolescence Losses

Please refer to Note (4)(h), Note (5), and Note (6)(d) for accounting policies, accounting assumptions and estimation uncertainty, and related disclosure information for inventory, respectively.

Description of the key audit matter:

Inventories are stated at the lower of cost or net realizable value. With the rapid development of technology, the advance of new electronic products may significantly change consumer demands, which leads to product obsolescence that may result in the cost of inventory to be higher than the net realizable value. Consequently, the valuation of inventories has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our key audit procedures include selecting samples to examine their net realizable values to verify the accuracy of inventory aging; evaluating the reasonableness of the Group's inventory valuation policy and the management's assumption used when measuring allowance for inventory valuation and obsolescence losses; performing a retrospective review of the Group's historical accuracy of judgments with reference to inventory valuation and compare them with the current year's calculation to evaluate the appropriateness of the estimation and assumption used for inventory valuation; and evaluating the adequacy of the Group's disclosure for inventories.

3. The agreements of financial assets and liabilities offsetting

Please refer to Note (4)(g) and (6)(j) for accounting policy and detailed information on the agreements of financial assets and liabilities offsetting.

Description of the key audit matter:

The Group has financial assets and liabilities offsetting agreements with financial institutions. Since whether the accounting treatment and disclosure of the agreements complied with the accounting standards or not will materially affect the financial statements, the said matter has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our key audit procedures include understanding and testing the design and implementation of internal control over assets and liabilities offsetting; acquiring the offsetting agreements and inspecting the contractual terms to determine whether the accounting treatment used is in compliance with the related accounting standards; and evaluating the adequacy of the Group's disclosure for financial assets and liabilities offsetting.

Other Matter

Quanta Computer Inc. has additionally prepared its parent-company-only financial statements for the years ended December 31, 2017 and 2016, on which we have issued an unqualified 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 Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Wan-Wan Lin and Liu-Fong Yang.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2018

Notes to Readers

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

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

(ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)

QUANTA COMPUTER INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS		2017.12.31		2016.12.31		LIABILITIES AND EQUITY		2017.12.31		2016.12.31	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents	\$ 198,763,364	32	202,911,112	35	2100	Short-term borrowings	\$ 231,706,368	38	183,886,467	31
1110	Current financial assets at fair value through profit or loss	2,440,533	-	2,029,865	-	2120	Current financial liabilities at fair value through profit or loss	3,272	-	-	-
1126	Current available-for-sale financial assets	15,544,796	3	24,518,661	4	2170	Accounts payable	161,244,502	26	175,581,325	30
1172	Accounts receivable, net	169,994,797	28	168,439,873	29	2219	Other payables	26,526,447	4	27,657,784	5
1200	Other receivables	3,163,443	1	2,250,197	-	2230	Current tax liabilities	5,855,665	1	6,045,418	1
1310	Inventories	135,255,216	22	122,185,864	21	2305	Other current financial liabilities	5,400,057	1	7,305,018	1
1476	Other current financial assets	34,748,702	6	6,682,963	1	2320	Long-term liabilities, current portion	17,897,780	3	-	-
1479	Other current assets, others	2,771,163	-	3,407,924	1	2399	Other current liabilities, others	24,754,951	4	26,657,827	5
		<u>562,682,014</u>	<u>92</u>	<u>532,426,459</u>	<u>91</u>			<u>473,389,042</u>	<u>77</u>	<u>427,133,839</u>	<u>73</u>
Non-current assets:						Non-Current liabilities:					
1523	Non-current available-for-sale financial assets	1,092,723	-	1,135,329	-	2540	Long-term borrowings	-	-	19,361,215	3
1550	Investments accounted for using equity method	325,351	-	380,385	-	2570	Deferred tax liabilities	290,477	-	367,996	-
1600	Property, plant and equipment	42,184,996	7	45,463,001	8	2640	Net defined benefit liability	817,133	-	753,028	-
1760	Investment property, net	70,302	-	70,948	-	2670	Other non-current liabilities, others	90,968	-	97,197	-
1780	Intangible assets	748,288	-	682,497	-			<u>1,198,578</u>	<u>-</u>	<u>20,579,436</u>	<u>3</u>
1840	Deferred tax assets	4,358,888	1	5,124,850	1		Total liabilities	<u>474,587,620</u>	<u>77</u>	<u>447,713,275</u>	<u>76</u>
1980	Other non-current financial assets	293,150	-	296,840	-		Equity attributable to owners of parent:				
1995	Other non-current assets, others	<u>1,620,383</u>	<u>-</u>	<u>1,849,752</u>	<u>-</u>	3100	Share capital	38,626,274	7	38,626,274	7
		50,694,081	8	55,003,602	9	3200	Capital surplus	14,072,745	2	14,053,893	2
						3300	Retained earnings	86,043,777	14	85,257,190	15
						3400	Other equity interest	(5,987,359)	(1)	(4,750,829)	(1)
						3500	Treasury shares	(333,094)	-	(333,094)	-
							Total equity attributable to owners of parent	<u>132,422,343</u>	<u>22</u>	<u>132,853,434</u>	<u>23</u>
						36XX	Non-controlling interests	<u>6,366,132</u>	<u>1</u>	<u>6,863,352</u>	<u>1</u>
							Total equity	<u>138,788,475</u>	<u>23</u>	<u>139,716,786</u>	<u>24</u>
TOTAL ASSETS		<u>\$ 613,376,095</u>	<u>100</u>	<u>587,430,061</u>	<u>100</u>	TOTAL LIABILITIES AND EQUITY		<u>\$ 613,376,095</u>	<u>100</u>	<u>587,430,061</u>	<u>100</u>

(ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)

QUANTA COMPUTER INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		For the Years Ended December 31,			
		2017		2016	
		Amount	%	Amount	%
4000	Operating revenue	\$ 1,021,182,900	100	893,982,294	100
5000	Operating costs	975,530,673	95	847,388,606	95
	Gross profit from operations	45,652,227	5	46,593,688	5
5910	Less: Unrealized profit from sales	1,261	-	2,220	-
5920	Add: Realized profit from sales	2,220	-	2,793	-
		45,653,186	5	46,594,261	5
	Operating expenses:				
6100	Selling expenses	6,919,664	1	7,662,895	1
6200	Administrative expenses	8,396,763	1	8,620,644	1
6300	Research and development expenses	12,730,794	1	11,205,468	1
		28,047,221	3	27,489,007	3
	Net operating income	17,605,965	2	19,105,254	2
	Non-operating income and expenses:				
7010	Other income	5,376,335	-	3,775,891	-
7510	Interest expenses	(4,012,720)	-	(2,272,338)	-
7020	Other gains and losses, net	1,120,113	-	(217,231)	-
7060	Share of profit (loss) of associates and joint ventures accounted for using equity method	7,399	-	(51,001)	-
		2,491,127	-	1,235,321	-
7900	Profit before tax	20,097,092	2	20,340,575	2
7950	Less: Tax expenses	5,581,330	1	4,930,141	-
8200	Profit	14,515,762	1	15,410,434	2
	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	(Losses) gains on remeasurements of defined benefit plans	(71,277)	-	53,309	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	11,905	-	(8,834)	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(59,372)	-	44,475	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation	(1,606,472)	-	(1,163,410)	-
8362	Unrealized gains on valuation of available-for-sale financial assets	110,624	-	758,713	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	17,157	-	(157,107)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	160	-	(2,793)	-
	Components of other comprehensive income that will be reclassified to profit or loss	(1,478,531)	-	(564,597)	-
	Other comprehensive income, net	(1,537,903)	-	(520,122)	-
8500	Total comprehensive income for the year	\$ 12,977,859	1	14,890,312	2
	Profit attributable to:				
8610	Profit, attributable to owners of parent	\$ 14,367,092	1	15,138,164	2
8620	Profit, attributable to non-controlling interests	148,670	-	272,270	-
		\$ 14,515,762	1	15,410,434	2
	Comprehensive income attributable to:				
8710	Comprehensive income, attributable to owners of parent	\$ 13,069,253	1	14,854,686	2
8720	Comprehensive income, attributable to non-controlling interests	(91,394)	-	35,626	-
		\$ 12,977,859	1	14,890,312	2
	Earnings per share attributable to parent company				
9750	Basic earnings per share (NT dollars)	\$ 3.73		3.93	
9850	Diluted earnings per share (NT dollars)	\$ 3.70		3.90	

(ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)
 QUANTA COMPUTER INC. AND ITS SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
 (AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Owners' Equity Attributable to Equity Holders of the Parent Company													
	Share Capital					Other Equity Interest								
						Retained Earnings		Exchange Differences on				Total Equity Attributable to Owners of Parent	Non- Controlling Interests	Total Equity
								Unappropriated Retained Earnings	Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for- Sale Financial Assets	Treasury Shares			
	Ordinary Share	Capital Surplus	Legal Reserve	Special Reserve										
Balance as of January 1, 2016	\$ 38,626,274	14,042,566	26,966,046	2,941,161	54,923,151	6,210,532	(10,634,327)	(333,094)	132,742,309	7,343,375	140,085,684			
Profit for the year	-	-	-	-	15,138,164	-	-	-	15,138,164	272,270	15,410,434			
Other comprehensive income for the year	-	-	-	-	43,556	(1,101,405)	774,371	-	(283,478)	(236,644)	(520,122)			
Total comprehensive income	-	-	-	-	15,181,720	(1,101,405)	774,371	-	14,854,686	35,626	14,890,312			
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	1,782,713	-	(1,782,713)	-	-	-	-	-	-			
Special reserve appropriated	-	-	-	1,482,634	(1,482,634)	-	-	-	-	-	-			
Cash dividends of ordinary share	-	-	-	-	(14,677,984)	-	-	-	(14,677,984)	-	(14,677,984)			
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	11,327	-	-	-	-	-	-	11,327	-	11,327			
Changes of ownership in subsidiaries	-	-	-	-	(76,904)	-	-	-	(76,904)	76,904	-			
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(592,553)	(592,553)			
Balance as of December 31, 2016	38,626,274	14,053,893	28,748,759	4,423,795	52,084,636	5,109,127	(9,859,956)	(333,094)	132,853,434	6,863,352	139,716,786			
Profit for the year	-	-	-	-	14,367,092	-	-	-	14,367,092	148,670	14,515,762			
Other comprehensive income for the year	-	-	-	-	(61,309)	(1,383,648)	147,118	-	(1,297,839)	(240,064)	(1,537,903)			
Total comprehensive income	-	-	-	-	14,305,783	(1,383,648)	147,118	-	13,069,253	(91,394)	12,977,859			
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	1,513,816	-	(1,513,816)	-	-	-	-	-	-			
Special reserve appropriated	-	-	-	327,034	(327,034)	-	-	-	-	-	-			
Cash dividends of ordinary share	-	-	-	-	(13,519,196)	-	-	-	(13,519,196)	-	(13,519,196)			
Other changes in capital surplus:														
Changes in equity of associates and joint ventures accounted for using equity method	-	8,434	-	-	-	-	-	-	8,434	-	8,434			
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	10,433	-	-	-	-	-	-	10,433	-	10,433			
Changes of ownership in subsidiaries	-	(15)	-	-	-	-	-	-	(15)	15	-			
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(405,841)	(405,841)			
Balance as of December 31, 2017	\$ 38,626,274	14,072,745	30,262,575	4,750,829	51,030,373	3,725,479	(9,712,838)	(333,094)	132,422,343	6,366,132	138,788,475			

(ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)
QUANTA COMPUTER INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	For the Years Ended December 31,	
	2017	2016
Cash flows from operating activities :		
Profit before tax	\$ 20,097,092	20,340,575
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	5,832,988	6,261,400
Amortization expense	1,032,152	1,065,605
Provisions for bad debt expense	240,921	440,981
Net (gain) loss on financial assets or liabilities at fair value through profit or loss	(15,190)	9,216
Interest expense	4,012,720	2,272,338
Interest income	(5,064,471)	(3,578,467)
Dividend income	(311,864)	(197,424)
Share of (gain) loss of associates and joint ventures accounted for using equity method	(7,399)	51,001
Loss on disposal of property, plant and equipment	260,059	442,970
Property, plant and equipment transferred to expenses	7	30,479
(Gain) loss on disposal of intangible assets	(11)	498
Gain on disposal of investments	(76,373)	(211,421)
(Loss) gain on disposal of subsidiaries	9,897	(83,776)
Loss on disposal of investments accounted for using equity method	819	-
Impairment loss on financial assets	-	20,470
Impairment loss (reversal) on non-financial assets	(10,479)	132,651
Unrealized foreign exchange gain	(818,160)	(619,080)
Total adjustments to reconcile profit	5,085,616	6,037,441
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets held for trading	258,524	(62,715)
Accounts receivable	(14,559,789)	(11,768,452)
Other receivables	(316,219)	278,989
Inventories	(20,039,547)	(1,652,555)
Other financial assets	177,848	902,467
Other current assets	426,495	(1,042,685)
Total changes in operating assets	(34,052,688)	(13,344,951)
Changes in operating liabilities:		
Accounts payable	7,342,913	35,166,030
Other payables	324,107	1,159,138
Other financial liabilities	(1,903,874)	(442,278)
Other current liabilities	(1,765,975)	2,774,751
Net defined benefit liabilities	(7,166)	(5,790)
Other liabilities	(958)	(1,776)
Total changes in operating liabilities	3,989,047	38,650,075
Total changes in operating assets and liabilities	(30,063,641)	25,305,124
Total adjustments	(24,978,025)	31,342,565
Cash (outflow) inflow generated from operations	(4,880,933)	51,683,140
Interest received	4,475,166	3,882,703
Dividends received	315,832	197,424
Interest paid	(3,440,015)	(2,040,683)
Income taxes paid	(5,104,413)	(6,728,924)
Net cash (used in) provided by operating activities	(8,634,363)	46,993,660

(ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)
QUANTA COMPUTER INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	For the Years Ended December 31,	
	2017	2016
Cash flows from investing activities:		
Acquisition of financial assets at fair value through profit or loss, designated as upon initial recognition	(5,883,028)	(4,532,059)
Proceeds from disposal of financial assets at fair value through profit or loss, designated as upon initial recognition	3,977,576	6,198,186
Acquisition of available-for-sale financial assets	(96,515,467)	(118,379,721)
Proceeds from disposal of available-for-sale financial assets	105,672,180	131,783,498
Proceeds from capital reduction of available-for-sale financial assets	42,140	102,198
Proceeds from disposal of financial assets at cost	-	9,389
Acquisition of investments accounted for using equity method	(55,659)	(560,620)
Proceeds from disposal of investments accounted for using equity method	-	47,812
Net cash flow from disposal of subsidiaries	44,284	343,432
Proceeds from capital reduction of investments accounted for using equity method	139,530	-
Acquisition of property, plant and equipment	(5,618,693)	(4,792,444)
Proceeds from disposal of property, plant and equipment	343,038	400,226
Acquisition of intangible assets	(337,889)	(197,460)
Proceeds from disposal of intangible assets	11	-
Increase in other financial assets	(28,990,033)	(122,029)
Decrease in other financial assets	25,600	2,147,953
Increase in other non-current assets	(741,484)	(564,685)
Decrease in other non-current assets	-	25,615
Net cash (used in) provided by investing activities	(27,897,894)	11,909,291
Cash flows from financing activities:		
Increase in short-term loans	61,555,618	51,432,500
Decrease in short-term loans	(5,469,816)	(13,973,336)
Proceeds from long-term debt	-	35,169,432
Repayments of long-term debt	-	(43,991,502)
Increase in other financial liabilities	11,304	4,968
Decrease in other financial liabilities	(13,806)	(8,561)
Increase in other non-current liabilities	1,304	5,541
Decrease in other non-current liabilities	-	(309,254)
Cash dividends paid	(13,784,655)	(14,947,083)
Change in non-controlling interests	(82,929)	251,419
Net cash provided by financing activities	42,217,020	13,634,124
Effect of exchange rate changes on cash and cash equivalents	(9,832,511)	(2,364,650)
Net (decrease) increase in cash and cash equivalents	(4,147,748)	70,172,425
Cash and cash equivalents at beginning of year	202,911,112	132,738,687
Cash and cash equivalents at end of year	<u>\$ 198,763,364</u>	<u>202,911,112</u>

