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MEGAWIN Technology Co., Ltd.

Annual Report 2017

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The main language of this annual report is Chinese, and English is auxiliary for reference. If the language of English and Chinese are mutually exclusive, Chinese shall prevail.

1. Spokesperson

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2. Address and Tel. No. of the head office, branch and plant

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Address and Tel. No. of Branch: N/A
Address and Tel. No. of Plant: N/A

3. Shareholders' Service Agent

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4. Financial statement for the most recent year

External auditors: Tsai, Mei-Chen/Yeh, Tung-Hui
CPA office: Deloitte & Touche
Address: 12F, No. 156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City, Taiwan
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5. Name of any exchanges where The Company's securities are traded offshore, and the method by which to access information on said offshore securities: N/A

6. Company website

<http://www.megawin.com.tw>

Table of Contents

| | |
|--|-----------|
| I. MESSAGES TO SHAREHOLDERS | 9 |
| II. COMPANY PROFILE | 12 |
| 1. DATE OF ESTABLISHMENT | 12 |
| 2. CORPORATE MILESTONES | 12 |
| III. CORPORATE GOVERNANCE REPORT | 16 |
| 1. ORGANIZATION | 16 |
| (1) Organizational structure | 16 |
| (2) Operations by department | 16 |
| 2. INFORMATION ABOUT DIRECTORS, SUPERVISORS, PRESIDENT, VICE PRESIDENTS, ASSISTANT VICE PRESIDENT, AND HEADS OF DEPARTMENTS AND BRANCHES..... | 18 |
| (1) Directors and supervisors | 18 |
| (2) Information about president, vice president, assistant vice president, and heads of departments and branches | 22 |
| 3. REMUNERATION TO DIRECTORS, SUPERVISORS, PRESIDENT AND VICE PRESIDENTS IN THE MOST RECENT YEAR | 24 |
| (1) Remuneration to Directors, Supervisors, President and Vice Presidents | 24 |
| (2) If any of the following applies to The Company, it shall disclose the remuneration paid to each individual director and supervisor | 30 |
| (3) Specify and compare the remuneration to directors, supervisors, presidents and vice presidents of The Company in proportion to the earnings after tax from The Company and companies included in the consolidated financial statements in the most recent 2 years, and specify the policies, standards, combinations, procedure of decision-making of remunerations and their relation to business performance and future risk | 31 |
| 4. STATUS OF CORPORATE GOVERNANCE..... | 32 |
| (1) Information about operations of Board of Directors | 32 |
| (2) The function of Audit Committee or supervisors' participation in the function of Board of Directors | 33 |
| (3) Status of Corporate Governance, and any nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof | 34 |
| (4) Describe the composition, duties and operations of the remuneration committee | 40 |
| (5) Implementation of Corporate Social Responsibility | 41 |
| (6) Corporate observance of ethical corporate management practices and adopted measures | 45 |
| (7) Please disclose the access to the Company's rules of corporate governance and related rules and regulations, if any | 50 |
| (8) Other information enabling better understanding of the Company's corporate governance | 50 |
| (9) Implementation of the internal control system..... | 51 |

| | |
|--|----|
| (10) Punishment of the Company or its internal personnel in accordance with law, the Company's punishment of its internal personnel for violating internal control system regulations, main deficiencies, and improvements during the most recent year and up to the date of publication of this annual report | 51 |
| (11) Resolutions reached in the shareholder's meeting or by the board of directors during the most recent year and up to the date of publication of this annual report | 51 |
| (12) Recorded or written statements made by any director or supervisor which specified dissent to important resolutions passed by the board of directors during the most recent year and up to the date of publication of this annual report | 53 |
| (13) Summary of resignation or dismissal of Chairman, president, accounting managers, financial managers, internal audit managers and R&D managers in the most recent year and up to the date of publication of this annual report | 53 |
| 5. INFORMATION ABOUT CPA PROFESSIONAL FEE..... | 54 |
| (1) Non-audit fees paid to the CPA, CPA firm and their affiliates exceeded the audit fees in excess of twenty-five percent, if any. | 54 |
| (2) Change of CPA firm and the audit fees for the year of the change less that of the previous year, and the amount of audit fees before and after the change, and reasons of the change..... | 54 |
| (3) If audit fees were 15% less than that of the previous year, please disclose the amount, percentage and reason of the reduction in the audit fees | 54 |
| 6. INFORMATION ABOUT REPLACEMENT OF CPA | 54 |
| 7. INFORMATION ABOUT CHAIRMAN, PRESIDENT, AND FINANCIAL OR ACCOUNTING MANAGER OF THE COMPANY WHO HAS WORKED WITH THE CPA FIRM WHICH CONDUCTS THE AUDIT OF THE COMPANY OR AFFILIATE TO SUCH FIRM IN THE MOST RECENT ONE YEAR | 54 |
| 8. ANY TRANSFER OF EQUITY INTERESTS AND PLEDGE OF OR CHANGE IN EQUITY INTERESTS BY A DIRECTOR, SUPERVISOR, MANAGERIAL OFFICER, OR SHAREHOLDER WITH A STAKE OF MORE THAN 10 PERCENT IN THE MOST RECENT YEAR AND UNTIL TO THE DATE OF PUBLICATION OF THE ANNUAL REPORT | 55 |
| (1) Change in equity of directors, supervisors, managerial officers, and major shareholders..... | 55 |
| (2) Information about equity transfer..... | 55 |
| (3) Information about equity pledged under lien | 55 |
| 9. INFORMATION ON TOP 10 SHAREHOLDERS IN PROPORTION OF SHAREHOLDINGS AND ARE STAKEHOLDERS, SPOUSES, OR RELATED TO ONE ANOTHER OR KIN AT THE SECOND PILLAR UNDER THE CIVIL CODE TO ONE ANOTHER..... | 56 |
| 10. QUANTITY OF SHAREHOLDINGS OF THE SAME INVESTEE BY THE COMPANY, AND DIRECTORS, SUPERVISORS, MANAGERIAL OFFICERS OF THE COMPANY AND THE BUSINESS DIRECTLY OR INDIRECTLY CONTROLLED BY THE COMPANY, AND THE COMBINED SHAREHOLDINGS | 57 |

IV. STATUS OF FUND RAISING.....58

| | |
|---|-----------|
| 1. CAPITAL STOCK AND SHARES | 58 |
| (1) Source of Capital Stock..... | 58 |
| (2) Composition of Shareholders..... | 60 |
| (3) Diversification of equity | 60 |
| (4) Roster of Major Shareholders | 61 |
| (5) Information on market value, net value, earnings and dividends per share in the most recent two years..... | 61 |
| (6) Dividend Policy and the Status of Implementation..... | 62 |
| 2. ISSUANCE OF CORPORATE BONDS | 64 |
| 3. ISSUANCE OF PREFERRED SHARES: | 64 |
| 4. STATUS OF ANY PRIVATE PLACEMENT OF OVERSEAS DEPOSITARY RECEIPTS | 64 |
| 5. STATUS OF EMPLOYEE STOCK OPTION | 64 |
| (1) The annual report shall disclose unexpired employee stock option issued by the Company in existence as of the date of publication of the annual report, and shall explain the effect of such warrants upon shareholders' equity. The private placement of employee stock options, if any, shall be identified prominently | 64 |
| (2) The annual report shall disclose the names of top-level company executives holding employee stock options and the cumulative number of such options exercised by said executives as of the date of publication of the annual report. The annual report shall also disclose the names of the ten employees holding employee stock options authorizing purchase of the most shares, along with the cumulative number of options exercised by these ten employees, as of the date of publication of the annual report..... | 64 |
| 6. STATUS OF LIMITED EMPLOYEE NEW SHARES | 64 |
| (1) For all limited employee new shares for which the vesting conditions have not yet been met for the full number of shares, the annual report shall disclose the status up to the date of publication of the prospectus and the effect on shareholders' equity..... | 64 |
| (2) Names and acquisition status of managerial officers who have acquired limited employee new shares and of employees who rank among the top ten in the number of limited employee new shares acquired, cumulative to the date of publication of the prospectus | 64 |
| 7. MERGERS AND ACQUISITIONS, OR AS ASSIGNEE OF NEW SHARES ISSUED BY ANOTHER COMPANY | 64 |
| (1) Where, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the Company has completed a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies | 64 |
| (2) Where the board of directors has, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, adopted a resolution approving a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies, the annual report shall disclose the state of the plan's implementation together with the basic | |

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| identifying information of the company (or companies) to be merged, acquired, and/or purchased through acquisition of shares. Where a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies is currently in progress, the annual report shall disclose the state of the plan's implementation and its effect upon shareholders' equity | 65 |
| 8. IMPLEMENTATION OF CAPITAL UTILIZATION PLAN..... | 65 |
| (1) Contents of the Plan | 65 |
| (2) Status of implementation..... | 65 |
| V. OVERVIEW OF OPERATIONS..... | 66 |
| 1. OPERATIONS..... | 66 |
| (1) Scope of business | 66 |
| (2) Overview of business | 67 |
| (3) Overview of the Company's technologies and R&D..... | 69 |
| (4) Long-term and short-term business development plans | 69 |
| 2. OVERVIEW OF MARKET, AND PRODUCTION AND MARKETING..... | 70 |
| (1) Market analysis | 70 |
| (2) Key purpose and manufacturing processes for the Company's main products | 72 |
| (3) Supply situation for the Company's major raw materials..... | 73 |
| (4) A list of any suppliers and clients accounting for 10 percent or more of the Company's total procurement (sales) amount in either of the most recent two years | 73 |
| (5) Output volume for the most recent two years | 74 |
| (6) Sale volume for the most recent two years..... | 74 |
| 3. EMPLOYEES | 75 |
| 4. INFORMATION ABOUT EXPENDITURE ON ENVIRONMENTAL PROTECTION..... | 75 |
| 5. LABOR-MANAGEMENT RELATIONS | 76 |
| (1) The Company's employee fringe benefits, continuing education, training, retirement system and implementation thereof, and various labor-management agreements and measures on protection of employees' interest and right..... | 76 |
| (2) List any loss sustained as a result of labor disputes in the most recent year, and during the current fiscal year up to the date of publication of the annual report, disclose an estimate of losses incurred to date or likely to be incurred in the future, and indicate mitigation measures being or to be taken. If the loss cannot be reasonably estimated, make a statement to that effect. | 77 |
| 6. MAJOR AGREEMENTS | 77 |
| VI. OVERVIEW OF FINANCE..... | 78 |
| 1. CONDENSED FINANCIAL INFORMATION FOR THE MOST RECENT FIVE YEARS | 78 |
| (1) Condensed balance sheet and income statement | 78 |
| (2) The names of external auditors conducting financial audits in the most recent five years and their audit opinions | 82 |

| | |
|---|-----------|
| 2. ANALYSIS OF FINANCIAL INFORMATION FOR THE MOST RECENT FIVE YEARS | 83 |
| (1) Financial analysis | 83 |
| 3. SUPERVISORS' AUDIT REPORT ON THE FINANCIAL STATEMENT FOR THE MOST RECENT YEAR..... | 86 |
| 4. FINANCIAL STATEMENT FOR THE MOST RECENT FISCAL YEAR, INCLUDING AN AUDITOR'S REPORT PREPARED BY A CERTIFIED PUBLIC ACCOUNTANT, AND 2-YEAR COMPARATIVE BALANCE SHEET, COMPREHENSIVE INCOME STATEMENT, STATEMENT OF CHANGES IN EQUITY, STATEMENT OF CASH FLOW, AND ANY RELATED NOTES OR SCHEDULES ATTACHED THERETO..... | 86 |
| 5. AN INDIVIDUAL FINANCIAL STATEMENT FOR THE MOST RECENT FISCAL YEAR CERTIFIED BY A CPA, BUT NOT INCLUDING THE STATEMENTS OF MAJOR ACCOUNTING ITEMS | 86 |
| 6. IN THE CASE OF ANY INSOLVENCY OF THE COMPANY AND ITS AFFILIATES FOR THE MOST RECENT YEAR AND UNTIL THE DATE OF PUBLICATION OF THE ANNUAL REPORT, SPECIFY ITS EFFECT ON THE COMPANY'S FINANCIAL POSITION | 86 |
| VII. REVIEW AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE, AND RISK MANAGEMENT | 87 |
| 1. FINANCIAL POSITION | 87 |
| 2. ANALYSIS ON FINANCIAL PERFORMANCE | 88 |
| 3. CASH FLOW..... | 89 |
| 4. MAJOR CAPITAL EXPENDITURE FOR THE MOST RECENT YEAR AND ITS EFFECT ON FINANCIAL POSITION AND OPERATION OF THE COMPANY..... | 89 |
| 5. DIRECT INVESTMENT POLICY, THE MAIN REASONS FOR PROFIT OR LOSS, AND CORRECTIVE ACTION PLAN FOR THE MOST RECENT YEAR, AND INVESTMENT PLAN IN THE NEXT YEAR..... | 89 |
| 6. ANALYSIS OF RISK FACTORS | 90 |
| (1) Impact of interest and exchange rate changes and inflation, and their future countermeasures..... | 90 |
| (2) Policy on high-risk, high-leverage investments, loaning of funds, endorsements and guarantees as well as derivatives transactions, major causes for profits or losses and future countermeasures | 91 |
| (3) Future R&D plans and expected R&D expenditure | 91 |
| (4) Changes in important policies and legal environment at home and abroad, and the effect on the financial status and operation of the Company, and Countermeasures | 92 |
| (5) The effect of technological and industrial changes on financial status and operation of the Company, and countermeasures..... | 92 |
| (6) Impact of changes in corporate identity on the Company's crisis management, and countermeasures | 92 |
| (7) Expected benefits and possible risks of merger and acquisition, and countermeasures | 92 |
| (8) Expected benefits and possible risks of facilities expansion, and countermeasures..... | 92 |
| (9) Risk from centralized purchasing or selling, and countermeasures | 93 |

| | |
|---|------------|
| (10) Impact and risk associated with large share transfers or changes in shareholdings of directors, supervisors, or shareholders who hold more than 10% of the Company's shares, and countermeasures | 93 |
| (11) Impact and risk associated with changes in management rights, and countermeasures | 93 |
| (12) Litigation and non-litigation matters | 93 |
| (13) Other major risks and countermeasures | 93 |
| 7. OTHER IMPORTANT NOTES | 93 |
| VIII. SPECIAL NOTES | 94 |
| 1. INFORMATION ABOUT AFFILIATES | 94 |
| 2. PRIVATE PLACEMENT OF SECURITIES FOR THE MOST RECENT YEAR AND UNTIL THE DATE OF PUBLICATION OF THE ANNUAL REPORT | 96 |
| 3. HOLDING OR DISPOSAL OF THE COMPANY'S STOCK BY SUBSIDIARIES FOR THE MOST RECENT YEAR AND UNTIL THE DATE OF PUBLICATION OF THE ANNUAL REPORT | 96 |
| 4. SUPPLEMENTARY DISCLOSURE | 96 |
| 5. CONDITIONS THAT WILL MATERIALLY AFFECT SHAREHOLDERS' EQUITY OR PRICE OF SECURITIES AS REFERRED TO IN PARAGRAPH 3.2 OF ARTICLE 36 OF THE SECURITIES AND EXCHANGE ACT IN THE MOST RECENT YEAR AND UNTIL THE DATE OF PUBLICATION OF THE ANNUAL REPORT | 96 |
| APPENDIX 1 | 98 |
| CONSOLIDATED FINANCIAL STATEMENTS AUDITED BY THE EXTERNAL AUDITOR IN THE MOST RECENT YEAR | |
| APPENDIX 2 | 171 |
| AN INDIVIDUAL FINANCIAL STATEMENT FOR THE MOST RECENT FISCAL YEAR, CERTIFIED BY A CPA | |

I. Messages to Shareholders

Messages to Shareholders 2017

Dear Shareholders:

Megawin Technology Co., Ltd. (the “Company”) hereby holds the general shareholders’ meeting this year. I welcome all of you and appreciate your advice on behalf of the Company.

1. Business result of 2017

(1) Implement result of business plan

For the overall financial performance, the Company’s total consolidated revenue was NT\$437 million in 2017, decreasing by NT\$165 million from 2016, with 27.4% YOY decrease in 2017. The net loss after tax was about NT\$15 million, with EPS of NT\$(0.4). It was a decrease in that by NT\$41 million from 2016.

(2) Implementation of budget

Under the impacts of a dramatic decline in money counter market, the Company’s 2017 yearly revenue was negatively affected and with a 30% decrease from last year. By comparing the operating revenue and operating expenses with the budget, the variation is reasonable.

(3) Financial income and expenditure, and profitability analysis

1. Financial income

| Year | | 2017 | 2016 | Increase (decrease) in proportion |
|-------------------|--|-------|-------|--------------------------------------|
| (in NTD thousand) | | | | |
| Interest income | | 1,607 | 2,369 | (32.17%) |

2. Profitability analysis

| Year | | 2017 | 2016 |
|---------------------------|-------------------|--------|------|
| Item of analysis | | | |
| ROA (%) | | (2.50) | 3.88 |
| ROE (%) | | (3.01) | 4.94 |
| To paid-in capital (%) | Operating income | (6.20) | 7.95 |
| | Income before tax | (4.36) | 7.76 |
| Profit margin (%) | | (3.50) | 4.31 |
| EPS (NT\$) | | (0.40) | 0.67 |

(4) R&D

In order to enhance the competitiveness of the Company’s products, the use of more advanced process technology is overwhelming. The Company will strengthen its overall design flow to meet the requirements of high-end process technology.

To enter the market of general-purpose microcontroller, how to achieve more competitive product costs by specifying appropriate application specification is a challenge for both R&D and marketing personnel.

The Company had launched its 32-bit MCU in 2017. With preferred customers at design-in stage, the 32-bit MCU product could verify its market acceptance and functional integrity at the same time.

The Company goes for “enriching each product line” policy as its short-term product plan. By strengthening the development of low-pin count and smaller Flash size products in particular, customers are given more choice in terms of product functions, package types, and price.

2. Outline of business plan 2018

(1) Business policy

1. Increasing revenue is the first priority;
2. Focusing on the general-purpose MCU market; and
3. Expanding customer base and sales channel.

(2) Expected sale volume and basis thereof

| Type of product | Quantity (thousand units) |
|----------------------|---------------------------|
| 8051 microcontroller | 51,606 |
| 6502 microcontroller | 23,120 |
| Others | 4,352 |
| Total | 79,078 |

Basis: The sales forecast made based on the interview with customers and agents.

(3) Important production & marketing policy

To meet customers’ delivery requirements is the primary goal.

3. Future development strategies

1. R&D: Enrich product lines to give customers diversified purchasing choices;
2. CAD: Fulfill high-end process technology requirements;
3. Marketing: Expedite the success of product design in, and expand sales channel; and
4. Diversified outsourcings to meet the needs of different applications.

4. Effect of external competition, legal environment and overall business environment

Year 2017 is undoubtedly the worst year in the last decade. The Company’s market share was fiercely attacked and even be replaced by competitors—especially money counter application market. Only a year, the money counter market has been reduced to 30% of the original. However, this was not caused by vicious competition among competitors but by China’s Alipay service. Alipay app, China’s most popular online payment service, has driven China’s booming e-commerce market and becomes the dominant payment method. As a result of it, the demand for money counters rapidly disappears.

As to the wireless walkie-talkie market, the Company’s market share was replaced because of competitor’s low pricing strategy.

“Lower and lower price plus more and more competitors year after year” is a constant rule of MCU market. Once a company choosing a wrong development direction, it’ll suffer a decline in revenue and gross margin in return.

While suffering the tough time, the Company needs the kindly support and understanding of all employees and shareholders. The Company will definitely expand

its customer base, increase sales channels, and strive harder for more design-in cases. Through taking customer-oriented business strategies, the Company hopes to reverse the decline in company profits.

I hereby represent the Company to extend our appreciation to all of the Company's employees, and also look forward to the continuous support from shareholders and customers. The Company will keep running the Company stably and honestly to seek the maximum interest for each of you.