(English Translation of Financial Report Originally Issued In Chinese)

Independent Auditors' Report

To the Board of Directors of Quanta Computer Inc.:

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue Recognition

Please refer to Note (4)(p) for accounting policies of revenue recognition.

Description of the key audit matter:

The Company engages primarily in the manufacturing, processing, and sales of laptop computers and telecommunication products. Varying transaction terms will cause different timing for risks and rewards of products' ownership being transferred. Therefore, the timing for revenue recognition has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our key audit procedures include understanding and testing the design and implementation of internal control over revenue recognition; understanding the Company's main sources of revenues, contract provisions, and transaction terms to evaluate the adequacy of revenue recognition period; applying computer audit for selected samples to evaluate whether the data collected from external system is consistent with those input to the internal system; and analyzing the agreements of selected customers to understand the sales terms and conditions for revenue recognition, and to further inspect related transaction document to ensure that the revenue is recorded in the appropriate period.

2. Allowance for Inventory Valuation and Obsolescence Losses

Please refer to Note (4)(g), Note (5), and Note (6)(d) for accounting policies, accounting assumptions and estimation uncertainty, and related disclosure information for inventory, respectively.

Description of the key audit matter:

Inventories are stated at the lower of cost or net realizable value. With the rapid development of technology, the advance of new electronic products may significantly change consumer demands, which leads to product obsolescence that may result in the cost of inventory to be higher than the net realizable value. Consequently, the valuation of inventories has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our key audit procedures include selecting samples to examine their net realizable values to verify the accuracy of inventory aging; evaluating the reasonableness of the Company's inventory valuation policy and the management's assumption used when measuring allowance for inventory valuation and obsolescence losses; performing a retrospective review of the Company's historical accuracy of judgments with reference to inventory valuation and compare them with the current year's calculation to evaluate the appropriateness of the estimation and assumption used for inventory valuation; and evaluating the adequacy of the Company's disclosure for inventories.

3. The agreements of financial assets and liabilities offsetting

Please refer to Note (4)(f) and (6)(i) for accounting policy and detailed information on the agreements of financial assets and liabilities offsetting.

Description of the key audit matter:

The Company has financial assets and liabilities offsetting agreements with financial institutions. Since whether the accounting treatment and disclosure of the agreements complied with the accounting standards or not will materially affect the financial statements, the said matter has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our key audit procedures include understanding and testing the design and implementation of internal control over assets and liabilities offsetting; acquiring the offsetting agreements and inspecting the contractual terms to determine whether the accounting treatment used is in compliance with the related accounting standards; and evaluating the adequacy of the Company's disclosure for financial assets and liabilities offsetting.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Wan-Wan Lin and Liu-Fong Yang.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2018

Notes to Readers

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

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

(ENGLISH TRANSLATION OF FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)