To all shareholders

Health, Happiness and Good Luck!

| | |
|-----------------------|----------------|
| Chairman of the Board | Wen, Kow-Liang |
|-----------------------|----------------|

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|-----------|----------------|
| President | Chiou, San-Wen |
|-----------|----------------|

II. Company Profile

1. Date of establishment

21-Jun-99

2. Corporate milestones

| | |
|--------|---|
| Jun-99 | Incorporated officially, with authorized capital stock NT\$70 million and paid-in capital NT\$70 million. |
| Jan-00 | Received the important technology based enterprise certificate from the Industrial Development Bureau, Ministry of Economic Affairs. |
| May-00 | Due to the capital increase in cash NT\$60 million, the paid-in capital became NT\$130 million. MA001A mass production. |
| Jul-00 | Moved into the office at the new factory premises in Young-Chang Science Park. |
| Sep-00 | Mass production of MLC080A |
| Feb-01 | Received TÜV CERT ISO 9001 certification via RWTUV. Mass production of 512K e-Flash (MM36SB512). |
| Mar-01 | Mass production of Microcontroller with voice synthesizer and melody series. |
| Jun-01 | Due to the capital increase in cash NT\$70 million and recapitalization of earnings NT\$75 million, the paid-in capital became NT\$275 million. |
| Jul-01 | Received the certificate of completion for important technology based enterprise from Industrial Development Bureau, Ministry of Economic Affairs. Mass production of MM36SB010. IPO approved by Financial Supervisory Commission, Executive Yuan. |
| Sep-01 | Mass production of MA004A. Mass production of Toy Controller series. Incorporation of the subsidiary in Hong Kong, MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED. |
| Dec-01 | Mass production of MLC650A. Received the approval letter for "Newly Emerging, Important and Strategic Industries" from Industrial Development Bureau, Ministry of Economic Affairs. Received the approval letter for "Five-Year Exemption of Important Technology Industries" from Ministry of Finance. |
| Mar-02 | Mass production of Microcontroller with LCD driver. |
| May-02 | Mass production of MLC610. |
| Jun-02 | Mass production of MLC081, MLC041 and MLC021. |
| Jul-02 | Mass production of MSC24. Mass production of MM25SB512. |
| Jul-03 | Mass production of Low speed USB Microcontroller. |
| Feb-04 | Mass production of 3.3V Universal 8051 Flash MCU. |
| Oct-04 | Mass production of 3.3V/5V UTV 8051 Flash MCU (MPC89 series). |
| Nov-04 | Mass production of USB Audio Controller. |
| Dec-05 | Mass production of 3.3V/5V low pin count 1T 8051 Flash MCU (MPC82 series). |
| May-07 | Due to capital increase of employee stock option NT\$3.42 million, the paid-in capital became NT\$278 million. |
| Jun-07 | Successful development of Full speed USB Microcontroller. |

| | |
|--------|--|
| Jul-07 | Mass production of wide operation voltage range 1T 8051 Flash MCU (MPC82G series). |
| Aug-07 | Due to capital increase of employee stock option NT\$10.83 million, the paid-in capital became NT\$289 million. Successful development of OCD ICE (Emulator). |
| Nov-07 | Due to capital increase of employee stock option NT\$2.02 million, the paid-in capital became NT\$291 million. |
| Jan-08 | Mass production of MG84FL53 (Full speed USB Microcontroller with Audio interface). |
| Mar-08 | Due to capital increase of employee stock option NT\$5.04 million, the paid-in capital became NT\$296 million. |
| Jun-08 | Due to capital increase of employee stock option NT\$1.02 million, the paid-in capital became NT\$297 million. |
| Jul-08 | Due to the recapitalization of earnings NT\$43 million, the paid-in capital became NT\$341 million. |
| Oct-08 | Incorporation of the subsidiary in Shenzhen, MEGAWIN TECHNOLOGY (Shenzhen) COMPANY LIMITED. |
| Nov-08 | Mass production of Universal Remote Controller series. |
| Mar-09 | Mass production of MCU in MG87 series. |
| Apr-09 | Officially traded at the emerging stock market upon approval of TPEx. |
| Jun-09 | Completed development of mass-production MCU Writer. |
| Jul-09 | Due to the recapitalization of earnings NT\$4 million, the paid-in capital became NT\$345 million. |
| Mar-10 | Completed development of 6502 ICE (Emulator). Successful development of the first Megawin high-voltage and constant-current LED Driven IC (25mA). |
| Apr-10 | Due to capital increase of employee stock option NT\$7.11 million, the paid-in capital became NT\$352 million. |
| Jun-10 | Successful development of 700V I/O type LED Driven IC. |
| Sep-10 | Due to capital increase of employee stock option NT\$2.19 million, the paid-in capital became NT\$355 million. |
| Oct-10 | Mass production of 700V I/O LED type Driven IC. |
| Mar-11 | Mass production of MG69L951 (MG69 series) (12-bit A/D, melody, Voice Synthesizer and LED display). |
| Apr-11 | Mass production of MG39U103 (Ultra high voltage, 80mA linear regulator for LED lighting application) Due to capital increase of employee stock option NT\$3.73 million, the paid-in capital became NT\$358 million. |
| Jun-11 | Mass production of MG86FL (E) 104 Universal 8051 MTP MCU (MG86 series). |
| Jul-11 | Due to capital increase of employee stock option NT\$820,000, the paid-in capital became NT\$359 million. |
| Aug-11 | Mass production of MG69L952 (Melody, Voice Synthesizer and LED display) (MG69 series). Mass production of MG69L340 (High precision OSC universal remote controller) (MG69 series). |

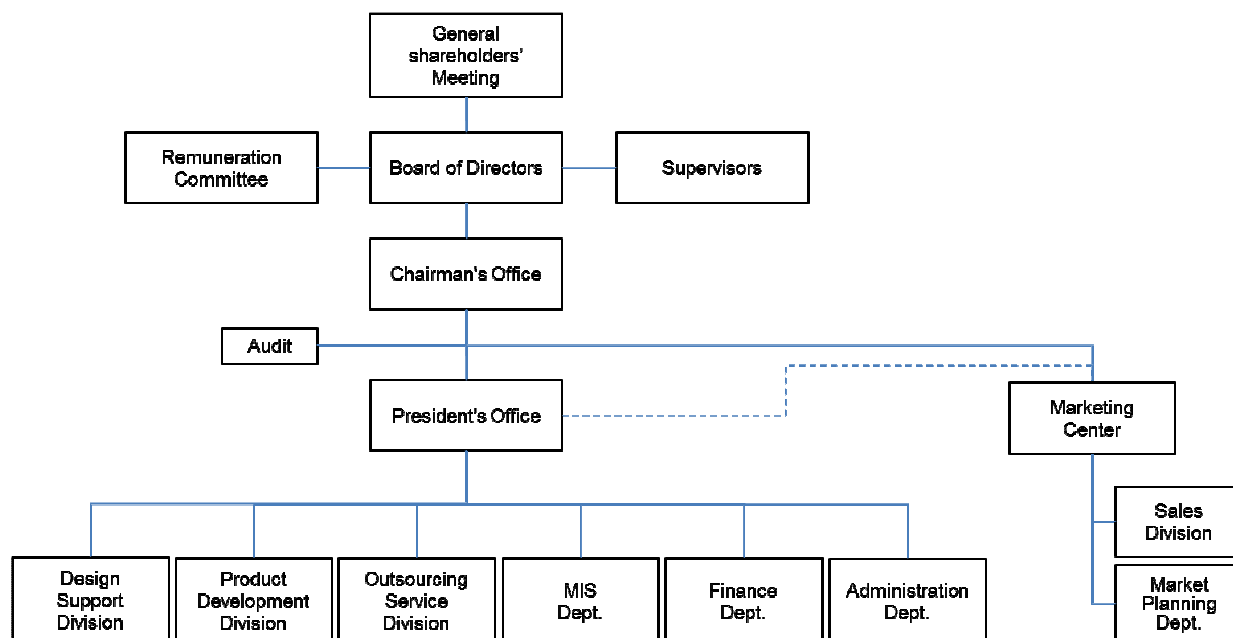
| | |
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| Sep-11 | Mass production of MG69L331 (High precision OSC and Scan Key learning type remote controller) (MG69 series). |
| Oct-11 | Mass production of MG84FG516 high-performance 8051 Flash MCU (MG84 series) (12-bit A/D, -40~125°C, embedded with $\pm 2\%$ high-precision oscillator). Mass production of universal USB Bridge in USB Bridge series. Mass production of MG39U301 (Ultra high voltage, bulk converter for LED lighting application). |
| Oct-11 | Mass production of solid LED driven IC, MG39U103 (1-channel 350V, 50mA/80mA constant current DC LED driver). |
| Nov-11 | Mass production of MG65L566 (LCD Type Universal Remote Controller) (MG65 series). |
| Dec-11 | Mass production of MG64F236 I/O Type USB MTP MCU (MG64 series) (embedded with the oscillator that meets the USB specifications). |
| Mar-12 | Mass production of electric vehicle LED IC, MG20U201 (switching regular LED driver). |
| Jun-12 | Mass production MG65M513 6502 LCD (MG65) series (6502 MTP MCU of 29*4 LCD and RTC). |
| Jul-12 | Mass production MG69M220 6502 I/O (MG69) series (6502 Standard I/O MTP MCU). |
| Sep-12 | Mass production of universal 8051 MTP MCU of MG86FL (E) 508 equipped with ADC and RTC. Mass production MG65M513 6502 LCD (MG65) series (6502 MASK MCU of 29*4 LCD and RTC). |
| Oct-12 | Mass production MG69M220 6502 I/O (MG69) series (6502 Standard I/O MASK MCU). |
| Jan-13 | Due to cancellation of treasury stock NT\$432 million, the paid-in capital became NT\$355 million. |
| Apr-13 | Mass production of electric vehicle LED Driven IC, MG20U202 (switching regular LED driver). |
| Apr-13 | Completed mass production of MG82FG5A64/32 (MG82FG5A series high-performance 8051 Flash MCU, 12-bit A/D, -40~125°C, $\pm 2\%$ high-precision embedded with oscillator, 5.25KB SRAM, 64KB/32KB Flash ROM). |
| Aug-13 | Mass production of MG64F237 USB MTP MCU (MG64 series) (embedded with the oscillator that meets the USB specifications and I/O voltage selected circuit). |
| Sep-13 | Mass production of MG69P361 6502 I/O (MG69 OTP) series (6502 standard learning remote control I/O MCU). Completed development of solid LED driven IC 6-stage high-voltage linear power switch, which satisfies high-power-factor and lower-order harmonic distortion of lighting. |
| Oct-13 | Completed mass production of MG20FL(E)809 (8051 Flash MCU, embedded with 24V LED driven circuit 9 x 2, high precision embedded oscillator, -40~85°C). Release of ultra-low EMI standard keyboard project for MA108. |
| Dec-13 | Successful certification of isolated cloud feedback technology for solid LED driver IC, which supports TRIAC. |
| Dec-13 | Due to cancellation of treasury stock NT\$10 million, the paid-in capital became NT\$345 million. |
| Feb-14 | Successful certification of solid LED driver IC-MG20U201/202 improved IC, which may provide more well-founded protection (OVP & OCP). Able to maintain high-current precision ($\text{err} < \pm 3\%$) under change of maximum inductance value ($\pm 30\%$ of target inductance value). |

| | |
|--------|--|
| Mar-14 | IC-MG82FG5B series exclusive for motor application, equipped with diversified frequency and adjustable speed PWM and supporting Buffer Mode, Dead Time Control and exception break mechanism. Successful delivery of mass production. |
| Mar-14 | Mass production of MG65P701 MCU (the first MCU after Megawin launched into the management of batteries and power supplies). |
| Jun-14 | Mass production of MG65PG5A08 MCU (home appliances, hand-held and wearable power management IC). |
| Jul-14 | Trial production of MG3913x series LED high-voltage power. |
| Aug-14 | Completion of 2A 90% of Megawin high-performance power bank project. |
| Sep-14 | Mass production of MG75PG5A16 MCU (mass production of USB Host Like IC, the first IC put to mass production in 7 series 8051 ASIC). |
| Dec-14 | Mass production of MG74PG1A08 MG74PG1B08 USB MCU (USB Low Pin Count IC, wireless dongle used in Smart TV). |
| Jan-15 | Officially traded at the OTC market upon approval of TPEx. Due to the capital increase in cash NT\$50 million, the paid-in capital became NT\$395 million. |
| Mar-15 | Mass production of MG26P700 mobile identification bridge. |
| Oct-15 | Participated in the "Enhanced Corporate Intellectual Property Administration Management Plan" of Industrial Development Bureau, Ministry of Economic Affairs and complied with the "TIPS Management System Project", and became the first listed/OTC model supplier throughout the nation. Successful development of MG39136/137 3-stage high-voltage linear power supply supporting TRIAC Dimming. MG26P701, USB fast charge recognizer with boost converter for portable devices, passed UL test and earned Qualcomm QC 2.0 certification. |
| Nov-15 | Due to cancellation of treasury stock NT\$3.31 million, the paid-in capital became NT\$392 million. |
| Mar-16 | Successful development of MG39113 high-voltage linear power supporting single-stage or multi-stage LED. Mass production of MG69P702 (fast charge recognizer with boost converter for power bank system). |
| Jul-16 | MG69P702, USB fast charge recognizer with boost converter for power bank, passed UL test and earned Qualcomm QC 2.0 certification. |
| Sep-16 | Announced MA109, control IC specific for membrane gaming keyboard. |
| Apr-17 | Introduced MG82FG5D16, 96MHz PWM and 16K Flash MCU. |
| Jun-17 | Launched MG69G363, 1.8V~3.6V, 128K OTP RMC MCU. |
| Sep-17 | Announced MA111, HID USB to Serial Bridge. |
| Nov-17 | Introduced MA112, USB to UART Virtual COM Data Bridge; Introduced MA129, USB gaming keyboard controller. |

III. Corporate Governance Report

1. Organization

(1) Organizational structure



(2) Operations by department

| Department | Operations & functions |
|----------------------|---|
| Chairman's Office | To plan the corporate business strategies, set the business objectives, and well-found the corporate business administration. |
| President's Office | To fulfill the entire business strategies set by The Company, achieve the business objectives, well-found the corporate organization and supervise the corporate business administration. |
| Audit | 1. To check and evaluate effectiveness and integrity of the corporate internal control system; 2. To establish the audit system and execute the audit plan. |
| Administration Dept. | General affairs/personnel/administration/welfare/health and safety |
| Finance Dept. | 1. Investment, financial management, accounting, budget, taxation, shareholders' service, and insurance, etc.; 2. Board of directors affairs. |
| MIS Dept. | 1. Plan and manage maintenance and expansion of computer software and hardware; 2. Establish and update the information security management and information management regulations; 3. Plan and maintain IT system/network system database. |

(Continued)

(Brought forward)

| Department | Operations & functions |
|------------------------------|---|
| Marketing Center | <ol style="list-style-type: none"> 1. Planning and promotion of new products, market analysis and product roadmap planning; 2. Determine product positioning, set pricing strategy, and develop new customers/markets; 3. Manage marketing channels, help agents to develop, provide product training, customer service and support; 4. Planning and implement annual operation targets; 5. Target competitor analysis. |
| Outsourcing Service Division | <ol style="list-style-type: none"> 1. Procurement, warehousing management and import/export of raw materials and supplies; 2. Management and utilization of suppliers and contractors; 3. Arrangement of production plan, control over productivity and delivery date, and communication and negotiation for progress of shipment; 4. Production engineering control and maintenance of products, and on-going improvement of production process; 5. Planning, delivery and maintenance of quality system control and quality certification systems; 6. Control over corrective and preventive actions; 7. Manage the company's intellectual property documents and information. |
| Product Development Division | <ol style="list-style-type: none"> 1. Front-end research and development of system specifications; 2. Establishment of product development specifications; 3. Development, integration and verification of product functions; 4. Development of customers' development tools; 5. Technical support for customers' application; 6. Back-end engineering support; 7. Control of product development cost, quality, and schedule; 8. Assessment and execution of advanced process (next generation). |
| Design Support Division | <ol style="list-style-type: none"> 1. Coordination in product development progress and technology, and completion of product development; 2. Evaluation and planning of future product technology and IP; 3. Technical evaluation of IC front-end design, and IC circuit design; 4. Development of IP/Macro; 5. Research of advanced design technology 6. Back-end engineering support; 7. Establishment and maintenance of CAD environment; 8. Assessment and execution of advanced process (next generation); 9. Investment and planning of CAD environment. |

2. Information about directors, supervisors, president, vice presidents, assistant vice president, and heads of departments and branches

(1) Directors and supervisors

1. Information about directors and supervisors

March 30, 2018

| Job title (Note 1) | Nationality or place of registration | Name | Gender | Date elected | Term (years) | Date first elected (Note 2) | Shareholding when elected | | Current shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee arrangement | | Education (work experience) (Note 3) | Other current positions at MEGAWIN and other companies | Executives, directors or supervisors who are spouses or within two degrees of kinship | | |
|-----------------------------|--|---------------------|--------|-----------------|-----------------|--------------------------------------|------------------------------|-------|-------------------------|-------|--------------------------------|-------|---|---|---|--|--|------|----------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chairman of the Board | R.O.C. | Wen, Kow-Liang | Male | Jun. 9, 2015 | 3 | May 15, 2000 | 2,614,598 | 6.61% | 2,714,598 | 6.91% | 409,646 | 1.04% | - | - | Department of Electronic Engineering, Chung Yuan Christian University Director, Product Business Div., Winbond Electronics Corp. Operations Vice President, Giantplus Technology Co., Ltd. | CEO, the Company Director and also responsible person, Regent Pacific Management Ltd. Director and also responsible person, Megawin Technology H.K. Company Limited Supervisor, Hsin Chu Golf Country Club | N/A | N/A | N/A |
| Director | R.O.C. | Chiou, San-Wen | Male | Jun. 9, 2015 | 3 | Jun. 23, 2003 | 1,183,928 | 2.99% | 1,283,928 | 3.27% | - | - | - | - | Graduate School of Electronic Engineering, Chung Yuan Christian University Vice Engineer, Electronics Research & Service Organization (ERSO) of ITRI Director, Product Business Div., Hua long Microelectronics Co., Ltd. Manufacturing Vice President, Pixart Imaging Inc. | President, the Company | N/A | N/A | N/A |
| Director | R.O.C. | Yang, Shih-Chung | Male | Jun. 9, 2015 | 3 | Jun. 23, 2003 | - | - | - | - | - | - | - | - | Department of Accounting, Soochow University Accounting Assistant Manager, United Microelectronics Corporation (UMC) Executive Manager, Realtek Semiconductor Corp. | Chairman, HiTrend Technology (Shanghai) Co., Ltd. | N/A | N/A | N/A |

| Job title (Note 1) | Nationality or place of registration | Name | Gender | Date elected | Term (years) | Date first elected (Note 2) | Shareholding when elected | | Current shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee arrangement | | Education (work experience) (Note 3) | Other current positions at MEGAWIN and other companies | Executives, directors or supervisors who are spouses or within two degrees of kinship | | |
|-------------------------|--|---|--------|------------------|-----------------|--------------------------------------|------------------------------|-------|-------------------------|-------|--------------------------------|-------|---|---|--|---|--|------|----------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Director | R.O.C. | Sheng Der International Investment Limited Company Representative: Lin, Kun-Chi | Male | Jun. 9, 2015 | 3 | Nov. 30, 2007 | 1,804,935 | 4.57% | 1,804,935 | 4.59% | - | - | - | - | Master of Electrical Engineering, Chung Yuan Christian University Manager, Silicon Motion Technology Corp. Manager, ILITEK President, Analysis-i Tech Inc. | Chairman and President, Analysis-i Tech Inc. | N/A | N/A | N/A |
| | | | | Jun. 12, 2015 | 3 | Jun. 12, 2015 | - | - | - | - | - | - | - | - | | | | | |
| Independent Director | R.O.C. | Wang, Hwi-Ming | Male | Jun. 9, 2015 | 3 | Jun. 9, 2009 | - | - | - | - | 21,993 | 0.06% | - | - | Ph.D. of Electrical Engineering, National Cheng Kung University Director, 2nd R&D Div., ESMT Director, Marketing Div., Advanic Technology Inc. President, Amigo Technology Inc. Associate Professor, Department of Electrical Engineering, Southern Taiwan University of Science and Technology | Independent Director, Bison Electronics Inc. Supervisor, Taiwan Microelectronics Technologies, Inc. | N/A | N/A | N/A |
| Independent Director | R.O.C. | Tang, Ching-Chou | Male | Jun. 9, 2015 | 3 | Sep. 30, 2009 | - | - | - | - | - | - | - | - | Ph.D. of Electrical Engineering (CAD), National Cheng Kung University Project Vice Team Leader, Information and Communications Research Laboratories, ITRI Professor, Department of Electronic Engineering, Southern Taiwan University of Science and Technology | N/A | N/A | N/A | N/A |

| Job title (Note 1) | Nationality or place of registration | Name | Gender | Date elected | Term (years) | Date first elected (Note 2) | Shareholding when elected | | Current shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee arrangement | | Education (work experience) (Note 3) | Other current positions at MEGAWIN and other companies | Executives, directors or supervisors who are spouses or within two degrees of kinship | | |
|-------------------------|--|---------------------|--------|-----------------|-----------------|--------------------------------------|------------------------------|-------|-------------------------|-------|--------------------------------|---|---|---|---|---|--|------|----------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Independent Director | R.O.C. | Hsu, Chia-Hong | Male | Jun. 9, 2015 | 3 | Apr. 23, 2014 | - | - | - | - | - | - | - | - | MBA of Royal Roads University Master of CICR/Commercial and Industrial Management Team/Operations, Diagnosis and Research Accounting Statistics Department of Chihlee College of Business Vice President, Finance Dept., Ivytech Corp. Director, Sysview Corp. | Consultant, Ivytech Corp. Senior Finance Advisor, ShinIng Energy Co., Ltd. Supervisor, Hsin Chun Consulting Co., Ltd. | N/A | N/A | N/A |
| Supervisor | R.O.C. | Lu, Shao-Chun | Male | Jun. 9, 2015 | 3 | Jun. 9, 2009 | 382,185 | 0.97% | 410,185 | 1.04% | - | - | - | - | Electronics Department of Ta Hwa Institute of Technology Project Manager, Marketing Division, ProMOS Technologies Inc. Vice President, CCP Contact Probes Co., Ltd. | N/A | N/A | N/A | N/A |
| Supervisor | R.O.C. | Hsu, Min-Hsien | Male | Jun. 9, 2015 | 3 | Jun. 9, 2009 | 40,000 | 0.10% | 40,000 | 0.10% | - | - | - | - | Thunderbird International Management Institute Special Assistant of Chairman, CCP Contact Probes Co., Ltd. Vice President, Winton Plastics Industries Co., Ltd. | Vice President, Winton Plastics Industries Co., Ltd. | N/A | N/A | N/A |
| Supervisor | R.O.C. | Kung, Ching-Jung | Female | Jun. 9, 2015 | 3 | Apr. 23, 2014 | 10,000 | 0.03% | 10,000 | 0.03% | - | - | - | - | Master, Master Institute of Electrical Engineering, Chung Hua University Lecturer, Ta Hwa University of Science and Technology | N/A | N/A | N/A | N/A |

Note 1: The institutional shareholder shall be identified by name and representative (in the case of institutional representative, please specify the institutional shareholder's name) and also complete the following table, "Major shareholders of institutional shareholders".

Note 2: Please also specify, if the initial term of office for The Company's director or supervisors is interrupted.

Note 3: It refers to the experience related to the current post. If the officer once assumed a post in a CPA Office or an affiliate of The Company, please specify the job title and responsibilities thereof.

2. Major shareholders of institutional shareholders

March 30, 2018

| Name of institutional shareholder (Note 1) | Major shareholders of institutional shareholders (Note 2) |
|--|---|
| Sheng Der International Investment Limited Company | Wen, Kow-Liang (61.35%), Wen, Ching-Yi (10.43%), Wen, Ching-Ru (6.75%), Chang, Po-Chen (21.47%) |

Note 1: For a director or supervisor who acts as an institutional shareholder's representative, please specify the institutional shareholder's name.

Note 2: Please specify names of the major shareholders of the given institutional shareholders (top ten shareholders) and the ratio of shareholding thereof. Where the major shareholder is a corporation, please complete the following Table, "Major shareholders of major institutional shareholders, if any".

3. Information on directors and supervisors in professionalism and impartiality

March 30, 2018

| Name (Note 1) | Qualification | Has more than 5 years of work experience and meet one of the following professional qualifications | | | Status of independence(Note 2) | | | | | | | | | | Number of the other public companies where the person holds the title as independent director concurrently |
|-----------------------|---|---|---|--|--------------------------------|---|---|---|---|---|---|---|---|----|--|
| | | Lecturer or above in commerce, law, finance, accounting or subjects required by the business of The Company in public or private colleges or universities | Passed the qualification examination with proper licensing by the national Government Apparatus as court judge, prosecutor, lawyers, certified public accountant or other professional designations required by the business of The Company | Required work experience in commerce, law, finance, accounting or others required by The Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Chairman of the Board | Wen, Kow-Liang | - | - | ✓ | - | - | - | - | - | - | ✓ | ✓ | ✓ | ✓ | 0 |
| Director | Chiou, San-Wen | - | - | ✓ | - | - | - | ✓ | ✓ | - | ✓ | ✓ | ✓ | ✓ | 0 |
| Director | Representative of Sheng Der International Investment Limited Company: Lin, Kun-Chih | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Director | Yang, Shih-Tsung | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Independent Director | Wang, Hui-Ming | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |
| Independent Director | Tang, Ching-Chou | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Independent Director | Hsu, Chia-Hung | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Supervisor | Lu, Shao-Chun | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Supervisor | Hsu, Ming-Hsien | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Supervisor | Kung, Ching-Jung | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |

Note 1: The number of spaces shall be adjusted subject to the actual circumstances.

Note 2: Respective directors and supervisors who meet the following qualifications 2 years before assumption of office and at the time of assumption office shall put a "✓" in the appropriate space.

(1) Not an employee of The Company or its affiliates.

(2) Not a director or supervisor of The Company or its affiliates (excluding an independent director of The Company or its parents/a subsidiary under this Act or a local law).

(3) Not a natural person, spouse, underage child, or under the title of a third party who holds more than 1% of the outstanding shares issued by The Company or among the top 10 natural person shareholders.

(4) Not a spouse, kin at the second pillar under the Civil Code, or the lineal blood relatives within the third pillar under the Civil Code as specified in (1) through (3).

(5) Not a director, supervisor or employee of an institutional shareholder who holds more than 5% of the outstanding shares issued by The Company, or a director, supervisor or employee of an institutional shareholder who is among the top 5 shareholders.

(6) Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of specific company or institution in business or financial relation with The Company.

(7) Not a professional, or an owner, partner, director, supervisor or manager of proprietorship, partnership, company or institution that provide business, legal, financial and accounting services to The Company or its affiliates or a spouse to the aforementioned persons. However, this shall not apply to the remuneration committee members who exercise their powers in accordance with Article 7 of the Regulations on the Establishment of Remuneration Committees by TWSE/GTSM Listed Companies and their Exercise of Powers.

(8) Not a spouse to or kin at the second pillar under the Civil Code to any other director.

(9) Not under any of the categories stated in Article 30 of The Company Law.

(10) No Government Apparatus agency, juristic person or its representative is elected under Article 27 of The Company Law.

(2) Information about president, vice president, assistant vice president, and heads of departments and branches

March 30, 2018

| Job title (Note 1) | Nationality | Name | Gender | Date elected | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee arrangement | | Education (work experience) (Note 2) | Positions held concurrently in any other companies | Managers who are spouses or within 2 degrees of kinship | | |
|---|-------------|---------------------|--------|------------------|--------------|-------|--------------------------------|-------|---|---|--|---|---|------------------|----------|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| CEO | R.O.C. | Wen, Kow-Liang | Male | May 1, 2000 | 2,714,598 | 6.91% | 409,646 | 1.04% | - | - | Department of Electronic Engineering, Chung Yuan Christian University Director, Product Business Div., Winbond Electronics Corp. Operations Vice President, Giantplus Technology Co., Ltd. | Director and also responsible person, Regent Pacific Management Ltd. Director and also responsible person, Megawin Technology H.K. Company Limited Supervisor, Hsin Chu Golf Country Club | N/A | N/A | N/A |
| President | R.O.C. | Chiou, San-Wen | Male | Jun. 1, 2003 | 1,283,928 | 3.27% | - | - | - | - | Graduate School of Electronic Engineering, Chung Yuan Christian University Vice Engineer, Electronics Research & Service Organization (ERSO) of ITRI Director, Product Business Div., Hua long Microelectronics Co., Ltd. Manufacturing Vice President, PixArt Imaging Inc. | N/A | N/A | N/A | N/A |
| Marketing Center/ Executive Vice President | R.O.C. | Ely Peng | Male | Aug. 1, 2017 | - | - | - | - | - | - | Graduate School of Electrical Engineering, National Central University Director, Research & Development Div., Generalplus Technology Inc. Director, Consumer Product Center, Nuvoton Technology Corporation President, Nuvoton Electronics Technology (Shenzhen) Limited | Chairman, Megawin Technology Shenzhen Company Limited | N/A | N/A | N/A |
| Sales Division/ Vice President | R.O.C. | Charng Pin | Male | Apr. 1, 2001 | 468,031 | 1.19% | - | - | - | - | Department of Electronic Engineering, National Taiwan University of Science and Technology Sales Manager, Winbond Electronics Corp. | President, Megawin Technology Shenzhen Company Limited | N/A | N/A | N/A |
| Product Development Division/ Vice President | R.O.C. | Wang, Chih-Huang | Male | Oct. 13, 2001 | 659,893 | 1.68% | - | - | - | - | Department of Electronic Engineering, Feng Chia University Engineer, Computer Product Design Dept., Winbond Electronics Corp. Engineer, Computer System Design Dept., Hua long Microelectronics Co., Ltd. | N/A | Manager | Wang, Chih-Hsing | Brothers |

| Job title (Note 1) | Nationality | Name | Gender | Date elected | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee arrangement | | Education (work experience) (Note 2) | Positions held concurrently in any other companies | Managers who are spouses or within 2 degrees of kinship | | |
|---|-------------|---------------------|--------|------------------|--------------|-------|--------------------------------|-------|---|---|---|--|---|-------------------------|----------|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Design Support Division/ Director | R.O.C. | Liou, Thi-Ing | Male | Feb. 23, 2009 | 240,000 | 0.61% | 10,000 | 0.03% | - | - | MSEE, Oklahoma State University BSEE, Feng Chia University Director, R/D Dept., MicroMedia Technology Corp. Manager, Sensor Design Dept., PixArt Imaging Inc. | N/A | N/A | N/A | N/A |
| Outsourcing Service Div./ Director | R.O.C. | Kao, Yuan-Chung | Male | Sep. 11, 2006 | 62,986 | 0.16% | - | - | - | - | Royal Roads University, CANADA, EMBA Department of Industrial Engineering and Management, Da-Yeh University Production Management Manager, Topro Tech. Production Management Assistant Manager, Actrans Systems | N/A | N/A | N/A | N/A |
| Finance Dept./ Director | R.O.C. | Hung, Hsien-Ling | Female | Oct. 2, 2005 | 216,989 | 0.55% | - | - | - | - | National Chiao Tung University, EMBA International Trade Department, Open Business College Associated with National Taipei University of Business CFO, TwinMOS Technologies Inc. Director, Administration Div., Alpha Microelectronics Corp. CFO, Mosel Vitelic Inc. | N/A | N/A | N/A | N/A |
| Administration Dept./ Senior Manager | R.O.C. | Tai, Fang-Lan | Female | Sep. 1, 2003 | 206,752 | 0.53% | - | - | - | - | Business Administration Department, Open Business College Associated with National Taipei University of Business Head of HR Section, Powerchip Technology Corporation Head of HR Section, D-Link Corporation | N/A | N/A | N/A | N/A |
| MIS Dept./ Manager | R.O.C. | Wang, Chih-Hsing | Male | Aug. 7, 2006 | 157,092 | 0.40% | - | - | - | - | Department of Computer Science, Chinese Culture University Project Engineer, IT Management Dept., AOPEN Inc. Computer Engineer, IT Management Dept., Acer Inc. | N/A | Vice President | Wang, Chih- Huang | Brothers |

Note 1: It shall include the information about president, vice presidents, assistant vice president, and heads of departments and branches. Any positions correspondent to president, vice president or vice executive president shall be disclosed, irrelevant with job titles.

Note 2: It refers to the experience related to the current post. If the officer once assumed a post in a CPA Office or an affiliate of The Company, please specify the job title and responsibilities thereof.

Note 3: Newly elected as Executive Vice President of Marketing Center on Aug. 1, 2017.

Note 4: Newly elected as Director of Outsourcing Service Div. on May 2, 2017.

3. Remuneration to Directors, Supervisors, President and Vice Presidents in the most recent year

(1) Remuneration to Directors, Supervisors, President and Vice Presidents (names and remuneration thereof to be disclosed individually)

1. Remuneration to Directors (including independent directors) (Summarized in accordance with the Range of Remuneration disclosed)

December 31, 2017; Unit: NTD thousand/thousand shares

| Job title | Name | Remuneration to directors | | | | | | | | The sum of (A), (B), (C) and (D) in proportion to earnings after tax (Note 10) | | Remuneration in the capacity as employees | | | | | | | | The sum of (A), (B), (C), (D), (E), (F) and (G) to earnings after tax (%) (Note 10) | | Remuneration from investees beyond subsidiaries (Note 11) | | |
|--|--|---------------------------|--|-------------|--|--|--|---------------------------|--|--|--|--|--|-------------|--|--|---|--|----------------|---|--|---|--|--|
| | | Remuneration (A)(Note 2) | | Pension (B) | | Remuneration to directors (C) (Note 3) | | For services (D) (Note 4) | | | | Salaries, bonus and special subsidies, etc. (E) (Note 5) | | Pension (F) | | Remuneration to employees (G) (Note 6) | | | | | | | | |
| | | The Company | All companies in the financial statements (Note 7) | The Company | All companies in the financial statements (Note 7) | The Company | All companies in the financial statements (Note 7) | The Company | All companies in the financial statements (Note 7) | The Company | All companies in the financial statements (Note 7) | The Company | All companies in the financial statements (Note 7) | The Company | All companies in the financial statements (Note 7) | The Company | | All companies in the financial statements (Note 7) | | The Company | All companies in the financial statements (Note 7) | | | |
| | | | | | | | | | | | | | | | | | | Cash dividend | Stock dividend | Cash dividend | Stock dividend | | | |
| Chairman of the Board | Wen, Kow-Liang | - | - | - | - | - | - | 385 | 385 | (2.52)% | (2.52)% | 5,207 | 5,207 | 108 | 108 | - | - | - | - | (36.09)% | (36.09)% | - | | |
| Director | Chiou, San-Wen | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Yang, Shih-Chung | | | | | | | | | | | | | | | | | | | | | | | |
| Director | Representative of Sheng Der International Investment Limited Company: Lin, Kun-Chi | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Hsu, Chia-Hong | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Wang, Hui-Ming | | | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Tang, Ching-Chou | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| * In addition to the remuneration stated above, other remuneration the Company's directors received for providing services (such as service as an advisor but not an employee) to all companies in the financial report in the most recent year: N/A | | | | | | | | | | | | | | | | | | | | | | | | |

Breakdown of Remuneration

| Breakdown of remuneration paid to directors | Name of director | | | |
|--|--|--|--|--|
| | Sum of the preceding four items (A+B+C+D) | | Sum of the preceding seven items (A+B+C+D+E+F+G) | |
| | The Company (Note 8) | All companies included into the financial statement (Note 9) H | The Company (Note 8) | All companies included into the financial statement (Note 9) I |
| Below NT\$2,000,000 | Wen, Kow-Liang, Chiou, San-Wen, Yang, Shih-Chung, Representative of Sheng Der International Investment Limited Company: Lin, Kun-Chi, Wang, Hwi-Ming, Tang, Ching-Chou, and Hsu, Chia-Hong | Wen, Kow-Liang, Chiou, San-Wen, Yang, Shih-Chung, Representative of Sheng Der International Investment Limited Company: Lin, Kun-Chi, Wang, Hwi-Ming, Tang, Ching-Chou, and Hsu, Chia-Hong | Yang, Shih-Chung, Wang, Hwi-Ming, Tang, Ching-Chou, Hsu, Chia-Hong, Representative of Sheng Der International Investment Limited Company: Lin, Kun-Chi | Yang, Shih-Chung, Wang, Hwi-Ming, Tang, Ching-Chou, Hsu, Chia-Hong, Representative of Sheng Der International Investment Limited Company: Lin, Kun-Chi |
| NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive) | N/A | N/A | Weng, Kow-Liang, and Chiou, San-Wen | Weng, Kow-Liang, and Chiou, San-Wen |
| NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive) | N/A | N/A | N/A | N/A |
| NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive) | N/A | N/A | N/A | N/A |
| NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive) | N/A | N/A | N/A | N/A |
| NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive) | N/A | N/A | N/A | N/A |
| NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive) | N/A | N/A | N/A | N/A |
| NT\$100,000,000 or more | N/A | N/A | N/A | N/A |
| Total | 7 | 7 | 7 | 7 |

Note 1: The name of directors shall be identified individually (the institutional shareholders shall be identified by name and representative), and the various payments shall be summarized and then disclosed. If a director also acts as a president or vice president concurrently, please specify this table, "Remuneration to Directors, Supervisors, President and Vice Presidents (names and remuneration thereof to be disclosed individually)", and the table, "Remuneration to Directors, Supervisors, President and Vice Presidents (Summarized in accordance with the Range of Remuneration disclosed)".

Note 2: Please specify the remuneration to directors in the most recent year (including salary, duty allowance and severance paid to the directors, bonus and reward, etc.).

Note 3: The remuneration to directors approved by the Board of Directors prior to the motion for allocation of earnings submitted to the shareholders' meeting in the most recent year.

Note 4: The directors' professional practicing fees in the most recent year (including transportation allowance, special allowance, various allowances, and provision of such tangible objects as dormitory and car, etc.). If a house, car and any other transportation means or exclusive personal allowance is provided, please disclose the nature and cost of the assets, rent imputed based on the actual value or fair value, fuel expenses and other benefits. If a driver is assigned, please specify the pay made by The Company to the driver, but exclude the same from the remuneration.

Note 5: It means the salary, duty allowance, severance pay, bonus, reward, transportation allowance, special allowance, various allowances, and provision of such tangible objects as dormitory and car received by the directors who acted as employees concurrently (including president, vice president, managerial officer and employee) in the most recent year. If a house, car and any other transportation means or exclusive personal allowance is provided, please disclose the nature and cost of the assets, rent imputed based on the actual value or fair value, fuel expenses and other benefits. If a driver is assigned, please specify the pay made by The Company to the driver, but exclude the same from the remuneration. Salary expense in accordance with IFRS 2 "share-based payment", including share subscription warrants issued to employees, new restricted stock award shares issued to employees, and employee stock options at cash capital increase, shall also be

included in the remuneration.

Note 6: If the directors who acted as employees concurrently (including president, vice president, managerial officer and employee) received employee bonus (including stock dividend and cash dividend) in the most recent year, please disclose the employee bonus approved by the Board of Directors in the most recent year. If it is impossible to impute the same, the amount to be allocated this year shall be based on that allocated physically last year, and please also specify the table, "Remuneration to employees paid to managerial officers".

Note 7: Please disclose the aggregate of the remuneration paid to The Company's directors by all companies included into the consolidated financial reports (including The Company).

Note 8: The aggregate of the remuneration to each director by The Company shall include the director's name disclosed in the relevant space of the following table.

Note 9: The aggregate of the remuneration paid to each of The Company's directors by the companies included into the consolidated financial reports (including The Company) shall include the director's name disclosed in the relevant space of the following table.

Note 10: The earnings after tax refers to the earnings after tax in the most recent year. If the IFRSs are adopted, the earnings after tax shall refer to the earnings after tax identified in the entity or individual financial statement for the most recent year.

Note 11: a. Whether The Company's directors have received remuneration from investees beyond subsidiaries should be noted.

b. If The Company's directors have received remuneration from investees beyond subsidiaries, please include the same into Section I in the following table and changed the name of the section into "all investees".

c. The remuneration shall refer to the remuneration, compensation, employee bonus and professional practicing fees received by The Company's directors who acted as the directors, supervisors or managerial officers of investees beyond subsidiaries.

*The remuneration disclosed herein is different from the income referred to in the Income Tax Law conceptually. Therefore, the breakdown is only intended for disclosure of information, instead of taxation.

2. Remuneration to Supervisors (names and remuneration thereof to be disclosed individually)

December 31, 2017; Unit: NTD thousand

December 31, 2017, China NTD thousand

| Job title | Name | Remuneration to supervisors | | | | | | The sum of A, B and C to Earnings after Tax (Note 8) | | Remuneration from investees beyond subsidiaries (Note 9) |
|------------|------------------|-----------------------------|--|---------------------------|--|---------------------------|--|--|--|--|
| | | Remuneration (A) (Note 2) | | Remuneration (B) (Note 3) | | For Services (C) (Note 4) | | | | |
| | | The Company | All companies included into the financial statement (Note 5) | The Company | All companies included into the financial statement (Note 5) | The Company | All companies included into the financial statement (Note 5) | The Company | All companies included into the financial statement (Note 5) | |
| Supervisor | Kung, Ching-Jung | - | - | - | - | 162 | 162 | (1.06)% | (1.06)% | N/A |
| Supervisor | Lu, Shao-Chun | | | | | | | | | |
| Supervisor | Hsu, Min-Hsien | | | | | | | | | |

Breakdown of Remuneration

| Breakdown of remuneration paid to supervisors | Name of Supervisor | |
|--|---|--|
| | Sum of the preceding three items (A+B+C) | |
| | The Company (Note 6) | All companies included into the financial statement (Note 7) D |
| Below NT\$2,000,000 | Lu, Shao-Chun, Hsu, Min-Hsien, Kung, Ching-Jung | Lu, Shao-Chun, Hsu, Min-Hsien, Kung, Ching-Jung |
| NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive) | N/A | N/A |
| NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive) | N/A | N/A |
| NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive) | N/A | N/A |
| NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive) | N/A | N/A |
| NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive) | N/A | N/A |
| NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive) | N/A | N/A |
| NT\$100,000,000 or more | N/A | N/A |
| Total | 3 | 3 |

Note 1: The name of supervisors shall be identified individually (the institutional shareholders shall be identified by name and representative), and the various payments shall be summarized and then disclosed.

Note 2: Please specify the remuneration to supervisors in the most recent year (including salary, duty allowance and severance paid to the supervisors, bonus and reward, etc.).

Note 3: The remuneration to supervisors approved by the Board of Directors to be allocated in the most recent year.

Note 4: The supervisors' professional practicing fees in the most recent year (including transportation allowance, special allowance, various allowances, and provision of such tangible objects as dormitory and car, etc.).

If a house, car and any other transportation means or exclusive personal allowance is provided, please disclose the nature and cost of the assets, rent imputed based on the actual value or fair value, fuel expenses and other benefits. If a driver is assigned, please specify the pay made by The Company to the driver, but exclude the same from the remuneration.

Note 5: Please disclose the aggregate of the remuneration paid to The Company's directors by all companies included into the consolidated financial reports (including The Company).

Note 6: The aggregate of the remuneration to each supervisor by The Company shall include the director's name disclosed in the relevant space of the following table.

Note 7: The aggregate of the remuneration paid to each of The Company's supervisors by the companies included into the consolidated financial reports (including The Company) shall include the supervisor's name disclosed in the relevant space of the following table.

Note 8: The earnings after tax refers to the earnings after tax in the most recent year. If the IFRSs are adopted, the earnings after tax shall refer to the earnings after tax identified in the entity or individual financial statement for the most recent year.

Note 9: a. Whether The Company's supervisors have received remuneration from investees beyond subsidiaries should be noted.

b. If The Company's supervisors have received remuneration from investees beyond subsidiaries, please include the same into Section D in the following table and changed the name of the section into "all investees".

c. The remuneration shall refer to the remuneration/compensation (including compensation to employees, directors and supervisors) and professional practicing fees received by The Company's supervisors who acted as the directors, supervisors or managerial officers of investees beyond subsidiaries.

*The remuneration disclosed herein is different from the income referred to in the Income Tax Law conceptually. Therefore, the breakdown is only intended for disclosure of information, instead of taxation.

3. Remuneration to President and Vice Presidents (summarized in accordance with the Range of Remuneration disclosed.)

December 31, 2017; Unit: NTD thousand/thousand shares

| Job title | Name | Salary (A) (Note 2) | | Pension (B) | | Bonus and special subsidies etc. (C) (Note 3) | | Remuneration to employees (D) (Note 4) | | | | The sum of A, B,C and D to Earnings after Tax (%) (Note 8) | | Remuneration from investees beyond subsidiaries (Note 9) |
|--------------------------------|------------------|------------------------|--|----------------|--|---|--|---|-------------------|---|-------------------|--|---|--|
| | | The Company | All companies included into the financial statement (Note 5) | The Company | All companies included into the financial statement (Note 5) | The Company | All companies included into the financial statement (Note 5) | The Company | | All companies included into the financial statement (Note 5) | | The Company | All companies included into the financial statement (Note 5) | |
| | | | | | | | | Cash dividend | Stock dividend | Cash dividend | Stock dividend | | | |
| CEO | Wen, Kow-Liang | 8,727 | 8,727 | 369 | 369 | 1,804 | 1,804 | - | - | - | - | (71.27)% | (71.27)% | - |
| President | Chiou, San-Wen | | | | | | | | | | | | | |
| Vice President | Charng Pin | | | | | | | | | | | | | |
| Executive Vice President | Ely Peng | | | | | | | | | | | | | |
| Vice President | Wang, Chih-Huang | | | | | | | | | | | | | |

* Any positions correspondent to president or vice president (e.g. president, CEO, and director, etc.) shall be disclosed, irrelevant with job titles.

Breakdown of Remuneration

| Breakdown of remuneration paid to presidents and vice presidents | Name of president and vice president | |
|--|--|--|
| | The Company (Note 6) | All companies included into the financial statement (Note 7) E |
| Below NT\$2,000,000 | Ely Peng and Wang, Chih-Huang | Ely Peng and Wang, Chih-Huang |
| NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive) | Wen, Kow-Liang, Chiou, San-Wen, Charng Pin | Wen, Kow-Liang, Chiou, San-Wen, Charng Pin |
| NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive) | N/A | N/A |
| NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive) | N/A | N/A |
| NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive) | N/A | N/A |
| NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive) | N/A | N/A |
| NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive) | N/A | N/A |
| NT\$100,000,000 or more | N/A | N/A |
| Total | 5 | 5 |

Note 1: The name of president or vice president shall be identified one by one, and the various payments shall be summarized and then disclosed. If a director also acts as a president or vice president concurrently, please specify this table and said table, "Remuneration to Directors (including Independent Directors) (names and remuneration thereof to be disclosed individually)", or "Remuneration to Directors (including Independent Directors) (Summarized in accordance with the Range of Remuneration disclosed)".

Note 2: Please specify the salary, duty allowance and severance paid to the presidents and vice presidents in the most recent year.