QUANTA COMPUTER INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS		2017.12.31		2016.12.31		LIABILITIES AND EQUITY		2017.12.31		2016.12.31	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents	\$ 63,717,594	15	62,681,858	15	2100	Short-term borrowings	\$ 110,959,094	25	81,278,445	19
1110	Current financial assets at fair value through profit or loss	-	-	1,268,174	-	2170	Accounts payable	26,684,266	6	28,867,891	7
1126	Current available-for-sale financial assets	12,787,410	3	22,245,830	5	2180	Accounts payable to related parties	95,246,017	22	112,563,093	26
1170	Accounts receivable, net	138,196,651	32	141,258,768	33	2219	Other payables	25,979,220	6	22,914,121	5
1180	Accounts receivable due from related parties, net	67,784,737	15	67,164,874	16	2230	Current tax liabilities	3,578,454	1	3,153,507	1
1200	Other receivables	72,273,892	16	63,121,794	15	2305	Other current financial liabilities	4,407,546	1	6,503,104	2
1310	Inventories	44,912,941	10	32,016,027	7	2320	Long-term liabilities, current portion	10,006,080	2	-	-
1476	Other current financial assets	37,981	-	13,922	-	2399	Other current liabilities, others	23,810,534	6	25,754,918	6
1479	Other current assets, others	249,717	-	227,066	-			300,671,211	69	281,035,079	66
		<u>399,960,923</u>	<u>91</u>	<u>389,998,313</u>	<u>91</u>	Non-Current liabilities:					
Non-current assets:						2540	Long-term borrowings	-	-	10,824,240	2
1523	Non-current available-for-sale financial assets	419,553	-	479,373	-	2570	Deferred tax liabilities	-	-	46,584	-
1550	Investments accounted for using equity method	26,480,275	6	27,696,385	6	2640	Net defined benefit liability	811,204	-	741,172	-
1600	Property, plant and equipment	8,093,124	2	8,094,840	2	2650	Credit balance of investments accounted for using equity method	118,892	-	122,386	-
1780	Intangible assets	31,975	-	29,481	-	2670	Other non-current liabilities, others	4,350,459	1	3,806,530	1
1840	Deferred tax assets	3,377,020	1	3,120,366	1			5,280,555	1	15,540,912	3
1980	Other non-current financial assets	9,838	-	9,715	-		Total liabilities	<u>305,951,766</u>	<u>70</u>	<u>296,575,991</u>	<u>68</u>
1995	Other non-current assets, others	1,401	-	952	-		Equity:				
		<u>38,413,186</u>	<u>9</u>	<u>39,431,112</u>	<u>9</u>	3100	Share capital	38,626,274	9	38,626,274	9
						3200	Capital surplus	14,072,745	3	14,053,893	3
						3300	Retained earnings	86,043,777	20	85,257,190	20
						3400	Other equity interest	(5,987,359)	(2)	(4,750,829)	(1)
						3500	Treasury shares	(333,094)	-	(333,094)	-
							Total equity	<u>132,422,343</u>	<u>30</u>	<u>132,853,434</u>	<u>31</u>
TOTAL ASSETS		<u>\$ 438,374,109</u>	<u>100</u>	<u>429,429,425</u>	<u>100</u>	TOTAL LIABILITIES AND EQUITY		<u>\$ 438,374,109</u>	<u>100</u>	<u>429,429,425</u>	<u>100</u>

(ENGLISH TRANSLATION OF FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)