Note 3: Please specify the bonus, reward, transportation allowance, special allowance, various allowances, and provision of such tangible objects as dormitory and car, as well as other remunerations, received by the presidents and vice presidents in the most recent year. If a house, car and any other transportation means or exclusive personal allowance is provided, please disclose the nature and cost of the assets, rent imputed based on the actual value or fair value, fuel expenses and other benefits. If a driver is assigned, please specify the pay made by The Company to the driver, but exclude the same from the remuneration. Salary expense in accordance with IFRS 2 "share-based payment", including share subscription warrants issued to employees, new restricted stock award shares issued to employees, and employee stock options at cash capital increase, shall also be included in the remuneration.

Note 4: Please specify the remuneration to employees (including stock dividend and cash dividend) to be allocated to the presidents and vice presidents as approved by the Board of Directors in the most recent year. If it is impossible to impute the same, the amount to be allocated this year shall be based on that allocated physically last year, and please also specify the table, "Remuneration to employees paid to managerial officers". The earnings after tax refers to the earnings after tax in the most recent year. If the IFRSs are adopted, the earnings after tax shall refer to the earnings after tax identified in the entity or individual financial statement for the most recent year.

Note 5: Please disclose the aggregate of the remuneration paid to The Company's presidents and vice presidents by all companies included into the consolidated financial reports (including The Company).

Note 6: The aggregate of the remuneration to each president and vice president by The Company shall include the president's and vice president's names disclosed in the relevant space of the following table.

Note 7: The aggregate of the remuneration paid to each of The Company's presidents and vice presidents by the companies included into the consolidated financial reports (including The Company) shall include the president's and vice president's names disclosed in the relevant space of the following table.

Note 8: The earnings after tax refers to the earnings after tax in the most recent year. If the IFRSs are adopted, the earnings after tax shall refer to the earnings after tax identified in the entity or individual financial statement for the most recent year.

Note 9: (a) To specify whether The Company's presidents and vice presidents have received remuneration from investees beyond subsidiaries. (b) If The Company's presidents and vice presidents have received remuneration from investees beyond subsidiaries, please include the same into Section E in the following table and changed the name of the section into "all investees". (c) The remuneration shall refer to the remuneration/compensation (including compensation to employees, directors and supervisors) and professional practicing fees received by The Company's presidents and vice presidents who acted as the directors, supervisors or managerial officers of investees beyond subsidiaries.

*The remuneration disclosed herein is different from the income referred to in the Income Tax Law conceptually. Therefore, the breakdown is only intended for disclosure of information, instead of taxation.

4. Remuneration to employees paid to managerial officers

December 31, 2017; Unit: NTD thousand

| | Job title (Note 1) | Name (Note 1) | Stock dividend | Cash dividend | Total | In proportion to Earnings After Tax (%) |
|--------------------|--|------------------|----------------|---------------|-------|---|
| Managerial officer | CEO | Wen, Kow-Liang | - | - | - | - |
| | President | Chiou, San-Wen | | | | |
| | Executive Vice President, Marketing Center | Ely Peng | | | | |
| | Vice President, Sales Div. | Charng Pin | | | | |
| | Vice President, Product Development Div. | Wang, Chih-Huang | | | | |
| | Director, Design Support Div. | Liou, Thi-Ing | | | | |
| | Director, Finance Dept. | Hong, Hsien-Ling | | | | |
| | Director, Outsourcing Service Div. | Kao, Yuan-Chung | | | | |

Note 1: Please disclose the name and job title individually, while the allocation of earnings may be summarized and then disclosed.

Note 2: Please specify the remuneration to employees (including stock dividend and cash dividend) to be allocated to managerial officers as approved by the Board of Directors in the most recent year. If it is impossible to impute the same, the amount to be allocated this year shall be based on that allocated physically last year. The earnings after tax refers to the earnings after tax in the most recent year. If the IFRSs are adopted, the earnings after tax shall refer to the earnings after tax identified in the entity or individual financial statement for the most recent year.

Note 3: The scope of managerial officers shall be defined in the following manner, per the Board's decree under Tai-Tsai-Cheng-3-Tzu No. 0920001301 dated March 27, 2003:

(1) President and equivalents; (2) Vice president and equivalents; (3) Assistant vice president and equivalents; (4) Chief of Financial Dept.; (5) Chief of Accounting Dept.; (6) Any other persons in charge of The Company's affairs and entitled to sign instruments on behalf of The Company.

Note 4: If any director, president or vice president has received the remuneration to employees (including stock dividend and cash dividend), please complete the table, "Disclosure of Remuneration", and also this table.

(2) If any of the following applies to The Company, it shall disclose the remuneration paid to each individual director and supervisor:

1. A company that has posted after-tax deficits in the parent company only financial reports or individual financial reports within the most recent 2 fiscal years shall disclose the remuneration paid to individual directors and supervisors. This requirement, however, shall not apply if the company has posted net income after tax in the parent company only financial report or individual financial report for the most recent fiscal year and such net income after tax is sufficient to make up the accumulated deficits: N/A.
2. A company that has had an insufficient director shareholding percentage for 3 consecutive months or longer during the most recent fiscal year shall disclose the remuneration of individual directors; one that has had an insufficient supervisor shareholding percentage for 3 consecutive months or more during the most recent fiscal year shall disclose the remuneration of individual supervisors: N/A.
3. A company that has had an average ratio of share pledging by director supervisors in excess of 50 percent in any 3 months during the most recent fiscal year shall disclose the remuneration paid to each individual director supervisor having a ratio of pledged shares in excess of 50 percent for each such month: N/A.
4. If the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the net income after tax, and the remuneration received by any individual director or supervisor exceeds NT\$15 million, the company shall disclose the remuneration paid to that individual director or supervisor: N/A.

(3) Specify and compare the remuneration to directors, supervisors, presidents and vice presidents of The Company in proportion to the earnings after tax from The Company and companies included in the consolidated financial statements in the most recent 2 years, and specify the policies, standards, combinations, procedure of decision-making of remunerations and their relation to business performance and future risk:

1. Analysis about the remuneration to directors, supervisors, presidents and vice presidents of The Company in proportion to the earnings after tax from The Company in the most recent 2 years:

Unit: NTD thousand; %

| Title \ Year | 2017 | | 2016 | |
|--|--------|---|--------|---|
| | Amount | In proportion to the earnings after tax | Amount | In proportion to the earnings after tax |
| Remuneration to directors | 385 | (2.52)% | 1,431 | 5.51% |
| Remuneration to supervisors | 162 | (1.06)% | 594 | 2.29% |
| Remuneration to presidents and vice presidents | 10,900 | (71.27)% | 10,161 | 39.11% |

Note: The Company paid the remuneration in the same manner in which all companies included into the consolidated financial statement paid the remuneration.

2. Policies, standards, combinations, procedure of decision-making of remunerations and their relation to business performance and future risk: The Company paid the remuneration to directors and supervisors based on the ratio and scope required under the Articles of Incorporation. The remuneration to presidents and vice presidents is paid based on The Company's salary policy. The bonus is granted based on The Company's operating performance and personal performance.

4. Status of corporate governance

(1) Information about operations of Board of Directors

1. The Board held 7 meetings (A) in 2017. The attendance record of directors & supervisors is listed below:

| Job title | Name (Note 1) | Actual attendance (B) | Attendance by proxy | Actual attendance rate (%) (B/A) (Note 2) | Remark | | |
|---|---|-----------------------|---------------------|---|--------|--------|---------|
| Chairman of the Board | Wen, Kow-Liang | 7 | - | 100% | | | |
| Director | Chiou, San-Wen | 6 | - | 86% | | | |
| Director | Yang, Shih-Chung | 5 | 1 | 71% | | | |
| Director | Sheng Der International Investment Limited Company Representative: Lin, Kun-Chi | 7 | - | 100% | | | |
| Independent Director | Wang, Hwi-Ming | 7 | - | 100% | | | |
| Independent Director | Tang, Ching-Chou | 3 | 3 | 43% | | | |
| Independent Director | Hsu, Chia-Hong | 7 | - | 100% | | | |
| Supervisor | Kung, Ching-Jung | 7 | - | 100% | | | |
| Supervisor | Lu, Shao-Chun | 7 | - | 100% | | | |
| Supervisor | Hsu, Min-Hsien | 7 | - | 100% | | | |
| ◎Attendance in person; ☆Attendance by proxy; * Absence | | | | | | | |
| 2017 Meeting dates Independent Director | Feb. 14 | March 28 | May 2 | May 2 (Extraordinary) | Aug. 1 | Nov. 7 | Dec. 26 |
| Wang, Hwi-Ming | ◎ | ◎ | ◎ | ◎ | ◎ | ◎ | ◎ |
| Tang, Ching-Chou | ◎ | ☆ | ☆ | * | ◎ | ☆ | ◎ |
| Hsu, Chia-Hong | ◎ | ◎ | ◎ | ◎ | ◎ | ◎ | ◎ |
| Other notes: | | | | | | | |
| 1. If any of the following applies to operation of the board of directors, The Company shall state the meeting date, period, content of the resolution, opinions of all independent directors, and The Company's handling of the opinions of the independent directors: (1) Items listed in Article 14-3 of the Securities and Exchange Act: N/A. (2) Items in board resolutions regarding which independent directors have voiced opposing or qualified opinions on the record or in writing: N/A. | | | | | | | |
| 2. In instances where a director recused himself/herself due to a conflict of interest, the minutes shall clearly state the director's name, contents of the motion and resolution thereof, reason for not voting and actual voting counts: N/A. | | | | | | | |
| 3. Measures undertaken during the current year and past year in order to strengthen the functions of the board of directors (such as the establishment of an audit committee and improvement of information transparency, etc.) and assessment of their implementation: (1) Strengthening the functions of the Board of Directors The Company's Board has resolved to pass the parliamentary rules for directors' meetings established in accordance with the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies". (2) Improvement of information transparency The Company and its subsidiaries all entrusted Deloitte & Touche to conduct an audit on the financial statements periodically, and complied with the requirements about information disclosure | | | | | | | |

under laws and regulations accurately and in a timely manner. The Company also designated dedicated personnel to collect and disclose The Company's information, and also established the spokesman system to ensure adequate and timely disclosure of important information to help shareholders and interested parties understand the information about The Company's business and finance.

Note 1: For director or supervisor who is a corporation, please specify the institutional shareholder's name.

Note 2: (1) Where a specific director or supervisor may be relieved from duties before the end of the fiscal year, please specify their date of discharge in the 'Remarks' Section. Their actual attendance rate (%) to the Board session shall be calculated on the basis of the number of meetings called and actual number of sessions he/she attended, during his/her term of office.
(2) Where an election may be held for filling the vacancies of director or supervisor before the end of the fiscal year, please list out both the new and the discharged directors or supervisors, and specify if they are the former directors or supervisor, or newly elected, re-elected, and also the date of the reelection. Their actual attendance rate (%) to the Board session shall be calculated on the basis of the number of meetings called and actual number of sessions he/she attended, during his/her term of office.

(2) The function of Audit Committee or supervisors' participation in the function of Board of Directors

1. The function of Audit Committee: The Company has not yet established any audit committee.

2. Supervisors' participation in the function of Board of Directors

1. The Board held 7 meetings (A) in 2017. The attendance record is listed below:

| Job title | Name | Actual attendance (B) | Actual attendance (%) (B/A) (Note 1) | Remark |
|------------|------------------|-----------------------|--------------------------------------|--------|
| Supervisor | Kung, Ching-Jung | 7 | 100% | |
| Supervisor | Lu, Shao-Chun | 7 | 100% | |
| Supervisor | Hsu, Min-Hsien | 7 | 100% | |

Other notes:

1. The organization of supervisors and their duties:

(1) Communications between the Supervisors and the employees and shareholders:

The supervisors may check The Company's overview of finance and business from time to time, and ask the Board of Directors or managerial officers to submit report. The supervisors may communicate with employees and shareholders directly, if necessary.

(2) Communication between supervisors and internal audit officers and CPA on company finances and business situation (such as items discussed, means of communication and results, etc.):

The supervisors may communicate with the chief auditor and external auditor directly, and the auditor may report the audit result to the supervisors directly at the directors' meeting attended by the supervisors. Please refer to Note 2 stated below for more detail information.

2. If any supervisor attends the meeting of the board of directors to state their opinion, it is necessary to specify the date, session, motions and resolution of the meet of the board of directors, and The Company's response to the opinion stated by the supervisor: N/A.

Note 1: (1) Where a specific supervisor may be relieved from duties before the end of the fiscal year, please specify the date of his/her discharge in the 'Remarks' Section. His/her attendance rate (%) to the Board session shall be calculated on the basis of the actual number of sessions he/she attended.

(2) Where an election may be held for filling the vacancies of supervisor before the end of the fiscal year, please list out both the new and the discharged supervisors, and specify if they are the former supervisor, or newly elected, re-elected, and also the date of the reelection. Their attendance rate (%) to Board session shall be calculated on the basis of the actual number of sessions they attended during the term of office.

Note 2: Communication between independent directors and internal audit officer and CPA:

- (1) Communication between internal audit officer and independent directors: The internal audit officer periodically attended the Board of Directors meetings to report on audit operations and submitted the completed audit report to independent directors and supervisors for examination. Major communication items are listed in the following table.

| Date | Item | Suggestions and resolutions |
|---------------|---|--|
| Feb. 14, 2017 | • 2016 Q4 Audit Plan implementation; • 2016 Declaration of Internal Control. | Ratified by all attending Independent Directors without objection. |
| Mar. 28, 2017 | • Jan.-Feb., 2017 Audit Plan implementation. | |
| May 2, 2017 | • March, 2017 Audit Plan implementation. | |
| Aug. 1, 2017 | • 2017 Q2 Audit Plan implementation. | |
| Nov. 7, 2017 | • 2017 Q3 Audit Plan implementation; • 2018 Audit Plan. | |
| Dec. 26, 2017 | • Oct.-Nov., 2017 Audit Plan implementation. | |

- (2) Communication between CPA and independent directors (directors and supervisors): Before and after reviewing an annual report, the CPA communicated with the independent directors, directors and supervisors on the audit plan, execution status and resolutions. For special or significant matters regarding business operation or internal control, meetings will be arranged as appropriate. Major communication items are listed in the following table.

| Date | Item | Suggestions and resolutions |
|---------------|---|---|
| Dec. 26, 2017 | 1. Review of key issues in the third quarter; 2. Discussion of 2017 annual key audit matters; 3. Instruction in recent draft regulations and trends (tax laws and company law). | 1. The CPA elaborated the Business report of 2017, and discussed revenue recognition and inventory evaluation check procedures; 2. The CPA answered and communicated the questions raised by the participants. |

(3) Status of Corporate Governance, and any nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof:

| Item | Status (Note 1) | | | Nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|-----------------|----|--|---|
| | Yes | No | Memo | |
| 1. Whether The Company establishes and discloses its rules of corporate governance in accordance with the Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies? | ✓ | | The Company has established the "Corporate Governance Best Practice Principles" and disclosed the related information as required. | N/A |
| 2. Equity structure and shareholders' equity (1) Whether The Company has defined some internal operating procedure to deal with suggestions, questions, disputes and legal actions from shareholders, and implemented the procedure? | ✓ | | (1) The Company has established the spokesman system dedicated to accepting shareholders' suggestions or questions, and the business administration departments would provide support in verifying and reviewing shareholders' questions or doubts by functions. | N/A |

| Item | Status (Note 1) | | | Nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|-----------------|-------------------|--|---|
| | Yes | No | Memo | |
| <p>(2) Whether The Company has a roster of its major shareholders, actually controlling shareholders as well as controllers?</p> <p>(3) Whether The Company has established or implemented some risk control and firewall mechanisms between The Company and its affiliates?</p> <p>(4) Whether the Company has established some internal regulations to prohibit insiders from applying information undisclosed to the market in securities trading?</p> | ✓ | | <p>(2) The Company will disclose the important information about increase or decrease in pledged equity of major shareholders actually controlling The Company or increase/decrease in equity periodically with its shareholders' service agent.</p> <p>(3) The Company implements risk assessment pursuant to the Company's internal control system, internal audit system and related laws, and establishes adequate firewall mechanisms between it and its affiliates.</p> <p>(4) The Company has established management control system on "Operating Procedures for Handling Internal Material."</p> | |
| <p>3. The organization of Board of Directors</p> <p>(1) Whether the board of directors has defined some diversified policies toward composition of the board members and implemented the policies?</p> <p>(2) Whether the Company, in addition to establishing the remuneration committee and audit committee pursuant to laws, is willing to establish any other functional committees voluntarily?</p> <p>(3) Whether the Company has defined any regulations governing evaluation of performance of the board of directors and the approach to evaluate, and conducted performance evaluation each year?</p> | ✓ | <p>✓</p> <p>✓</p> | <p>(1) All of the board members possess the expertise, competence and qualification required to perform their job duty. For the Company's implementation of Board diversity policy, please refer to Note 2 below.</p> <p>(2) Not applicable. The Company will assess whether it is necessary to establish various functional committees, if necessary.</p> <p>(3) The Company has not yet defined any regulations governing evaluation of performance of the board, but does comply with and implements the rules of corporate governance, procedure for election of directors, rules governing independent directors' job responsibilities and implementing guidelines governing directors' continued education, etc.. Meanwhile, the</p> | N/A |

| Item | Status (Note 1) | | | Nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|--|-----------------|----|---|---|
| | Yes | No | Memo | |
| | | | Company will evaluate the operations of the board and remuneration committee according to the internal control system. | |
| (4) Whether the Company has regular evaluations of the independence of Certified Public Accountants? | ✓ | | (4) (a) The Company has regularly evaluates the independence of CPA from 2017 on. (b) The Company retains Deloitte & Touche as its external auditor, which has avoided any assignments in conflict of interest with itself, directly or indirectly, and performed their duties fairly, rigidly, faithfully and independently. (c) For the Company's evaluations of the independence of CPA, please refer to Note 3 below. | |
| 4. Does the Company establish a designated unit or personnel in charge of corporate governance related affairs (including but not limited to, providing necessary information for directors/supervisors to conduct the business of the Company, holding board meetings and shareholders' meeting, filing incorporation registration or amendment, and taking board meeting and shareholders' meeting minutes)? | ✓ | | The Company has adopted Corporate Governance Best Practice Principles and designated Finance Department in charge of corporate governance related affairs. | N/A |
| 5. Whether the Company has established communication channels with stakeholders (including but not limited to, shareholders, employees, customers, and vendors) and set up the stakeholder area on the Company's website, and also responded to the important corporate social responsibility issue concerned by stakeholders in a timely manner? | ✓ | | The Company has a designated spokesperson dedicated to handling the relevant matters: The Company has designated the spokesperson dedicated to communicating with shareholders and stakeholders, and also designated dedicated personnel and set up email dedicated to processing the relevant problems. The Company has set up the stakeholder section on its website as the communication channel. | N/A |
| 6. Whether the Company has appointed a professional shareholders' service agent to process the affairs related to shareholders' meetings? | ✓ | | The Company retains Capitol Securities, Registrar Agency Department as its shareholders' service agent. | N/A |

| Item | Status (Note 1) | | | Nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|-----------------|----|---|---|
| | Yes | No | Memo | |
| <p>7. Information disclosure</p> <p>(1) Whether the corporate website has been established for disclosing information on the Company's finances, business, and corporate governance status?</p> <p>(2) Whether the Company has adopted the other forms of information disclosure (such as English website, designating professionals to collect and disclose information, establishing a spokesperson system, posting investor conference proceedings on the company website)?</p> | ✓ | | <p>(1) The Company's website: http://www.megawin.com.tw/; The Company's "Investors" webpage: http://172.20.10.66/en-global/investors/index.</p> <p>(2) The Company has established the spokesman system and designated personnel dedicated to collecting information and implementing the Company's information disclosure. The information related to the Company is posted on the Company's website and MOPS periodically to help shareholders and stakeholders and the competent authorities control the overview of the Company's business from time to time.</p> | N/A |
| <p>8. Whether the Company has the other important information facilitating understanding of the functioning of corporate governance (including but not limited to, the state of employees' rights and interests, concern for employees, investor relations, vendor relations, rights of interested parties, continuing education of directors and supervisors, implementation of risk management policy and risk assessment criteria, implementation of customer policy, and liability insurance purchased by the Company for directors and supervisors)?</p> | ✓ | | <p>The Company has established a Worker Welfare Commission and implemented the pension system. Meanwhile, the Company also encourages employees to attend various training programs and technical seminars, plans employees' group insurance and arranges periodic health examinations, values the relationship between management and labor, and provides equal job opportunities.</p> <p>The Company maintains fair relationship with customers and suppliers.</p> <p>The Company discloses the Company's information honestly pursuant to laws, in order to protect investors' interest and right and fulfill corporate responsibility toward shareholders.</p> <p>The Company keeps the communication channel with respect to stakeholders' right running successfully, and respects and protects their legal</p> | N/A |

| Item | Status (Note 1) | | | Nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|-----------------|----|--|---|
| | Yes | No | Memo | |
| | | | <p>interest and right. When the interest parties' legal interest and right are infringed, the Company will resolve the situation in good faith.</p> <p>The Company has established various management regulations and internal rules with respect to the key management indicators to manage risk.</p> <p>The Company's directors and supervisors would take the courses in law, finance or accounting each year upon being elected and acquire related licenses, in accordance with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies". For further information, please refer to page 50.</p> <p>The Company has purchased liability insurance for directors/supervisors and managerial officers.</p> | |
| <p>9. Please state the improvement regarding the corporate governance evaluation results announced by Corporate Governance Center of Taiwan Stock Exchange for the most recent year and provide priorities and measures for those that have not been improved. (A company which is excluded from the evaluation doesn't need to state.):</p> <p>Improvements:</p> <p>1. The 2017 Annual Report has revealed the implementation of the regular shareholders' meeting matters.</p> <p>2. The 2017 Annual Report has fully disclosed the indicators of the board of directors for evaluating the independence of CPA.</p> <p>3. In the year of 2018, the Company will establish a specialized unit of corporate social responsibility.</p> | | | | |

Note 1: Irrelevant with "Yes" or "No", the status of operations shall be stated in the summary descriptions section.

Note 2: The Company's implementation of a diversification policy for the composition of its board of directors is noted below.