QUANTA COMPUTER INC.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		For the Years Ended December 31,			
		2017		2016	
		Amount	%	Amount	%
4000	Operating revenue	\$ 988,566,371	100	863,452,459	100
5000	Operating costs	952,570,733	96	823,343,508	95
	Gross profit from operations	35,995,638	4	40,108,951	5
5910	Less: Unrealized profit from sales	4,307,398	-	3,770,123	-
5920	Add: Realized profit on from sales	3,770,123	-	2,382,896	-
		35,458,363	4	38,721,724	5
	Operating expenses:				
6100	Selling expenses	4,873,538	1	5,084,820	1
6200	Administrative expenses	3,498,007	-	3,467,009	-
6300	Research and development expenses	9,677,852	1	8,541,657	1
		18,049,397	2	17,093,486	2
	Net operating income	17,408,966	2	21,628,238	3
	Non-operating income and expenses:				
7010	Other income	939,087	-	533,840	-
7510	Interest expenses	(1,789,189)	-	(1,151,735)	-
7020	Other gains and losses, net	1,380,806	-	1,444,282	-
7060	Share of loss of associates and joint ventures accounted for using equity method	(628,084)	-	(4,878,133)	(1)
		(97,380)	-	(4,051,746)	(1)
7900	Profit before tax	17,311,586	2	17,576,492	2
9100	Less: Tax expense	2,944,494	-	2,438,328	-
8200	Profit	14,367,092	2	15,138,164	2
	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	(Losses) gains on remeasurements of defined benefit plans	(73,873)	-	51,383	-
8330	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	659	-	1,007	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	11,905	-	(8,834)	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(61,309)	-	43,556	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation	(1,350,178)	-	(957,995)	-
8362	Unrealized gains on valuation of available-for-sale financial assets	156,076	-	803,441	-
8380	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(42,842)	-	(172,726)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	414	-	246	-
	Components of other comprehensive income that will be reclassified to profit or loss	(1,236,530)	-	(327,034)	-
	Other comprehensive income, net (after tax)	(1,297,839)	-	(283,478)	-
8500	Total comprehensive income for the year	\$ 13,069,253	2	14,854,686	2
	Earnings per share attributable to parent company				
9750	Basic earnings per share (NT dollars)	\$ 3.73		3.93	
9850	Diluted earnings per share (NT dollars)	\$ 3.70		3.90	

(ENGLISH TRANSLATION OF FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)
QUANTA COMPUTER INC.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Share Capital		Retained Earnings			Other Equity Interest			Total Equity
	Ordinary Share	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Treasury Shares	
Balance as of January 1, 2016	\$ 38,626,274	14,042,566	26,966,046	2,941,161	54,923,151	6,210,532	(10,634,327)	(333,094)	132,742,309
Profit for the year	-	-	-	-	15,138,164	-	-	-	15,138,164
Other comprehensive income for the year	-	-	-	-	43,556	(1,101,405)	774,371	-	(283,478)
Total comprehensive income	-	-	-	-	15,181,720	(1,101,405)	774,371	-	14,854,686
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	1,782,713	-	(1,782,713)	-	-	-	-
Special reserve appropriated	-	-	-	1,482,634	(1,482,634)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(14,677,984)	-	-	-	(14,677,984)
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	11,327	-	-	-	-	-	-	11,327
Changes of ownership in subsidiaries	-	-	-	-	(76,904)	-	-	-	(76,904)
Balance as of December 31, 2016	38,626,274	14,053,893	28,748,759	4,423,795	52,084,636	5,109,127	(9,859,956)	(333,094)	132,853,434
Profit for the year	-	-	-	-	14,367,092	-	-	-	14,367,092
Other comprehensive income for the year	-	-	-	-	(61,309)	(1,383,648)	147,118	-	(1,297,839)
Total comprehensive income	-	-	-	-	14,305,783	(1,383,648)	147,118	-	13,069,253
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	1,513,816	-	(1,513,816)	-	-	-	-
Special reserve appropriated	-	-	-	327,034	(327,034)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(13,519,196)	-	-	-	(13,519,196)
Other changes in capital surplus:									
Changes in equity of associates and joint ventures accounted for using equity method	-	8,434	-	-	-	-	-	-	8,434
Adjustments of capital surplus for company's cash dividends received by subsidiaries	-	10,433	-	-	-	-	-	-	10,433
Changes of ownership in subsidiaries	-	(15)	-	-	-	-	-	-	(15)
Balance as of December 31, 2017	\$ 38,626,274	14,072,745	30,262,575	4,750,829	51,030,373	3,725,479	(9,712,838)	(333,094)	132,422,343

Note: The remuneration to directors and supervisors are \$42,000 and \$42,000, and employee's benefits are \$1,404,100 and \$1,425,121 for the years ended December 31, 2017 and 2016, respectively. These items have been deducted from statements of comprehensive income.