- (1) Board diversity policy: The Company shall consider Board diversity, company operations and development needs to set out the approach to achieve diversity on the Company's board of directors. In designing the Board's composition, Board diversity has been considered from a number of criteria, including but not limited to these two general standards:
 - (a) Basic requirements and values: gender, age, nationality, and cultural background;
 - (b) Professional knowledge and skills: professional background (such as law, accounting, industry, finance, marketing, or technology), expertise, and industry experience.
- (2) The members of the Board of Directors shall have the necessary knowledge, skill, and experience to perform their duties. In order to achieve corporate governance target, the abilities that must be present in the board as a whole are as follows:

| | |
|---|--|
| (a) The ability to make judgments about operations; | (b) Accounting and financial analysis ability; |
| (c) Business management ability; | (d) Crisis management ability; |
| (e) Knowledge of the industry; | (f) An international market perspective; |
| (g) Leadership ability, and | (h) Decision-making ability. |

(3) Implementation of board diversity policy:

| Diversity core items Name | Gender | Business management | Leadership & decision-making | Knowledge of the industry | Accounting & financial background |
|--|--------|------------------------|---------------------------------|---------------------------------|---|
| Wen, Kow-Liang | Male | ✓ | ✓ | ✓ | |
| Chiou, San-Wen | Male | ✓ | ✓ | ✓ | |
| Yang, Shih-Chung | Male | | | | ✓ |
| Sheng Der International Investment Limited Company Representative: Lin, Kun-Chi | Male | ✓ | ✓ | ✓ | |
| Hsu, Chia-Hong | Male | | | | ✓ |
| Wang, Hwi-Ming | Male | ✓ | ✓ | ✓ | |
| Tang, Ching-Chou | Male | | | ✓ | |
| Kung, Ching-Jung | Female | | | ✓ | |
| Lu, Shao-Chun | Male | | | ✓ | |
| Hsu, Min-Hsien | Male | | | | ✓ |

Note 3: CPA independence evaluation procedure

CPA Independence Evaluation Form
(passed on the 14th Meeting of the 7th Term Board of Directors, Dec. 26, 2017)

| Item | Indicators | Evaluation standard | Points | Remark |
|------------------------|--|---|--------|--------|
| Independence indicator | | | | |
| 1 | Accountants and the client have no direct or significant indirect financial interest. | Have no interest: get 5 points; Have interest: scored 0 point. | 5 | |
| 2 | Accountants and the client do not have any improper interest. | Have no interest: get 5 points; Have interest: scored 0 point. | 5 | |
| 3 | The financial statements of service agencies within the first two years of practice shall avoid handling assurance business. | No violation: get 5 points; Violation: scored 0 points. | 5 | |
| 4 | Accountants shall not permit others to practice under their names. | No violation: get 5 points; Violation: scored 0 points. | 5 | |
| 5 | Accountants and all members of audit service team must not hold the stake of the client. | Hold no stake: get 5 points; Hold stakes: scored 0 point. | 5 | |
| 6 | Accountants must not borrow or lend funds from/to the client. | No violation: get 5 points; Violation: scored 0 points. | 5 | |
| 7 | Accountants must not have the same investment or share interest with the client. | No violation: get 5 points; Violation: scored 0 points. | 5 | |
| 8 | Accountants must not hold concurrently post and receive fixed compensation from the client. | No violation: get 5 points; Violation: scored 0 points. | 5 | |
| 9 | Accountants must not accept any commission related to the business. | No violation: get 5 points; Violation: scored 0 points. | 5 | |
| 10 | Has the term of accountants been more than seven years in a row? | No: get 5 points; Yes: scored 0 points. | 5 | |

(4) Describe the composition, duties and operations of the remuneration committee:

1. Information about remuneration committee members

| Title (Note 1) | Qualification Name | More than 5 years of experience and the following professional qualifications | | | Status of independence (Note 2) | | | | | | | | Number of positions as a Remuneration Committee Member in other public listed companies | Remarks |
|-------------------------|---------------------------|--|---|---|------------------------------------|---|---|---|---|---|---|---|--|---------|
| | | Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities | Pass the qualification examination with proper licensing by the national Government Apparatus as court judge, prosecutor, lawyers, certified public accountant or other professional designations required by the business of the Company | Required work experience in commerce, law, finance, accounting or others required by the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Independent Director | Wang, Hwi-Ming | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | |
| Independent Director | Tang, Ching-Chou | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | |
| Independent Director | Hsu, Chia-Hong | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | |

Note 1: Please specify director, independent director or others.

Note 2: Respective member who meets the following qualifications 2 years before assumption of office and at the time of assumption office shall put a "✓" in the appropriate space.

- (1) Not an employee of the Company or its affiliates;
- (2) Not a director or supervisor of the Company or its affiliates; However, when the person is an independent director of the Company, its parent company, or a subsidiary set up under this Act or local law, this restriction does not apply.
- (3) Not a natural person, spouse, underage children, or under the title of a third party who holds more than 1% of the outstanding shares issued by the Company or among the top 10 natural person shareholders.
- (4) Not a spouse, kin at the second pillar under the Civil Code, or the lineal blood relatives within the third pillar under the Civil Code as specified in (1) through (3).
- (5) Not a director, supervisor or employee of an institutional shareholder who holds more than 5% of the outstanding shares issued by the Company, or a director, supervisor or employee of an institutional shareholder who is among the top 5 shareholders.
- (6) Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of specific company or institution in business or financial relation with the Company.
- (7) Not a professional, or a owner, partner, director, supervisor or manager of proprietorship, partnership, company or institution that provide business, legal, financial and accounting services to the Company or its affiliates or a spouse to the aforementioned persons.
- (8) Not under any of the categories stated in Article 30 of the Company Law.

2. Information about status of Remuneration Committee

(1) The Company's Remuneration Committee consists of 3 members.

(2) Current term of office: From June 9, 2015 until June 8, 2018. The Committee held 3 (A) meetings in the most recent year, and the attendance of the Committee members is summarized as follows:

| Job title | Name | Actual attendance (B) | Attendance by proxy | Actual attendance rate (%) (B/A) (Note) | Remarks |
|-----------|------------------|-----------------------|---------------------|---|---------|
| Convener | Tang, Ching-Chou | 2 | 1 | 67% | |
| Member | Wang, Hwi-Ming | 3 | - | 100% | |
| Member | Hsu, Chia-Hong | 2 | - | 67% | |

Other notes:

1. If the board of directors does not adopt, or amend the Remuneration Committee's suggestions, please specify the meeting date, term, contents of motion, resolution of the board of directors, and the Company's handling of the Remuneration Committee's opinions (If the remuneration ratified by the board of directors is superior than that suggested by the Remuneration Committee, please specify the deviation and reasons thereof): N/A.

2. For resolution(s) made by the Remuneration Committee with the Committee members voicing opposing or qualified opinions on the record or in writing, please state the meeting date, term, contents of motion, opinions of all members and the Company's handling of the said opinions: N/A.

Note: (1) Where a member may be relieved from duties before the end of the fiscal year, please specify his/her date of discharge in the 'Remarks' Section. His/her actual attendance rate (%) to the Committee meeting shall be calculated on the basis of the number of meetings called and actual number of meetings he/she attended, during his/her term of office.

(2) Where an election may be held for filling the vacancies of member before the end of the fiscal year, please list out both the new and the discharged members, and specify if they are the former members, or newly elected, re-elected, and also the date of the reelection. Their actual attendance rate (%) to the meetings shall be calculated on the basis of the number of meetings called and actual number of meetings he/she attended, during his/her term of office.

(5) Implementation of Corporate Social Responsibility:

| Item | Status (Note 1) | | | Nonconformity to the Corporate Social Responsibilities Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|--|-----------------|----|--|---|
| | Yes | No | Summary descriptions (Note 2) | |
| 1. Promote the implementation of corporate governance (1) Whether the Company has established any social responsibility policy and system, and reviewed the implementation effectiveness thereof? (2) Whether the Company has held regular social responsibility educational and training activities? (3) Whether the Company has established a dedicated unit (concurrently engaged in promoting) to promote corporate social responsibility under supervision by the high-rank management authorized by the board of directors who shall be responsible for reporting the status thereof to the board of directors? | ✓ | ✓ | (1) The Company has established its "Corporate Social Responsibility Best Practice Principles." (2) The Company will enhance the relevant social responsibility education and training. (3) The Company has not yet established any dedicated unit (concurrently engaged in promoting) to promote corporate social responsibilities. | The Company has not yet established the unit dedicated to implementing the corporate social responsibilities, but would value the corporate social responsibilities in accordance with the "Corporate Social Responsibilities Best Practice Principles for TSEC/GTSM Listed Companies". The Company will establish such unit, if necessary, in order to |

| Item | Status (Note 1) | | | Nonconformity to the Corporate Social Responsibilities Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|-----------------|----|---|--|
| | Yes | No | Summary descriptions (Note 2) | |
| (4) Whether the Company has defined some reasonable compensation policy, integrated corporate social responsibility with employees' performance evaluation, and established some clear and effective reward/disciplinary system? | ✓ | | (4) The Company has defined the compensation policy for managerial officers and employees' performance evaluation and reward/disciplinary system. The Company will enhance integration of corporate social responsibility with employees' performance evaluation. | meet the "Corporate Social Responsibilities Best Practice Principles for TSEC/GTSM Listed Companies". |
| 2. Development of a sustainable environment (1) Whether the Company has been dedicated to raising its resource usage effectiveness, reducing its environmental impact and improving its use of recyclable materials? (2) Whether the Company has established an environmental management system appropriate to the characteristics of its industry? (3) Whether the Company has mindful of the impact of climate change on its operations, and has executed the investigation of greenhouse gas, and has developed a strategy to reduce carbon emissions and other greenhouse gas? | ✓ ✓ ✓ | | In order to perform the social responsibility in protecting the environment on the earth, the Company works hard to develop related energy-saving products and mitigate the application of hazardous substances, and also requires that the production process shall comply with environmental protection requirements. For the time being, the Company's products are held complying with the Restriction of the Use of Certain Hazardous Substance in EEE (ROHS), and the Company has recall and treatment of its end products meet the environmental protection requirements by virtue of multiple important customers' audit and certification. | No material nonconformity |
| 3. Social welfare (1) Whether the Company has established the related management policies and procedures in accordance with the relevant laws and international human right conventions? (2) Whether the Company has established any employee complaint mechanism and channel, and taken care of the complaint adequately? | ✓ ✓ | | (1) The employees' right and obligation all comply with the relevant labor laws and regulations. (2) The Company would hold the management and labor meeting periodically to establish the mechanism of periodical communication with employees. | No material nonconformity No material nonconformity |

| Item | Status (Note 1) | | | Nonconformity to the Corporate Social Responsibilities Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|--|-----------------|----|--|--|
| | Yes | No | Summary descriptions (Note 2) | |
| (3) Whether the Company has provided its employees with a safe and healthy work environment, and a regularly implements employee safety and health education measures? | ✓ | | (3) The Company has established the well-founded intranet to post various management regulations that expressly define employees' right and obligation and benefits. Meanwhile, the Company would call the management and labor meeting periodically to maintain employees' interest and right, and also provide annual health inspection for employees periodically and implement fire protection inspection and safety drill of the building to protect employees' health and safety of the working environment. | No material nonconformity |
| (4) Whether the Company has established the mechanism for periodic communication with employees, and notification to employees of the circumstances that might materially affect the operation in a reasonable manner? | ✓ | | (4) The Company would hold the employee seminar periodically to establish the mechanism for period communication channel, and send notification to employees of the circumstances that might materially affect the operation in a reasonable manner. | |
| (5) Whether the Company has established some effective career development training plan for employees? | ✓ | | (5) The Company provides diversified training programs and fair in-service educational programs, including orientation training programs, in-service training programs, and professional programs, and expatriation training programs related to job responsibilities to train the personnel with competency and ability. | |
| (6) Whether the Company has established the related consumer protection policies and complaining procedures toward the R&D, procurement, production, operation and service procedures? | ✓ | | (6) The Company has passed ISO9001 certification. The Company's products are held complying with the Restriction of the Use of Certain Hazardous Substance in EEE (ROHS), and the Company has recall and treatment of its end products meet the environmental protection requirements by virtue of multiple important customers' audit and certification. | |

| Item | Status (Note 1) | | | Nonconformity to the Corporate Social Responsibilities Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|----------------------------|----|---|--|
| | Yes | No | Summary descriptions (Note 2) | |
| <p>(7) Whether the Company markets and labels products and services in accordance with the related laws and international practices?</p> <p>(8) Whether the Company has assessed the supplier's record about environmental protection and society before trading with the supplier?</p> <p>(9) Whether the contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract at any time?</p> | <p>✓</p> <p>✓</p> <p>✓</p> | | <p>(7) The Company markets and labels its products and services in accordance with the related laws and international practices.</p> <p>(8) The Company's primary raw materials are purchased renowned leading suppliers, in order to work with the suppliers to promote the corporate social responsibilities. The Company also assesses its suppliers in accordance with its "Procedure Governing Management of Suppliers and Contractors".</p> <p>(9) The contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract at any time.</p> | |
| <p>4. Strengthening information disclosure</p> <p>(1) Whether the Company has disclosed relevant and reliable information relating to corporate social responsibility on its website or MOPS?</p> | ✓ | | Per the requirements by TPEX, the Company would disclose its related information on MOPS and the Company's website. Notwithstanding, the Company has not yet prepared its corporate social responsibility report. | The Company discloses the relevant and reliable information relating to corporate social responsibility in a timely manner. |
| 5. If the Company has established its own rules of corporate social responsibility based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe any nonconformity with the Principles and their implementation: The Company has established "Corporate Social Responsibility Best Practice Principles". | | | | |
| 6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices: N/A. | | | | |
| 7. Verification of the Company products or Corporate Social Responsibility Report according to the standards of relevant certifying organizations, if any: N/A. | | | | |

Note 1: Irrelevant with "Yes" or "No", the status of operations shall be stated in the summary descriptions section.

Note 2: Where the Company has prepared a Corporate Social Responsibility Report, the summary thereof may not be required only if this report specifies that please refer to the Corporate Social Responsibility Report, or may be replaced by the index page number.

(6) Corporate observance of ethical corporate management practices and adopted measures

Fulfillment of ethical corporate management

| Item | Status (Note 1) | | | Nonconformity to the Ethical Corporate Management Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|-----------------|----|---|---|
| | Yes | No | Memo | |
| 1. Enactment of ethical management policy and program | | | | No material nonconformity |
| (1) Whether the Company expressly states the ethical policy and its fulfillment by the board of directors and the management in its Articles of Incorporation and public documents? | ✓ | | (1) The Company has established its "Ethical Corporate Management Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct", "Codes of Ethical Conduct", and "Complaint Procedures." Board of directors and managers of the Company shall fulfill duty of care of prudent administrator, supervise prevention of dishonest behavior, examine and improve result on a continual basis, and ensure practice of ethical management policy. | |
| (2) Whether the Company defines the policy against unethical conduct, and expressly states the SOP, guidelines and reward and disciplinary & complaining systems for misconduct, and also implements the policy precisely? | ✓ | | (2) The Company has defined the "Complaint Procedures" and "Work Rules" to strictly prohibit all personnel from committing unethical conduct. "Unethical conduct" means that any personnel of the Company, in the course of their duties, directly or indirectly provides, promises, requests, or accepts improper benefits or commits a breach of ethics, unlawful act, or breach of fiduciary duty for purposes of acquiring or maintaining benefits. The regulations mentioned have been announced to all employees and have been incorporated into the Company's internal training programs to prevent the Company's employees or others from violating ethical business practices. | |
| (3) Whether the Company takes any prevention measures against the operating activities involving high unethical conduct under Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or within other operating areas? | ✓ | | (3) The Company has established its "Ethical Corporate Management Best Practice Principles." When establishing prevention programs, with a view to achieving better implementation of ethical management, the Company shall analyze business activities within their business scope and determine which ones are at a higher risk of being involved in unethical conduct, and strengthen preventive measures for those determined to be at higher risk. | |

| Item | Status (Note 1) | | | Nonconformity to the Ethical Corporate Management Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|--|-------------------|----|--|---|
| | Yes | No | Memo | |
| <p>2. Fulfillment of ethical corporate management</p> <p>(1) Whether the Company assesses a trading counterpart's ethical management record, and expressly states the ethical management clause in the contract to be signed with the trading counterpart?</p> <p>(2) Whether the Company establishes a dedicated unit (concurrently engaged in promoting) to promote corporate ethical management, and reports the execution thereof to the Board of Directors?</p> | <p>✓</p> <p>✓</p> | | <p>(1) The Company shall avoid business transactions with an unethical agent, supplier, customer, or other counterparty in commercial interactions. When the counterparty or partner is found to have engaged in unethical conduct, the personnel shall immediately cease dealing with the counterparty and blacklist it for any further business interaction in order to effectively implement this Company's ethical management policy.</p> <p>(2) (a)The Company has established "Ethical Corporate Management Best Practice Principles" and assigned Chairman's Office as a dedicated unit to promote corporate ethical management. Meanwhile, each of the Company's units shall engage in various operating activities ethically.</p> <p>(b)Regarding business activities within the Company's business scope which are determined to be at a higher risk of being involved in unethical conduct, the Company shall not offer or accept improper benefits, nor provide illegal political donations. To aggregate the relevant units of the Company for the implementation of case integrity management, and shall report to the board of directors on a regular basis.</p> <p>(c)When entering into contracts with their agents, suppliers, clients, or other trading counterparties, the Company shall include in such contracts terms requiring compliance with ethical corporate management policy and that in the event trading counterparties are involved in unethical conduct, the Company can, at any time, terminate or rescind the contracts.</p> | No material nonconformity |

| Item | Status (Note 1) | | | Nonconformity to the Ethical Corporate Management Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|--|----------------------------|----|--|---|
| | Yes | No | Memo | |
| <p>(3) Whether the Company defines any policy against conflict of interest, provides adequate channel thereof, and fulfill the same precisely?</p> <p>(4) Whether the Company has fulfilled the ethical management by establishing effective accounting system and internal control system, and had internal audit unit to conduct periodic audit, or appointed an external auditor to conduct the audit?</p> <p>(5) Whether the Company organizes internal/external education training program for ethical management periodically?</p> | <p>✓</p> <p>✓</p> <p>✓</p> | | <p>(3) The Company has established its "Ethical Corporate Management Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct", and "Complaint Procedures" which all clearly regulate the policy of preventing conflicts of interests and establish adequate channels of communications. Upon discovering or receiving an offence report about any personnel's involvement in unethical conduct, the responsible unit shall ascertain the relevant facts without delay.</p> <p>(4) (a)The Company establishes effective accounting system and internal control system and implements the same effectively to ensure fulfillment of the ethical corporate management. (b)The audit unit will audit the Company's operations periodically. As of today, there is no violation of integrity.</p> <p>(5) The Company periodically promotes its corporate ethical management policies at employee conference.</p> | No material nonconformity |
| <p>3. Status of the Company's complaint system.</p> <p>(1) Whether the Company has defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation?</p> | <p>✓</p> | | <p>(1) The Company has established its "Codes of Ethical Conduct", "Work Rules", and "Complaint Procedures" and assigned Chairman's Office as the dedicated unit. The Company has also defined a disciplinary and reward system. Any employee who is behaves against the rules will be disciplined, subject to the circumstances.</p> | No material nonconformity |

| Item | Status (Note 1) | | | Nonconformity to the Ethical Corporate Management Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|---|-----------------|----|---|---|
| | Yes | No | Memo | |
| (2) Whether the Company has defined the standard operating procedure and non-disclosure mechanism toward the investigation on the complaints as accepted? | ✓ | | (2) (a) Upon discovering or receiving an offence report about any personnel's involvement in unethical conduct, the Company shall ascertain the relevant facts without delay; if it is verified that there is indeed a violation of applicable laws and regulations or the Company's policy and procedures of ethical management, the Company shall immediately require the violator to cease the conduct and shall make an appropriate disposition. When necessary, the Company will institute legal proceedings and seek damages to safeguard its reputation and its rights and interests. (b) With respect to the unethical conduct that has occurred, the Company shall charge relevant units with the task of reviewing the internal control system and relevant procedures and proposing corrective measures to prevent a recurrence of the same unethical conduct. The responsible unit of the Company shall submit to the board of directors a report on the unethical conduct, actions taken, and subsequent reviews and corrective measures. | No material nonconformity |
| (3) Whether the Company has adopted any measures to prevent complainants from being abused after filing complaints? | ✓ | | (3) The Company offers appropriate and independent procedures for offence reporter to adopt. Meanwhile, the Company shall keep the identity of offence reporter and its report content in confidence, and shall protect such reporter from being subject to inappropriate disposition due to his/her offence report. | |
| 4. Strengthening information disclosure (1) Whether the Company has disclosed its rules of ethical corporate management and effect of implementation thereof on its website and MOPS? | ✓ | | The Company has disclosed its "Ethical Corporate Management Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct", "Codes of Ethical Conduct", and "Complaint Procedures" on the Company's official website. | No material nonconformity |
| 5. If the Company has established its own rules of ethical corporate management based on "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please describe any nonconformity with the Principles and their implementation: No material nonconformity. | | | | |

| Item | Status (Note 1) | | | Nonconformity to the Ethical Corporate Management Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof: |
|--|-----------------|----|------|---|
| | Yes | No | Memo | |
| 6. Other important information regarding the Company’s ethical management (e.g., the Company’s reviewing and amending the Company’s rules of ethical corporate management, etc.): As of today, there is no violation of integrity. | | | | |

Note 1: Irrelevant with "Yes" or "No", the status of operations shall be stated in the summary descriptions section.

(7) Please disclose the access to the Company's rules of corporate governance and related rules and regulations, if any:

The Company has established its own rules of corporate governance and related rules and regulations, and disclosed the same on the MOPS.

(8) Other information enabling better understanding of the Company's corporate governance:

1. The Company's directors and supervisors participated in the corporate governance related training as follows:

| Title | Name | Date | Host by | Training/Speech Title | Duration (hours) |
|-----------------------|------------------|---------------|--|--|------------------|
| Chairman of the Board | Wen, Kow-Liang | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | | Taiwan Corporate Governance Association | M&A Practice and Case Analysis | 3 |
| Director | Chiou, San-Wen | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | Dec. 8, 2017 | Accounting Research and Development Foundation | The Major Changes in Economic and Tax Policies under Trump's New Government and the Countermeasures for Taiwan Businessmen | 3 |
| Director | Yang, Shih-Tsung | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | | Taiwan Corporate Governance Association | M&A Practice and Case Analysis | 3 |
| Director | Lin, Kun-Chih | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | | Taiwan Corporate Governance Association | M&A Practice and Case Analysis | 3 |
| Independent Director | Wang, Hui-Ming | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | Sep. 14, 2017 | Taiwan Academy of Banking and Finance | Corporate Governance Forum: Business Continuity | 3 |
| Independent Director | Tang, Ching-Chou | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | Sep. 14, 2017 | Taiwan Academy of Banking and Finance | Corporate Governance Forum: Business Continuity | 3 |
| Independent Director | Hsu, Chia-Hung | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | | Taiwan Corporate Governance Association | M&A Practice and Case Analysis | 3 |
| Supervisor | Kung, Ching-Jung | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | | Taiwan Corporate Governance Association | M&A Practice and Case Analysis | 3 |
| Supervisor | Lu, Shao-Chun | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | | Taiwan Corporate Governance Association | M&A Practice and Case Analysis | 3 |
| Supervisor | Hsu, Ming-Hsien | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| | | | Taiwan Corporate Governance Association | M&A Practice and Case Analysis | 3 |

2. The Company's president, deputy president, and accounting/finance/internal audit officers participated in the corporate governance related training as follows:

| Title | Name | Date | Host by | Training/Speech Title | Duration (hours) |
|-------------------------|------------------|---------------|--|---|------------------|
| President | Chiou, San-Wen | Mar. 28, 2017 | Taiwan Corporate Governance Association | Corporate Governance and the Obligations and Responsibilities of the Responsible Person of the Corporation | 3 |
| Director, Finance Dept. | Hung, Hsien-Ling | Aug. 25, 2017 | Accounting Research and Development Foundation | Continuing Education Courses (Including Corporate Governance) for Issuers, Securities Dealers, and Stock Exchange Accounting Executives | 3 |

(9) Implementation of the internal control system:

1. Declaration of Internal Control: See page 97.
2. Auditor's report on special audit of internal control system, if any: N/A.

(10) Punishment of the Company or its internal personnel in accordance with law, the Company's punishment of its internal personnel for violating internal control system regulations, main deficiencies, and improvements during the most recent year and up to the date of publication of this annual report: N/A.

(11) Resolutions reached in the shareholder's meeting or by the board of directors during the most recent year and up to the date of publication of this annual report:

1. Important resolutions and implementation status from 2017 Shareholders' Meeting:

| Date | Resolution unit | Important resolutions and implementation |
|--------------|-----------------------|---|
| May 23, 2017 | Shareholders' Meeting | <p>1. Passed the motion for the Company's 2016 business report and financial statement.</p> <p>2. Passed the motion for allocation of the Company's earnings 2016. Implementation status: The record date was set at Aug. 8, 2017 and the payment date at May 23, 2017. (NT\$0.513 per share in cash)</p> <p>3. Passed the amended clauses of the Company's "Articles of Incorporation." Implementation status: Announced on the Company's website on May 23, 2017 and processed according to revised procedures.</p> <p>4. Passed the amended clauses of the Company's "Rules for Election of Directors and Supervisors." Implementation status: Announced on the Company's website on May 23, 2017 and processed according to revised procedures.</p> |

2. During the most recent year and as of the date of this Annual Report, independence directors' opinions or resolutions of major matters approved at Board meetings:

| Date | Agenda and follow-up | Matters listed in Article 14-3 of the Securities and Exchange Act | Objections or qualified opinions from the independent directors |
|---------------|---|---|---|
| Feb. 14, 2017 | 1. The motion for passing the 2016 Declaration of Internal Control. | V | - |
| | 2. The motion for allocating remuneration to the Company's employees and directors/supervisors 2016. | V | - |
| | 3. The motion for approving the Company's business report and financial statement 2016. | - | - |
| | 4. The motion for allocating the Company's earnings 2016. | - | - |
| | 5. The motion for allocating the Company's performance bonus 2016. | - | - |
| | 6. The motion for passing statement of allocation of performance bond to the Company's managerial officers 2016. | - | - |
| | 7. The motion for approving Megawin managerial officer's remuneration policy and performance evaluation 2017. | - | - |
| | 8. The motion for evaluating the independence of CPA. | - | - |
| | 9. The motion for passing the Company's planned operating budget 2017. | - | - |
| | 10. The motion for passing amendments to the Company's "The Internal Control System—4007 Property, Plant and Equipment Circle" in part. | V | - |
| | 11. The motion for approving amendments to the Company's "Articles of Incorporation" in part. | - | - |
| | 12. The motion for approving amendments to the Company's "Rules for Election of Directors and Supervisors" in part. | - | - |

| Date | Agenda and follow-up | Matters listed in Article 14-3 of the Securities and Exchange Act | Objections or qualified opinions from the independent directors |
|---|---|---|---|
| Feb. 14, 2017 | 13. The motion for approving 1st repurchase of the Company's stock from over-the-counter market and transfer of the same to employees 2017. | - | - |
| | 14. The motion for convening the 2017 Annual Shareholders' Meeting. | - | - |
| | 15. The motion for passing acceptance of motions submitted by more than 1% shareholders. | - | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |
| May 2, 2017 | 1. The motion for approving amendments to allocation of the Company's earnings 2016. | - | - |
| | 2. The motion for approving the Company's consolidated financial statement of Q1, 2017. | - | - |
| | 3. The motion for establishing the Company's "3032 Procedures for Ethical Management and Guidelines for Conduct." | - | - |
| | 4. The motion for establishing the Company's "3033 Complaint Procedures." | - | - |
| | 5. The motion for approving loan from financial institutions for working capital financing. | - | - |
| | 6. The motion for approving the promotion of Mr. Wang, Chih-Huang (Director of Product Development Div.). | - | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |
| Aug. 1, 2017 | 1. The motion for passing the Company's consolidated financial statement of Q2, 2017. | - | - |
| | 2. The motion for discussing about the allocation of bonus to managerial officers and employees 2016. | - | - |
| | 3. The motion for discussing about the allocation of remuneration to directors/supervisors 2016. | V | - |
| | 4. The motion for reviewing organization restructuring of the Company and approving the assignment of Mr. Ely Peng. | - | - |
| | 5. The motion for passing amendments to the Company's "The Internal Control System—4001 Sales & Receivables Cycle" in part. | V | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |
| May 23, 2017 | 1. The motion for approving the Company's business report and financial statement 2016. | - | - |
| | 2. The motion for passing allocation of the Company's earnings 2016. | - | - |
| | 3. The motion for passing amendments to the Company's "Articles of Incorporation" in part. | - | - |
| | 4. The motion for passing amendments to the Company's "Rules for Election of Directors and Supervisors" in part. | - | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |
| Nov. 7, 2017 | 1. The motion for approving the Company's consolidated financial statement of Q3, 2017. | - | - |
| | 2. The motion for approving audit plan 2018. | - | - |
| | 3. The motion for passing amendments to the Company's "3008 Regulations for Customer Credit and Accounts Receivable Management Approach." | - | - |
| | 4. The motion for passing amendments to the Company's "2001 Regulations for Governing Authorization and Administration." | - | - |
| | 5. The motion for passing application with Hsinchu Branch of CTBC Bank for working capital. | - | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |

| Date | Agenda and follow-up | Matters listed in Article 14-3 of the Securities and Exchange Act | Objections or qualified opinions from the independent directors |
|---|--|---|---|
| Dec. 26, 2017 | 1. The motion for passing the Company's planned operating budget 2018. | - | - |
| | 2. The motion for passing amendments to the Company's "3008 Regulations for Customer Credit and Accounts Receivable Management Approach." | - | - |
| | 3. The motion for evaluating the independence of CPA. | - | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |
| Feb. 13, 2018 | 1. The motion for passing the 2017 Declaration of Internal Control. | - | - |
| | 2. The motion for approving the Company's business report and financial statement 2017. | - | - |
| | 3. The motion for passing application with financial organization for working capital. | - | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |
| Mar. 6, 2018 | 1. The motion for allocating remuneration to the Company's employees and directors/supervisors 2017. | V | - |
| | 2. The motion for approving the Proposal for 2017 Deficit Compensation. | - | - |
| | 3. The motion for approving Megawin managerial officer's remuneration policy and performance evaluation 2018. | - | - |
| | 4. The motion for approving amendments to the Company's "Procedures for Acquisition or Disposal of Assets" in part. | V | - |
| | 5. The motion for approving amendments to the Company's "Rules for Election of Directors and Supervisors" in part. | - | - |
| | 6. The motion for approving amendments to the Company's "Rules of Procedure for Board of Directors Meetings" in part. | - | - |
| | 7. The motion for the 8th Directors and Supervisors election. | - | - |
| | 8. The motion for nominating 2018 directors (including independent directors) and supervisors candidates. | - | - |
| | 9. The motion for releasing the non-competition restriction for the would-be newly elected directors and their representatives. | V | - |
| | 10. The motion for accepting nomination of directors (including independent directors) and supervisors submitted by shareholders of the Company holding, individually or jointly, 1% or more of the shares of the Company. | - | - |
| | 11. The motion for allocating remuneration to the Company's employees and directors/supervisors 2017. | V | - |
| | 12. The motion for approving the Proposal for 2017 Deficit Compensation. | - | - |
| Opinions of independent directors: None. | | | |
| The company's responses to the independent directors' opinions: None. | | | |
| Resolution: Agreed by all attending directors unanimously. | | | |

(12) Recorded or written statements made by any director or supervisor which specified dissent to important resolutions passed by the board of directors during the most recent year and up to the date of publication of this annual report: N/A.

(13) Summary of resignation or dismissal of Chairman, president, accounting managers, financial managers, internal audit managers and R&D managers in the most recent year and up to the date of publication of this annual report: N/A.

5. Information about CPA Professional Fee

| Firm Name | CPA Name | | Duration of Audit | Remarks |
|-------------------|----------------|---------------|-------------------|---------|
| Deloitte & Touche | Tsai, Mei-Chen | Yeh, Tung-Hui | 2017 | |

Note: If the CPA or CPA office is replaced in the then year, please specify the duration of audit separately, and the cause of replacement in the "Remarks" Section.

Breakdown of CPA Professional Fee

Unit: NTD thousand

| Price range | | Fees | Audit fees | Non-Audit fees | Total |
|-------------|--|------|------------|----------------|-------|
| 1 | Less than NT\$2,000 thousand | | | | |
| 2 | NT\$2,000 thousand (inclusive)~NT\$4,000 thousand | | 2,460 | | 2,460 |
| 3 | NT\$4,000 thousand (inclusive)~NT\$6,000 thousand | | | | |
| 4 | NT\$6,000 thousand (inclusive)~NT\$8,000 thousand | | | | |
| 5 | NT\$8,000 thousand (inclusive)~NT\$10,000 thousand | | | | |
| 6 | More than NT\$10,000 thousand (inclusive) | | | | |

- (1) Non-audit fees paid to the CPA, CPA firm and their affiliates exceeded the audit fees in excess of twenty-five percent, if any.

Unit: NTD thousand

| Firm Name | CPA Name | Audit Fees | Non-Audit Fees | | | | | Duration of Audit | Remarks |
|-------------------|----------------|------------|----------------|--|----------------|-----------------|----------|-------------------|---------|
| | | | System design | Commercial and industrial registration | Human resource | Others (Note 2) | Subtotal | | |
| Deloitte & Touche | Tsai, Mei-Chen | 2,460 | | | | | | 2017 | |
| | Yeh, Tung-Hui | | | | | | | | |

Note 1: If the CPA or CPA office is replaced in the then year, please specify the duration of audit separately, and the cause of replacement in the "Remarks" Section, and also the audit fees and non-audit fees paid to them in order.

Note 2: The non-audit fees shall be stated by the scope of service. If the "others" section of the non-audit fees reach 25% of the total non-audit fees, the scope of service shall be identified in the Remarks section.

- (2) Change of CPA firm and the audit fees for the year of the change less that of the previous year, and the amount of audit fees before and after the change, and reasons of the change: N/A.

- (3) If audit fees were 15% less than that of the previous year, please disclose the amount, percentage and reason of the reduction in the audit fees: N/A.

6. Information about replacement of CPA: N/A.

7. Information About Chairman, President, and Financial or Accounting Manager of the Company Who Has Worked with the CPA Firm Which Conducts the Audit of the Company or Affiliate to Such Firm in the Most Recent One Year: N/A.

8. Any transfer of equity interests and pledge of or change in equity interests by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent in the most recent year and until to the date of publication of the annual report

(1) Change in equity of directors, supervisors, managerial officers, and major shareholders

Unit: shares

| Job title (Note 1) | Name | 2017 | | Ending March 30, 2018 | |
|--------------------------------------|--|--|--|--|--|
| | | Increase (decrease) in shares held | Increase (decrease) in shares pledged | Increase (decrease) in shares held | Increase (decrease) in shares pledged |
| Chairman of the Board, and CEO | Wen, Kow-Liang | – | – | – | – |
| Director, and President | Chiou, San-Wen | – | – | – | – |
| Director | Sheng Der International Investment Limited Company | – | – | – | – |
| Director | Yang, Shih-Chung | – | – | – | – |
| Independent Director | Hsu, Chia-Hong | – | – | – | – |
| Independent Director | Wang, Hwi-Ming | – | – | – | – |
| Independent Director | Tang, Ching-Chou | – | – | – | – |
| Supervisor | Kung, Ching-Jung | – | – | – | – |
| Supervisor | Lu, Shao-Chun | – | – | – | – |
| Supervisor | Hsu, Min-Hsien | – | – | – | – |
| Executive Vice President | Ely Peng | – | – | – | – |
| Vice President | Charng Pin | – | – | – | – |
| Vice President | Wang, Chih-Huang | – | – | – | – |
| Director | Liou, Thi-Ing | – | – | – | – |
| Director | Hong, Hsien-Ling | – | – | – | – |
| Director | Kao, Yuan-Chung | – | – | – | – |

Note 1: The shareholders who hold more than 10% of the Company's shares shall be identified as major shareholders and stated separately.

Note 2: Where the counterparts of shares through transfer and pledged under lien are stakeholders, it is also necessary to complete the table, "Information about Equity Transfer" or "Information about Equity Pledged under Lien".

Note 3: Newly elected as Executive Vice President of Marketing Center on Aug. 1, 2017.

Note 4: Newly elected as Director of Outsourcing Service Div. on May 2, 2017.

(2) Information about equity transfer: N/A.

(3) Information about equity pledged under lien: N/A.

9. Information on top 10 shareholders in proportion of shareholdings and are stakeholders, spouses, or related to one another or kin at the second pillar under the Civil Code to one another

March 30, 2018

| Name (Note 1) | Own Shareholding | | Number of shares held by their spouses and minor children | | Number of shares held under another person's name | | Top 10 shareholders in proportion of shareholdings and are stakeholders, spouses, or related to one another or kin at the second pillar under the Civil Code to one another, their names and relations (Note 3) | | Remarks |
|---|------------------|------------------------|---|------------------------|---|------------------------|---|--|---------|
| | Number of shares | Ratio of share holding | Number of shares | Ratio of share holding | Number of shares | Ratio of share holding | Designation (or Name) | Relation | |
| Silicon Integrated Systems Corp. Representative: Louis Chien | 3,618,000 | 8.06% | - | - | - | - | N/A | N/A | |
| | - | - | - | - | - | - | N/A | N/A | |
| Wen, Kow-Liang | 2,714,598 | 6.91% | 409,646 | 1.04% | - | - | Sheng Der International Investment Limited Company | Same Chairman of the Board | |
| | | | | | | | Sheng Chi International Investment Limited Company | Kin within the 2nd tier under the Civil Code with the Chairman | |
| Sheng Der International Investment Limited Company Representative: Wen, Kow-Liang | 1,804,935 | 4.59% | - | - | - | - | Sheng Chi International Investment Limited Company | Kin within the 2nd tier under the Civil Code with the Chairman | |
| | 2,714,598 | 6.91% | 409,646 | 1.04% | - | - | Wen, Kow-Liang | Same Chairman of the Board | |
| Han Xin Investment Co., Ltd. Representative: Wu, Ying-Lin | 1,667,471 | 4.24% | - | - | - | - | N/A | N/A | |
| | - | - | - | - | - | - | N/A | N/A | |
| Mega International Commercial Bank Co., Ltd. Representative: Chang, Chao-Shun | 1,539,519 | 3.92% | - | - | - | - | N/A | N/A | |
| | - | - | - | - | - | - | N/A | N/A | |
| Chiou, San-Wen | 1,283,928 | 3.27% | - | - | - | - | N/A | N/A | |
| Wang, Chih-Huang | 659,893 | 1.68% | - | - | - | - | N/A | N/A | |
| Charng Pin | 468,031 | 1.19% | - | - | - | - | N/A | N/A | |
| Sheng Chi International Investment Limited Company Representative: Wen, Ching-Yi | 452,364 | 1.15% | - | - | - | - | Sheng Der International Investment Limited Company | Kin within the 2nd tier under the Civil Code with the Chairman | |
| | 219,000 | 0.56% | - | - | - | - | Wen, Kow-Liang | Kin within the 2nd tier under the Civil Code with the Chairman | |
| Lu, Shao-Chun | 410,185 | 1.04% | - | - | - | - | N/A | N/A | |

Note 1: The top ten shareholders' names shall be identified separately (in the case of institutional shareholders, the institutional shareholders' names and representatives' names shall be identified separately).

Note 2: The ratio of shareholding is calculated in terms of own shareholdings, shares held by spouse & children under age or shareholdings under the title of a third party.

Note 3: The shareholders identified above include juristic persons and natural persons, and the relationship among them shall be disclosed in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

10. Quantity of shareholdings of the same investee by the Company, and directors, supervisors, managerial officers of the Company and the business directly or indirectly controlled by the Company, and the combined shareholdings

Unit: Thousand shares/%; December 31, 2017

| Investee (Note 1) | Invested by the Company | | Invested by directors, supervisors, management, and enterprises controlled by the Company directly or indirectly | | Combined Investment | |
|--|----------------------------|--------------------------|--|--------------------------|------------------------|--------------------------|
| | Number of shares | Ratio of Shareholding | Number of shares | Ratio of Shareholding | Number of shares | Ratio of Shareholding |
| Regent Pacific Management Ltd. | 921 | 100% | - | - | 921 | 100% |
| MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED (Note 2) | - | - | 3,129 | 100% | 3,129 | 100% |
| MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED (Note 3) | - | - | 300 | 100% | 300 | 100% |

Note 1: The Company's long-term investment.

Note 2: Indirectly invested via a third territory.

Note 3: Indirectly invested via MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED.

IV. Status of Fund Raising

1. Capital Stock and Shares

(1) Source of Capital Stock

1. Formation of capital stock

Unit: NTD thousand; thousand shares

| Year/ Month | Issuing price | Authorized capital stock | | Paid-in capital stock | | Remarks | | |
|-------------------|------------------|-----------------------------|---------|-----------------------|---------|---|--|-----------|
| | | Number of shares | Amount | Number of shares | Amount | Source of Capital Stock | Offset by any property other than cash | Others |
| June 1999 | 10 | 20,000 | 200,000 | 7,000 | 70,000 | Registration of incorporation: NT\$70,000 thousand | N/A | Note 2-1 |
| May 2000 | 16 | 20,000 | 200,000 | 13,000 | 130,000 | Capital increase in cash: NT\$60,000 thousand | N/A | Note 2-2 |
| June 2001 | 38/10 | 45,000 | 450,000 | 27,546 | 275,458 | Capital increase in cash: NT\$70,000 thousand | N/A | Note 2-3 |
| | | | | | | Capital increase in cash: NT\$75,458 thousand | | |
| May 2007 | 11.85 | 45,000 | 450,000 | 27,888 | 278,878 | Capital increase in employee stock options: NT\$3,420 thousand | N/A | Note 2-4 |
| August 2007 | 11.85 | 45,000 | 450,000 | 28,971 | 289,708 | Capital increase in employee stock options: NT\$10,830 thousand | N/A | Note 2-5 |
| November 2007 | 11.195 | 45,000 | 450,000 | 29,173 | 291,728 | Capital increase in employee stock options: NT\$2,020 thousand | N/A | Note 2-6 |
| March 2008 | 11.195 | 45,000 | 450,000 | 29,677 | 296,768 | Capital increase in employee stock options: NT\$5,040 thousand | N/A | Note 2-7 |
| June 2008 | 11.195 | 45,000 | 450,000 | 29,779 | 297,788 | Capital increase in employee stock options: NT\$1,020 thousand | N/A | Note 2-8 |
| July 2008 | 10 | 45,000 | 450,000 | 34,128 | 341,275 | Capital increase in cash: NT\$43,387 thousand | N/A | Note 2-9 |
| July 2009 | 10 | 45,000 | 450,000 | 34,578 | 345,779 | Capital increase in cash: NT\$4,504 thousand | N/A | Note 2-10 |
| April 2010 | 10.5 | 45,000 | 450,000 | 35,289 | 352,889 | Capital increase in employee stock options: NT\$7,110 thousand | N/A | Note 2-11 |
| September 2010 | 10.5 | 45,000 | 450,000 | 35,508 | 355,079 | Capital increase in employee stock options: NT\$2,190 thousand | N/A | Note 2-12 |
| April 2011 | 10.5 & 12.8 | 45,000 | 450,000 | 35,881 | 358,809 | Capital increase in employee stock options: NT\$3,730 thousand | N/A | Note 2-13 |
| July 2011 | 10.5 & 12.8 | 45,000 | 450,000 | 35,963 | 359,629 | Capital increase in employee stock options: NT\$820 thousand | N/A | Note 2-14 |
| January 2013 | 10 | 45,000 | 450,000 | 35,531 | 355,309 | Cancellation of treasury stock: NT\$4,320 thousand | N/A | Note 2-15 |
| December 2013 | 10 | 45,000 | 450,000 | 34,531 | 345,309 | Cancellation of treasury stock: NT\$10,000 thousand | N/A | Note 2-16 |
| January 2015 | 15 | 45,000 | 450,000 | 39,531 | 395,309 | Capital increase in cash: NT\$50,000 thousand | N/A | Note 2-17 |
| November 2015 | 10 | 45,000 | 450,000 | 39,299 | 392,999 | Cancellation of treasury stock: NT\$2,310 thousand | N/A | Note 2-18 |

Note 1: Please specify the information for the current year available until the date of the publication of the annual report.

Note 2: The capital increase part shall be identified by effective (approval) date and document No. additionally.