(ENGLISH TRANSLATION OF FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)
QUANTA COMPUTER INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	For the Years Ended December 31,	
	2017	2016
Cash flows from operating activities :		
Profit before tax	\$ 17,311,586	17,576,492
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	235,818	265,342
Amortization expense	23,763	33,031
Provision (Reversal) for bad debt expense	420,652	(73,928)
Interest expense	1,789,189	1,151,735
Interest income	(672,153)	(356,468)
Dividend income	(266,934)	(177,372)
Share of loss of associates and joint ventures accounted for using equity method	628,084	4,878,133
Loss on disposal of property, plant and equipment	751	334
Gain on disposal of investments	(48,035)	(139,822)
Gain on disposal of subsidiaries	-	(56,358)
Loss on disposal of investments accounted for using equity method	819	-
Impairment loss on financial assets	-	6,880
Impairment loss (reversal) on non-financial assets	934	(12)
Unrealized foreign exchange gain	(818,160)	(619,080)
Total adjustments to reconcile profit	1,294,728	4,912,415
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	2,031,639	(18,930,381)
Other receivables	(9,158,330)	(4,109,894)
Inventories	(12,896,914)	10,604,507
Other current assets	(22,651)	(22,611)
Other financial assets	(24,059)	6,646
Total changes in operating assets	(20,070,315)	(12,451,733)
Changes in operating liabilities:		
Accounts payable	(19,500,701)	28,670,534
Other payables	4,236,503	(4,209,727)
Other financial liabilities	(2,095,558)	(411,689)
Other current liabilities	(1,944,384)	3,020,874
Net defined benefit liabilities	(3,841)	-
Other liabilities	537,275	1,387,226
Total changes in operating liabilities	(18,770,706)	28,457,218
Total changes in operating assets and liabilities	(38,841,021)	16,005,485
Total adjustments	(37,546,293)	20,917,900
Cash (outflow) inflow generated from operations	(20,234,707)	38,494,392
Interest received	670,004	312,708
Dividends received	404,526	323,434
Interest paid	(1,700,848)	(1,159,273)
Income taxes paid	(2,810,466)	(4,596,995)
Net cash (used in) provided by operating activities	(23,671,491)	33,374,266

(ENGLISH TRANSLATION OF FINANCIAL STATEMENTS AND REPORT ORIGINALLY ISSUED IN CHINESE)
QUANTA COMPUTER INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(AMOUNTS EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>For the Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Cash flows from investing activities:		
Acquisition of available-for-sale financial assets	(85,416,557)	(109,133,627)
Proceeds from disposal of available-for-sale financial assets	95,120,413	123,509,134
Proceeds from capital reduction of available-for-sale financial assets	16,839	85,629
Proceeds from disposal of financial assets at cost	-	9,389
Acquisition of investments accounted for using equity method	(1,067,333)	(486,684)
Net cash flow from disposal of subsidiaries	-	264,914
Proceeds from capital reduction of investments accounted for using equity method	139,945	47,812
Acquisition of property, plant and equipment	(240,713)	(96,064)
Proceeds from disposal of property, plant and equipment	-	667
Acquisition of intangible assets	(25,585)	(16,711)
(Increase) decrease in other financial assets	(123)	209
Increase in other non-current assets	(1,121)	(1,004)
Net cash provided by investing activities	<u>8,525,765</u>	<u>14,183,664</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	29,680,649	(10,341,511)
Proceeds from long-term debt	-	26,460,720
Repayments of long-term debt	-	(28,227,120)
Increase in other financial liabilities	6,654	8,722
Cash dividends paid	(13,505,841)	(14,663,485)
Net cash provided by (used in) financing activities	<u>16,181,462</u>	<u>(26,762,674)</u>
Net increase in cash and cash equivalents	1,035,736	20,795,256
Cash and cash equivalents at beginning of year	62,681,858	41,886,602
Cash and cash equivalents at end of year	<u>\$ 63,717,594</u>	<u>62,681,858</u>