- Note 2-1: The capital stock NT\$70,000,000 thousand for the registration of incorporation was authorized by the approval letter of the Ministry of Economic Affairs under 88-Chien-3-Hsin-Tzu No. 190243 in 1999.
- Note 2-2: The capital increase NT\$60,000,000 was authorized by the approval letter of the Ministry of Economic Affairs under (89)-Shang-Tzu No. 089113011 in 2000.
- Note 2-3: The capital increase NT\$70,000,000 and recapitalization of earnings NT\$75,458,300 were authorized by the approval letter of the Ministry of Economic Affairs under (90)-Shang-Tzu No. 09001214720 dated June 12, 2001.
- Note 2-4: The capital increase in employee stock option NT\$3,420,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09632066030 dated May 3, 2007.
- Note 2-5: The capital increase in employee stock option NT\$10,830,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09632602040 dated August 14, 2007.
- Note 2-6: The capital increase in employee stock option NT\$2,020,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09633035590 dated November 12, 2007.
- Note 2-7: The capital increase in employee stock option NT\$5,040,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09731850490 dated March 11, 2008.
- Note 2-8: The capital increase in employee stock option NT\$1,020,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09732382970 dated June 5, 2008.
- Note 2-9: The recapitalization of earnings NT\$43,487,010 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09732749980 dated July 31, 2008.
- Note 2-10: The recapitalization of earnings NT\$4,504,030 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09832736330 dated July 29, 2009.
- Note 2-11: The capital increase in employee stock option NT\$7,110,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09931856370 dated April 1, 2010.
- Note 2-12: The capital increase in employee stock option NT\$2,119,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 09932562910 dated September 9, 2010.
- Note 2-13: The capital increase in employee stock option NT\$3,730,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 10031853440 dated April 8, 2011.
- Note 2-14: The capital increase in employee stock option NT\$820,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 10032238900 dated July 11, 2011.
- Note 2-15: The cancellation of treasury stock NT\$4,320,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 10233052380 dated January 14, 2013.
- Note 2-16: The cancellation of treasury stock NT\$10,000,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 10234169040 dated December 30, 2013.
- Note 2-17: The capital increase NT\$50,000,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 10433086700 dated January 30, 2014.
- Note 2-18: The cancellation of treasury stock NT\$2,310,000 was authorized by the approval letter of the Ministry of Economic Affairs under Ching-Chung-Tzu No. 10433960750 dated November 30, 2015.

Note 3: The stock issued at the price less than the par value shall be identified prominently.

Note 4: Please specify the offset by monetary creditor's right and technology, if any, and also note the type and amount of offset.

Note 5: The private placement, if any, shall be identified prominently.

2. Type of share

Unit: shares

| Type of share | Authorized capital stock | | | Remarks |
|-------------------------|---------------------------------------|--------------------|------------|---------|
| | Outstanding Shares (Listed) (Note) | Unissued Shares | Total | |
| Registered common stock | 39,299,934 | 5,700,066 | 45,000,000 | - |

Note: Please specify whether the stock refers to TWSE or GTSM stock (the stock forbidden from being traded in TWSE or GTSM, if any, shall be identified): The Company's stock was listed on January 26, 2015.

3. If approval has been granted to offer and issue securities by shelf registration, please also disclose the approved amount and information regarding securities to be issued or already issued: N/A.

(2) Composition of Shareholders

March 30, 2018

| Composition of Shareholders | Government Apparatus | Financial Organization | Other Juristic Persons | Individual | Foreign Institution or Foreigner | Total |
|-----------------------------|----------------------|------------------------|------------------------|------------|----------------------------------|------------|
| Quantity | | | | | | |
| Number of person | 0 | 1 | 98 | 8,027 | 5 | 8,131 |
| Current shareholding | 0 | 1,539,519 | 8,549,799 | 29,195,617 | 14,999 | 39,299,934 |
| Ratio of Shareholding | 0% | 3.92% | 21.76% | 74.29% | 0.03% | 100% |

Note: The primary exchange-listed and primary OTC-listed companies shall disclose the shareholdings by their Mainland China investment. The Mainland China investment refers to the people, juristic person, group, other institution, and company invested in a third territory of the Mainland China as defined in Article 3 of the Measures Governing Investment Permit to the People of the Mainland Area.

(3) Diversification of equity

Par value at NT\$10 per share; March 30, 2018

| Range of Shares | Number of Shareholders | Current shareholding | Ratio of Shareholding (%) |
|---------------------|------------------------|----------------------|---------------------------|
| 1~999 | 6,340 | 32,302 | 0.08 |
| 1,000~5,000 | 1,105 | 2,441,420 | 6.21 |
| 5,001~10,000 | 266 | 2,149,498 | 5.47 |
| 10,001~15,000 | 103 | 1,320,945 | 3.36 |
| 15,001~20,000 | 70 | 1,291,538 | 3.29 |
| 20,001~30,000 | 73 | 1,860,440 | 4.73 |
| 30,001~40,000 | 38 | 1,347,156 | 3.43 |
| 40,001~50,000 | 28 | 1,281,685 | 3.26 |
| 50,001~100,000 | 52 | 3,731,126 | 9.49 |
| 100,001~200,000 | 25 | 3,548,428 | 9.03 |
| 200,001~400,000 | 19 | 4,716,826 | 12.00 |
| 400,001~600,000 | 4 | 1,740,226 | 4.43 |
| 600,001~800,000 | 1 | 659,893 | 1.68 |
| 800,001~1,000,000 | 1 | 1,000,000 | 2.55 |
| More than 1,000,000 | 6 | 12,178,451 | 30.99 |
| Total | 8,131 | 39,299,934 | 100.00 |

(4) Roster of Major Shareholders

Unit: shares; March 30, 2018

| Name of Major Shareholders | Share | Current shareholding | Ratio of Shareholding (%) |
|--|-------|----------------------|---------------------------|
| Silicon Integrated Systems Corp. | | 3,168,000 | 8.06% |
| Wen, Kow-Liang | | 2,714,598 | 6.91% |
| Sheng Der International Investment Limited Company | | 1,804,935 | 4.59% |
| Han Xin Investment Co., Ltd. | | 1,667,471 | 4.24% |
| Mega International Commercial Bank Co., Ltd. | | 1,539,519 | 3.92% |
| Chiou, San-Wen | | 1,283,928 | 3.27% |
| Wang, Chih-Huang | | 659,893 | 1.68% |
| Charng Pin | | 468,031 | 1.19 % |
| Sheng Chi International Investment Limited Company | | 452,364 | 1.15% |
| Lu, Shao-Chun | | 410,185 | 1.04% |

(5) Information on market value, net value, earnings and dividends per share in the most recent two years

Unit: NTD thousand; thousand shares

| Title | | Year | 2016 | 2017 | Ending Feb. 28, 2018 (Note 8) |
|---------------------------------|---|-------------------------------------|--------|------------------|-------------------------------|
| Market price per share (Note 1) | Highest | | 24.20 | 18.95 | 18.75 |
| | Lowest | | 13.60 | 13.70 | 15.80 |
| | Average | | 18.86 | 16.28 | 16.87 |
| Net value per share (Note 2) | Before distribution | | 13.53 | 12.617 | - |
| | After distribution | | 13.03 | (Note 9) | - |
| EPS | Weighted average shares (thousand shares) | | 39,059 | 38,543 | - |
| | EPS (Note 3) | | 0.67 | (0.40) (Note 9) | - |
| Stock dividend | Cash dividend | | 0.513 | 0.20 (Note 9) | - |
| | Free-Gratis dividends | Retained shares distribution | - | - | - |
| | | Capital surplus shares distribution | - | - | - |
| | Retained dividend (Note 4) | | - | - | - |
| Return on investment analysis | Price-Earnings Ratio (Note 5) | | 28.15 | (40.70) (Note 9) | - |
| | Dividend Yield (Note 6) | | 36.76 | 81.40 (Note 9) | - |
| | Cash dividend yield (Note 7) | | 2.72 | 1.23 (Note 9) | - |

*In the case of retained shares distribution or capital surplus shares distribution, please also disclose the information about the market value and cash dividend adjusted retroactively based on the quantity of shares as distributed.

Note 1: Please identify the highest market value and the lowest market value of the common stock in various years, and calculate the average market price for each year based on the trading value and turnover for each year.

Note 2: Please apply the quantity of shares already issued at the end of the year and identify the status of distribution according to the resolution made by the shareholders' meeting held in following year.

Note 3: If it is necessary to make adjustment retroactively due to Free-Gratis dividends, please identify the EPS before and after adjustment.

Note 4: If the terms and conditions under which the equity securities are issued provide that the stock dividend retained in the current year may be accumulated until the year in which there are allocable earnings available, please disclose the retained stock dividend accumulated until the current year.

Note 5: Price-Earnings Ratio=Average Closing Price Per Share in current year/Earnings Per Share.

Note 6: Dividend Yield=Average Closing Price Per Share in current year/Cash Dividend Per Share.

Note 7: Cash Dividend Yields=Cash Dividend Per Share/Average Closing Price Per Share in current year.

Note 8: Please identify the net value per share and EPS available in the latest quarterly financial information audited (reviewed) by the independent auditor before the date of publication of the annual report, and

the information available until the date of publication of the annual report in the other sections.
 Note 9: Under resolution by the general shareholders' meeting.

(6) Dividend Policy and the Status of Implementation

1. Dividend policy in Articles of Incorporation:

If the Company has a profit at the year's final accounting, it shall be allocated in the following order:

- (1) To pay tax;
- (2) To offset against loss;
- (3) To allocate 10% as the legal reserve, unless the accumulated legal reserve amounts to the Company's paid-in capital;
- (4) To set aside or reverse the special reserve pursuant to the Securities and Exchange Act;
- (5) The remainder thereafter regarded as dividends to stockholders. The Company may distribute dividends or retain earnings in accordance with the resolution of Shareholders' meeting. Under the environment in which the competition becomes intensive increasingly, the Company adopts the dividend equalization policy in order to pursue sustainable operation, by taking the long-term financial planning and funding need into consideration. Notwithstanding, the shareholders' meeting may adjust the policy subject to the earnings gained in the year. The payment ratio of cash dividend shall be no less than 10% of the total stock dividend allocated from earnings for the year.

2. According to the Company's dividend policy, appropriate dividends shall be 50%~80% of earnings after tax available for appropriation. However, the appropriation of dividends must take into consideration operating status in that year and future funds requirements.

3. Dividend distribution proposed in the shareholders' meeting

- (1) Allocation of stock dividend approved by the directors' meeting on Mar. 6, 2018:

Unit: NT\$

| Item | Amount |
|--|--------------|
| Undistributed balance, ending | 32,387,552 |
| Minus: actuarial gain (loss) recognized as retained earnings | 2,636,639 |
| Undistributed earnings after adjustment | 35,024,191 |
| Plus: Net loss in current period | (15,293,760) |
| Minus: Provision of legal reserve (10%) | 0 |
| Minus: Provision of special reserve | (624,241) |
| Allocable earnings in current period | 19,106,190 |
| Minus: Allocated items | |
| Shareholders' bonus (cash dividend NTD 0.20 per share) | (7,659,987) |
| Undistributed earnings, ending | 11,446,203 |
| Note: | |
| 1. The shareholders' bonus shall be allocated from the earnings of the most recent year as the first priority. | |

(2) Said allocation of stock dividend is found not discrepant from that required under the Company's Articles of Incorporation.

(7) Effect of allocation of Free-Gratis Dividends proposed at the shareholders' meeting on the operation performance of the Company and the Earnings Per Share: N/A.

(8) Remuneration to employees, directors and supervisors

1. Proportion or scope of employee bonus and remuneration to directors/supervisors as stated in the Company's Articles of Incorporation

The Company shall set aside 12%~15% of the earnings, if any, as remuneration to employees, and 3%~5% as remuneration to directors/supervisors. However, the Company's accumulated losses, if any, shall have been covered.

The bonus and remuneration to employees shall be distributed in the form of shares or in cash. The employees entitled to the allocation include the employees of affiliated companies who meet the specific conditions.

The earnings referred to in the preceding paragraph shall mean the income before tax before deduction of remuneration to employees and directors/supervisors in the year.

The allocation of remuneration to employees, directors and supervisors shall be approved by a majority of the directors present at a directors' meeting attended by two-thirds of the whole directors, and reported to a shareholders' meeting.

2. The accounting in the case of deviation from the basis for stating employee bonus and remuneration to directors/supervisors, the basis for calculating the quantity of stock dividends to be allocated, and the actual allocation: Along with the Company's 2017 net loss after tax, in accordance with the Company's regulations, the Company proposes not to distribute dividends.

3. Information about any motion for allocation of remuneration resolved by the Directors' Meeting:

- (1) Remuneration to employees, and directors/supervisors allocated in the form of cash or stock: The deviation between the actual allocation and the estimated figures, if any, and the cause and treatment thereof: N/A

Unit: NTD thousand

| Item | | Amount to be allocated | Amount to be stated | Amount of deviation |
|---------------------------------------|----------------|------------------------|---------------------|---------------------|
| Remuneration to employees | Cash | - | - | - |
| | Stock dividend | - | - | - |
| Remuneration to directors/supervisors | | - | - | - |

- (2) The amount of remuneration to any employee distributed in the form of stock, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total remuneration to employee: N/A.

4. The actual distribution of remuneration to employee, director, and supervisor for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated:

- (1) The actual distribution of remuneration to employee, director, and supervisor for the previous fiscal year

Unit: NTD thousand

| Item | | Amount to be allocated | Amount to be stated | Amount of deviation |
|---------------------------------------|----------------|------------------------|---------------------|---------------------|
| Remuneration to employees | Cash | 4,542 | 5,678 | (1,136) |
| | Stock dividend | - | - | - |
| Remuneration to directors/supervisors | | 1,514 | 1,893 | (379) |

- (2) Cause and follow-up: The discrepancy between estimated amount and allocated amount was stated into the income of the year of allocation.

(9) Repurchase of the Company's shares:

March 30, 2018

| Term | 1st (FY 2017) |
|---|-----------------------------------|
| Purpose of repurchase | Transfer the shares to employees. |
| Planned repurchase period | Feb.15, 2017-Apr. 14, 2017 |
| Average repurchase price per share (NTD) | 15.78 |
| Type and quantity of repurchased shares | 1,000,000 shares |
| Amount of repurchased shares (NTD) | 15,781,666 |
| Quantity of the Company's shares held cumulatively | 1,000,000 shares |
| Quantity of the Company's shares held cumulatively to total quantity of issued shares (%) | 2.54% |

Note: Information available during the most recent year and up to the date of publication of this annual report.

2. Issuance of Corporate Bonds: N/A.

3. Issuance of Preferred Shares: N/A.

4. Status of any private placement of overseas depositary receipts: N/A.

5. Status of Employee Stock Option:

- (1) The annual report shall disclose unexpired employee stock option issued by the Company in existence as of the date of publication of the annual report, and shall explain the effect of such warrants upon shareholders' equity. The private placement of employee stock options, if any, shall be identified prominently: N/A.
- (2) The annual report shall disclose the names of top-level company executives holding employee stock options and the cumulative number of such options exercised by said executives as of the date of publication of the annual report. The annual report shall also disclose the names of the ten employees holding employee stock options authorizing purchase of the most shares, along with the cumulative number of options exercised by these ten employees, as of the date of publication of the annual report: N/A.

6. Status of limited employee new shares

- (1) For all limited employee new shares for which the vesting conditions have not yet been met for the full number of shares, the annual report shall disclose the status up to the date of publication of the prospectus and the effect on shareholders' equity: N/A.
- (2) Names and acquisition status of managerial officers who have acquired limited employee new shares and of employees who rank among the top ten in the number of limited employee new shares acquired, cumulative to the date of publication of the prospectus: N/A.

7. Mergers and Acquisitions, or as Assignee of New Shares Issued by Another Company:

- (1) Where, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the Company has completed a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies: N/A.

- (2) Where the board of directors has, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, adopted a resolution approving a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies, the annual report shall disclose the state of the plan's implementation together with the basic identifying information of the company (or companies) to be merged, acquired, and/or purchased through acquisition of shares. Where a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies is currently in progress, the annual report shall disclose the state of the plan's implementation and its effect upon shareholders' equity: N/A.

8. Implementation of Capital Utilization Plan

(1) Contents of the Plan

For the period as of the quarter preceding the date of publication of the annual report, with respect to each uncompleted public issue or private placement of securities, and to such issues and placements that were completed in the most recent 3 years but have not yet fully yielded the planned benefits, the annual report shall provide a detailed description of the plan for each such public issue and private placement. Such descriptions shall include any and all changes to the plan, the source of funds and the manner of their utilization, the reason(s) for any changes to the plan, the benefits yielded by the funds before and after any change to the plan, the date on which the change to the plan was reported at a shareholders' meeting, and the date on which such information was uploaded to the information disclosure website specified by the FSC: N/A.

(2) Status of implementation

With respect to funds usage under the plans referred to in the preceding subparagraph, the annual report shall (for the period as of the quarter preceding the date of printing of the annual report) analyze the status of implementation and compare actual benefits with expected benefits; where implementation has failed to yield the expected progress or benefits, the annual report shall provide specific reasons for such failure, explain any effect it might have upon shareholders' equity, and outline the plan for correcting the situation: N/A.

V. Overview of Operations

1. Operations

(1) Scope of business

1. Main business services

Design, production, sale and customers' service for the following products:

CC01050 Data storage and processing manufacturing

CC01080 Electronic parts manufacturing

CB01020 OA apparatus manufacturing

CB01010 Machine and equipment manufacturing

F 113030 Precision instrument wholesale

F 113050 OA apparatus wholesale

F 118010 Information software wholesale

F 119010 Electronic materials wholesale

F 213030 OA apparatus retail

F 218010 Information software retail

F 219010 Electronic materials retail

F 213040 Precision instrument retail

I 301010 Information software service

I 501010 Product design

2. Revenue breakdown

| Output value Scope of service | 2017 | |
|----------------------------------|--------------------------|----------------|
| | Turnover (NT\$ thousand) | Percentage (%) |
| 8051 microcontroller | 358,955 | 82.12 |
| 6502 microcontroller | 74,002 | 16.93 |
| Others | 4,138 | 0.95 |
| Total | 437,095 | 100.00 |

3. Scope of current products (services)

A. 8051 general-purpose microcontroller

B. ARM CM0 32-bit MCU

C. I/O Type microcontroller

D. LCD Type microcontroller

E. USB microcontroller

F. LED driver IC

G. Power bank microcontroller

H. Quick charge microcontroller

I. ASIC microcontroller

J. Turnkey solution

K. Others

4. Scope of new products (services) planned to be developed

A. 8051 MCU

B. ARM CM0 32-bit MCU

C. USB MCU

(2) Overview of business

1. Business overview and development

In the area of semi-conductor, the Company specializes in designing IC of the integrated circuit Microcontroller Unit (MCU), namely, an up-stream supplier in the semi-conductor business. After two to three decades of development, Taiwan has already become one of the most important locations for IC design following the U.S.A. and China in the world. According to ITRI's IEK statistics, Taiwan IC revenue in 2017 reached NT\$2,462.3B (US\$81.0B) (0.5% increase from 2016), with NT\$617.1B in design (US\$20.3B) (down 5.5%), NT\$1,368.2B in manufacturing (US\$45.0B) (2.7% growth, NT\$333.0B in packaging (US\$11.0B) (2.8% increase), and NT\$144.0B in testing (US\$4.7B) (up 2.9%). Exchange rate NTD/USD is 30.4.

▼ 2014-2018 Taiwan IC Revenue

| NT\$B | 2014 | 14/13 | 2015 | 15/14 | 2016 | 16/15 | 2017 | 17/16 | 2018(e) | 18(e)/17 |
|-------------------------|---------|-------|---------|--------|---------|--------|---------|--------|---------|----------|
| Industry Revenue | 2,203.3 | 16.7% | 2,264.0 | 2.8% | 2,449.3 | 8.2% | 2,462.3 | 0.5% | 2,605.0 | 5.8% |
| IC Design | 576.3 | 19.8% | 592.7 | 2.8% | 653.1 | 10.2% | 617.1 | -5.5% | 657.8 | 6.6% |
| IC Manufacturing | 1,173.1 | 17.7% | 1,230.0 | 4.9% | 1,332.4 | 8.3% | 1,368.2 | 2.7% | 1,449.2 | 5.9% |
| Foundry | 914.0 | 20.4% | 1,009.3 | 10.4% | 1,148.7 | 13.8% | 1,206.1 | 5.0% | 1,267.2 | 5.1% |
| Brand Name | 259.1 | 9.2% | 220.7 | -14.8% | 183.7 | -16.8% | 162.1 | -11.8% | 182.0 | 12.3% |
| IC Packaging | 316.0 | 11.1% | 309.9 | -1.9% | 323.8 | 4.5% | 333.0 | 2.8% | 348.0 | 4.5% |
| IC Testing | 137.9 | 8.9% | 131.4 | -4.7% | 140.0 | 6.5% | 144.0 | 2.9% | 150.0 | 4.2% |
| Product Revenue | 835.4 | 16.3% | 813.4 | -2.6% | 836.8 | 2.9% | 779.2 | -6.9% | 839.8 | 7.8% |
| WW Growth (%) | - | 9.9% | - | -0.2% | - | 1.1% | - | 21.6% | - | 6.1% |

Note 1: (e): Estimate. Source: TSIA, IEK-ITRI (February 2018)

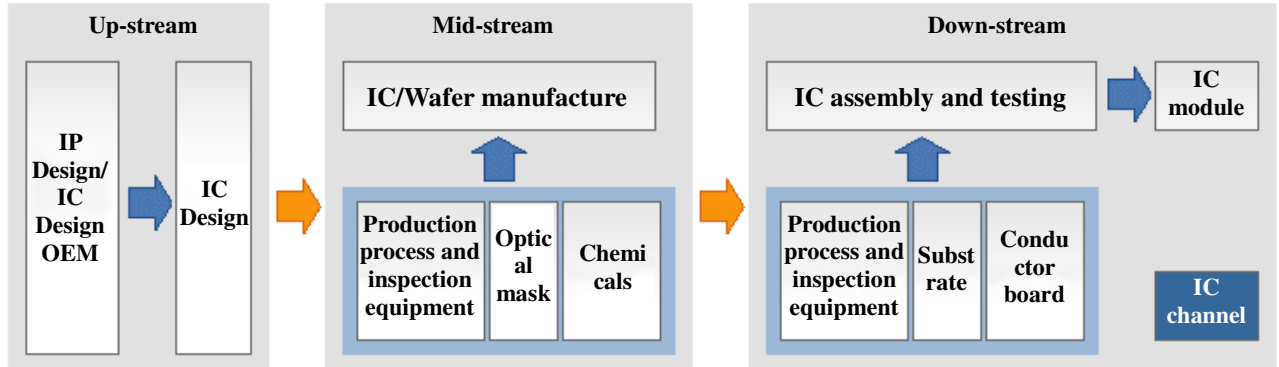
Note 2: • IC Industry Revenue = IC design + Manufacturing + Packaging + Testing

- IC Production Revenue = IC Design + Memory (Brand name products, mostly Memory products)
- IC Manufacturing Revenue = Foundry + Memory (Memory (Brand name products, mostly Memory products)
- Revenue of Inotera (subsidiary of Micron) was excluded from Taiwan Memory revenue from 2017. If excluding revenue from Inotera in 2016, revenue of Taiwan Memory and other manufacturing products increased more than 20% in 2017 and 2017 Taiwan IC industry revenue grew by 2.6%.
- Only companies head-quartered in Taiwan are included in the revenue calculations.

Based on the "TSIA Q4 2017 and Year 2017 Statistics on Taiwan IC Industry" published in February 2018, Taiwan IC industry revenue is expected to be NT\$2,605.0 billion in 2018, growing by 5.8% from 2017. Among all, the IC design industry will have the strongest performance and reach a year-to-year growth of 6.6%.

2. Links between the upstream, midstream, and downstream segments of the industry

The Company is engaged in IC design and identified as an upstream supplier in the IC industry. The Company provides the optical mask manufacturer with the integrated circuit layout designed by it. Then, the wafer OEM proceeds to process and output wafer based on the optical mask design. The wafer may be shipped to customers upon processing by the IC assembly and testing factory. For the time being, the Company's major customers may be categorized into the system manufacturer, solution provider or agent.



Source of data: TPEx Website

3. Development trends and competition for the company's products

Development trends of MCU:

- A. High integration
- B. High performance computing
- C. lower power consumption
- D. Integrated with wireless application
- E. IoT application

Based on said characteristics, the Company will design the product with utility, performance and cost-efficiency per customer's need.

4. Market competition

For the time being, MCU suppliers compete with each other very intensively. There are a lot of renowned MCU suppliers in the world, such as Microchip, TI, Silicon-Lab and Cypress in the U.S.A., STM, NXP and Infineon in Europe, and Renesas, Toshiba and Fujitsu in Japan. All of the MCU suppliers are large-size enterprises engaged in various applications with profitability, e.g. cars, medical equipment, industrial control, consumable electronics, communication, household electric appliances, and IoT in which you may find the application of MCU. Given the extensive range of application, some large-size MCU suppliers are not necessarily able to deal with all of the application markets. Therefore, the small-and-mid-size MCU suppliers still have chance to develop their market based on such competitive niches as production elasticity, production characteristics, customers' service and channel development, etc.

According to IC Insights, although the market competition is becoming increasingly fierce, the application opportunities are still considerable. While confronting with ever changing market demand, small and medium enterprises must aim at specific application market and develop application-specific integrated circuit in response to customers' needs. In addition to providing customers with cost-effective products required for this cost sensitive market, Megawin will always take the customer's point of view to face market changes together, and build solid, lasting business relationships.

(3) Overview of the Company's technologies and R&D

1. R&D expenditures invested in 2017 and 2018 until the date of publication of the annual report

Unit: NTD thousand

| Title \ Year | 2017 | Ending Feb. 28, 2018 |
|----------------------|---------|----------------------|
| A. R&D expenditures | 79,534 | 11,547 |
| B. Operating revenue | 437,095 | 59,221 |
| A/B | 18.20% | 19.50% |

2. Technologies and/or products successfully developed in 2017 and 2018 until the date of publication of the annual report

| Year | Items |
|------|--|
| 2017 | <ol style="list-style-type: none"> 1. MG82FG5D16, 16K Flash MCU 2. MG69G363, 128K OTP RMC MCU 3. MA111, HID USB to Serial Bridge 4. MA112, USB to UART Data Bridge 5. MA129, Gaming Keyboard Controller |
| 2018 | <ol style="list-style-type: none"> 1. MG32F02A132, 132K CM0 MCU 2. MG32F02A072, 72K CM0 MCU 3. MG82FG5E32, 32K 8051 MCU 4. MA113, USB to UART Bridge 5. MG84G5U17, 16K 8051 USB MCU with DMA/MDU 6. MG82G5F16, 16K 8051 MCU with DMA/MDU |

(4) Long-term and short-term business development plans

1. Short-term business development plans

- A. To establish the ability of engineering projects and provide the market with competitive projects.
- B. To develop key customers for related products.
- C. To expand sales channels with the ability to provide technical support.
- D. Upgrading the Company's publicity: to attend electronic exhibitions and invest in ads in magazines and on line.

2. Long-term business development plans

- A. To establish the industrial connection between products and clients, focus on the end products of the same application, and exert accumulated technology and maximum interest for relations with customers.
- B. To strategically ally with the system manufacturers to control the current market control and application specifications to meet the market needs.
- C. Reinforce the development in important industries both sides across the Taiwan Strait and to layout globally and develop international marketing.

2. Overview of market, and production and marketing

(1) Market analysis

1. Geographic areas where the main products (services) of the Company are provided (supplied)

Unit: NTD thousand

| Geographic areas where the main products are provided | | Year | | 2016 | | 2017 | |
|---|--------|------|--|----------|----------------|----------|----------------|
| | | | | Turnover | Percentage (%) | Turnover | Percentage (%) |
| Domestic sale | Taiwan | | | 73,518 | 12.21 | 61,346 | 14.03 |
| Export | Asia | | | 526,982 | 87.52 | 374,157 | 85.60 |
| | Others | | | 1,598 | 0.27 | 1,592 | 0.37 |
| Total | | | | 602,098 | 100.00 | 437,095 | 100.00 |

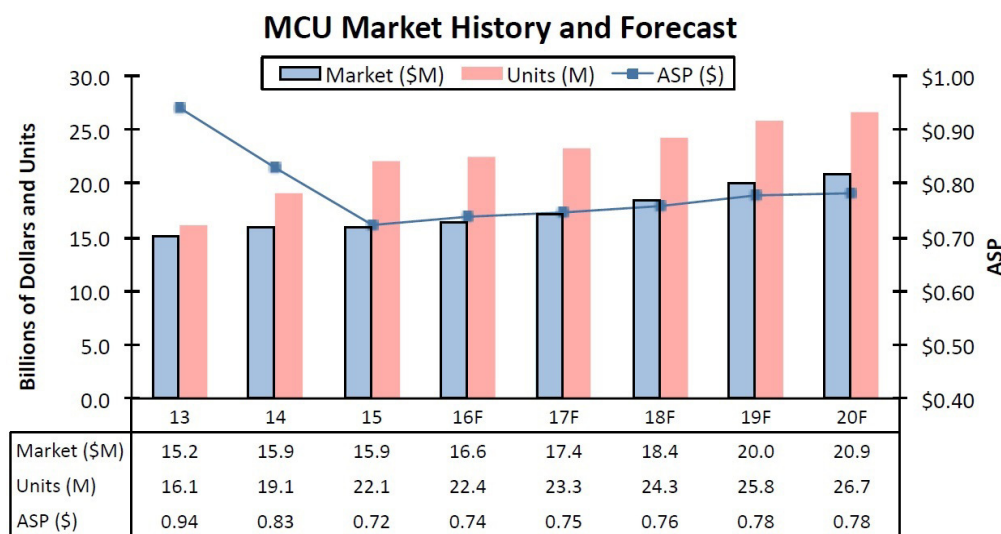
2. Market share

According to IEK's estimation, the average annual growth rate of the global MCU market from 2015 to 2020 will be about 2.9%, which will have a steady growth trend. The growth trend is also a direct result of SoC's highly integrated manufacturing trend, and IoT built-in application requirements. Taiwan's market share in the global MCU market is less than 5%. IEK predicted that the revenue growth rate of Taiwan's IC design companies will be higher than their competitors in Europe, USA, and Japan in the future. In terms of the Company's operating revenue, the market share remains small and the Company still has room to grow in the future.

3. Demand and supply conditions for the market in the future, the market's growth potential

In the future, the demand for various microcontrollers will keep growing in the consumption market, communication market and information-related peripheral application market. Especially, the application of the IoT has been growing rapidly and thereby boosts the demand for application of MCU. It is expected that the shipment of the Company's microcontrollers and USB controller-related products will keep growing, given the original customers and application market, due to the need for expansion of market.

Globally, the growth of MCU is primarily driven by the industrial control, consumable electronics, computer and network, automotive application and IoT, etc.



Source: IC Insights

4. Competitive niche
 - A. The experienced professional IC design team is able to provide competitive system integrity projects to meet the customers' need in the market.
 - B. By adhering to the philosophy about reliability, Megawin becomes one of the few domestic microcontroller suppliers who win trust from customers domestically and overseas with its strength in technology.
 - C. Complete development tools: The Company provides the smallest ICE in the industry. Meanwhile, by being tied with the C-Compiler provided by Keil C, the Company provides customers with the cheapest and most convenience error-detection tool. Megawin also provides the ISP Programmer and U1 Writer, record the firmware inside MCU and provide the most convenience tools.
 - D. To develop the localized ability to provide technology and service thoroughly.
 - E. To continue investing in the analogous integrated circuit layout design and expand the analogous design team to seek more competitive block and enlarge the gap with competitors.
 - F. To strengthen relations with customers to work together to develop the product with competitiveness in the market.

5. Positive and negative factors for future development, and the Company's response to such factors
 - A. Positive factors
 - (A) The Company's technical team: The Company's technical teams are complete and working toward the same objectives. The team members specialize in market, marketing, product planning, system design, circuit design, component design, system application, software engineering and production management, etc. Meanwhile, the range of the Company's products is held fair in width and depth, which can not only meet the short-term market and product development needs, but also equip the Company with mid-term/long-term capability of product development/execution to ensure core product value.
 - (B) Growth of market demand: The application areas of the Company's microcontrollers and USB controllers will grow rapidly, so as to increase the need and drive the sale growth sharply.
 - (C) Strength of the Company's products: To be integrated with customers' needs intensively and have already been recognized and adopted by most of the target customers upon the active merchandising. To continue such niche as growing with customers together will produce mutual long-term interest for customers and the Company.
 - (D) The Company's marketing channels: The marketing channels for microcontroller-related products must have powerful technical supporting ability in order to help customers complete development of the software and hardware of products. The Company's marketing channels have complete and sufficient technical supporting ability in developing the market effectively.
 - (E) Development strategies of new products: The Company owns wide clients and uninterrupted market information channels. The market personnel summarize the industrial intelligence and then the technical team conducts in-depth assessment on such intelligence to shorten the timeframe of development and develop the products with fair price-performance ratio.
 - (F) Internal R&D strategies: To continue upgrading the ability to design products, establish the development technology of standardization and modularity, reduce development timeframe and cost, accelerate the schedule for marketing the products, and upgrade the pricing competitiveness.

B. Negative factors

- (A) Products with high homogeneity: The domestic IC design companies all expected to gain profit in a short term under their product planning. Therefore, they are used to orienting their product selection toward the best-sale product in the market. Given this, competitive pressure would be produced in the same trade because of the high homogeneity and the suppliers could only choose the price war, and the cycle life of products is shortened and profit is reduced accordingly.
- (B) Incomplete product lines: Complete product lines are able to defend competitors' attack and satisfy the demand of different market segments at the same time.
- (C) The rise of Chinese competitors: The rise of Chinese competitors caused a market with homogeneous products, which also led to rapid decline in product unit price, and intense price competition.

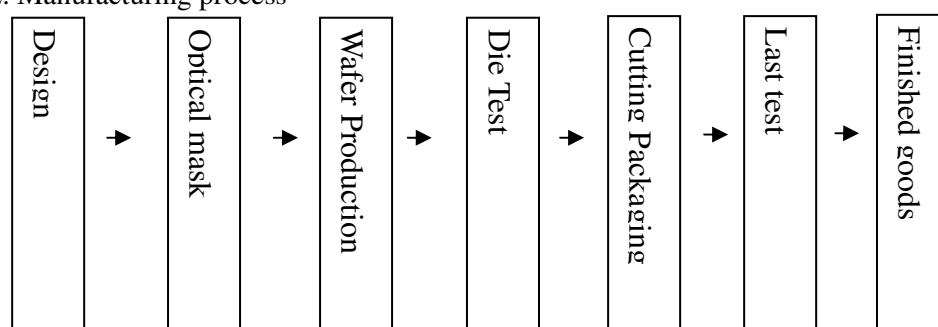
C. Response to such factors

- (A) To continuously recruit R&D staff to establish complete product lines and to develop the need for industrial projects thoroughly.
- (B) To upgrade the product hierarchy and establish the product differentiation and form market segment and product segment to avoid the vicious market, where there is low product unit price and low gross margin.
- (C) To plan the orientation of product development carefully, control the development timeframe, and deliver new products into the market in a timely manner to enhance the Company's competitiveness.
- (D) To orient the development toward high-profit niche products and release new products ahead of the others in the same trade to seek the maximum profit.
- (E) To expand the operating scale and reduce the production cost.
- (F) To ally with wafer OEMs strategically to ensure successful productivity.
- (G) To ally with important clients strategically to establish long-term cooperative relationship.
- (H) To enhance the marketing channels' ability to support technology and provide service.
- (I) To continue strengthening relations with customers to work together to develop the product with competitiveness in the market.

(2) Key purpose and manufacturing processes for the Company's main products

| Main product | Area of application |
|--------------------------------------|--|
| 8051 general purpose microcontroller | Dashboard, industrial control, household electricity appliances, communication products, automobile electronics, smart home, personal entertainment platform, smart light, and motor control |
| 32-bit general purpose MCU | Motor control, industrial control, smart household electricity appliances, medical electronics |
| I/O Type MCU | Household electricity appliances, remote control, power management, and IoT |
| LCD Type MCU | Digital timepieces, household electricity appliances, and display function control remote |
| USB MCU | Primarily the application of USB 1.1 version, e.g. USB keyboard, USB mouse, USB rod, USB bridge, Smart TV and financial peripherals |
| Charge MCU | The charge peripherals derived from mobile devices, e.g. mobile power, quick charge, and USB PD, etc. |
| LED driver IC | Bulbs and lamps for houses and factories |

2. Manufacturing process



The Company is only engaged in designing the integrated circuitry layout during said manufacturing process, while the other works are contracted to other factories. The Company is responsible for selling the finished goods.

(3) Supply situation for the Company's major raw materials

The Company's major raw materials refer to wafer. The major suppliers include TSMC and Macronix, etc. For the time being, the timeliness and quality of goods delivered by the suppliers are considered excellent.

(4) A list of any suppliers and clients accounting for 10 percent or more of the Company's total procurement (sales) amount in either of the most recent two years

1. Information about major suppliers in the most recent two years

Unit: NTD thousand

| Item | 2016 | | | | 2017 | | | | Ending the previous quarter in 2018 (Note 2) | | | |
|------|--|---------|--------------------------------------|-------------------------|--|---------|--------------------------------------|-------------------------|--|--------|---|-------------------------|
| | Name | Amount | Percentage of total net purchase (%) | Affiliation with issuer | Name | Amount | Percentage of total net purchase (%) | Affiliation with issuer | Name | Amount | Percentage of total net purchase until the previous (%) | Affiliation with issuer |
| 1 | TSMC | 157,744 | 61.75 | N/A | TSMC | 98,528 | 59.05 | N/A | - | - | - | - |
| 2 | Macronix | 64,841 | 25.38 | N/A | Macronix | 51,777 | 31.03 | N/A | - | - | - | - |
| 3 | Shanghai Huahong Grace Semiconductor Manufacturing Corporation | 23,123 | 9.05 | N/A | Shanghai Huahong Grace Semiconductor Manufacturing Corporation | 8,692 | 5.21 | N/A | - | - | - | - |
| 4 | Others | 9,733 | 3.82 | N/A | Others | 7,858 | 4.71 | N/A | Others | - | - | - |
| | Net purchase | 255,441 | 100.00 | | Net purchase | 166,855 | 100.00 | | Net purchase | - | - | - |

Note 1: A list of any suppliers accounting for 10 percent or more of the Company's total procurement amount in the most recent two years by name and procurement amount and percentage, provided that the suppliers may be identified by code No., as the contract provides that no supplier's name or trading counterpart who is an individual other than a stakeholder shall be disclosed.

Note 2: For the listed company, the most recent quarterly financial information which has been audited or reviewed by the accountant, prior to the publication date of the annual report, should be disclosed.

2. Information about major clients in the most recent two years

Unit: NTD thousand

| 2016 | | | | | 2017 | | | | Ending the previous quarter in 2018 (Note 2) | | | |
|------|-----------|---------|-----------------------------------|-------------------------|-----------|---------|-----------------------------------|-------------------------|--|--------|--|-------------------------|
| Item | Name | Amount | Percentage of total net sales (%) | Affiliation with issuer | Name | Amount | Percentage of total net sales (%) | Affiliation with issuer | Name | Amount | Percentage of total net sales until the previous (%) | Affiliation with issuer |
| 1 | Type A | 193,554 | 32.15 | N/A | Type A | 119,578 | 27.36 | N/A | - | - | - | - |
| 2 | Type B | 153,589 | 25.51 | N/A | Type B | 51,381 | 11.76 | N/A | - | - | - | - |
| 3 | Type C | 60,845 | 10.11 | - | Type C | 98,194 | 22.47 | - | - | - | - | - |
| | Others | 194,110 | 32.23 | N/A | Others | 167,942 | 38.41 | N/A | Others | - | - | - |
| | Net sales | 602,098 | 100.00 | | Net sales | 437,095 | 100.00 | | Net sales | - | - | - |

Note 1: A list of any clients accounting for 10 percent or more of the Company's total sales amount in the most recent two years by name and sales amount and percentage, provided that the clients may be identified by code No., as the contract provides that no client's name or trading counterpart who is an individual other than a stakeholder shall be disclosed.

Note 2: For the listed company, the most recent quarterly financial information which has been audited or reviewed by the accountant, prior to the publication date of the annual report, should be disclosed.

(5) Output volume for the most recent two years

Unit: NTD thousand/thousand pieces

| Year Output volume | 2016 | | | 2017 | | |
|-----------------------|--------------|--------|--------------|--------------|--------|--------------|
| | Productivity | Output | Output value | Productivity | Output | Output value |
| Main product | | | | | | |
| 8051 microcontroller | - | 48,771 | 327,401 | - | 40,706 | 248,000 |
| 6502 microcontroller | - | 33,538 | 67,585 | - | 26,087 | 49,429 |
| Others | - | 4,179 | 9,934 | - | 1,711 | 3,568 |
| Total | - | 86,488 | 404,920 | - | 68,504 | 300,997 |

Note: The Company is engaged in IC design. The major raw materials refer to wafer, the production of which is contracted to wafer fabs. The finished goods are also contracted to other processing factories. Therefore, no information about productivity is available.

(6) Sale volume for the most recent two years

Unit: NTD thousand/thousand pieces

| Year Sale volume | 2016 | | | | 2017 | | | |
|----------------------|---------------|--------|--------|---------|---------------|--------|--------|---------|
| | Domestic sale | | Export | | Domestic sale | | Export | |
| | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| Main product | | | | | | | | |
| 8051 microcontroller | 2,743 | 43,012 | 44,166 | 448,718 | 2,663 | 43,135 | 35,490 | 315,935 |
| 6502 microcontroller | 5,851 | 19,527 | 26,792 | 77,923 | 4,780 | 15,184 | 21,628 | 58,703 |
| Others | 3,879 | 10,979 | 477 | 1,939 | 922 | 3,027 | 768 | 1,111 |
| Total | 12,473 | 73,518 | 71,435 | 528,580 | 8,365 | 61,346 | 57,886 | 375,749 |

3. Employees

Information about employees available during the most recent two years and up to the date of publication of this annual report

| Item \ Year | | 2016 | 2017 | Until Mar. 30, 2018 (Note) |
|-------------------------------|--------------------------|-------|-------|----------------------------|
| Number of employees (Persons) | R&D personnel | 40 | 39 | 40 |
| | Business unit | 9 | 9 | 9 |
| | Management unit | 29 | 24 | 25 |
| | Total | 78 | 72 | 74 |
| Average (years old) | | 41.95 | 43.11 | 43.07 |
| Average seniority (years) | | 8.54 | 8.96 | 8.63 |
| Education Background (%) | Doctor | - | - | - |
| | Master | 29.50 | 34.72 | 32.43 |
| | College | 67.94 | 62.50 | 64.87 |
| | Senior high school | 2.56 | 2.78 | 2.70 |
| | Below senior high school | - | - | - |

Note: Please specify the information for the current year available until the date of the publication of the annual report.

4. Information about expenditure on environmental protection

Total losses (including damage awards) and fines for environmental pollution for the most recent two years, and during the current fiscal year up to the date of publication of the annual report, and an explanation of the measures (including corrective measures) and possible disbursements to be made in the future (including an estimate of losses, fines, and compensation resulting from any failure to adopt responsive measures, or if it is not possible to provide such an estimate, an explanation of the reason why it is not possible).

The Company is engaged in IC design. The products are all processed by wafer OEMs/assembly and testing plants contracted by the Company, while no production process and production take place inside the Company. Therefore, the requirement does not apply, as the Company does not spend any expenditure in purchasing any special equipment preventing pollution.

Meanwhile, in order to fulfill the responsibility for environmental protection, Megawin also works hard to develop hazard-free green products and deliver the green design concept into the product design and production process management to mitigate the impact to be produced by the products to the environment. For the time being, the Company's products have delivered the lead-free/halogen-free production process. The Company also indicated to suppliers that the Company required them to guarantee that the source of their procurement would be never situated in disputable territories and continue monitoring the approach to procurement from direct supply chains to avoid procurement disputable metal raw materials and to fulfill its corporate social responsibility.

5. Labor-Management relations

- (1) The Company's employee fringe benefits, continuing education, training, retirement system and implementation thereof, and various labor-management agreements and measures on protection of employees' interest and right

1. Employee fringe benefits and status of implementation thereof

- (1) The Company is enrolled into the workers' labor/health insurance programs, contributes labor pension fund and provide the group insurance per the relevant requirements.

- (2) The Company establishes the Workers Welfare Commission per requirements, and contributes the benefits as scheduled, grants the relief for employees' childbirth/marriage/injuries/sickness, coupons for birthday/festivals, and employees' tours/birthday celebration or any other group recreation activities.

- (3) Meanwhile, the Company also provides health examination, dinner parties and other bonus: e.g. performance bonus will be provided subject to the status of operation.

- (4) The Company retains specific percentage of new shares for employee's subscription when increasing capital. The subscription ratio is allocated subject to the employees' business performance.

- (5) The Company will grant rewards subject to the status of earnings at the end of fiscal year and will provide employees with bonus per the Articles of Incorporation.

2. Employees' continuing education and training

The Company provides diversified training programs and fair in-service educational programs, including orientation training programs, in-service training programs, and professional programs, and expatriation training programs related to job responsibilities to train the personnel with competency and ability.

The expenditure on educational training was about NT\$140,000 in 2017.

3. Retirement System and status of implementation thereof

In order to enable the Company's employees to be concentrated on working when employed by the Company and protect their retirement life, the Company has defined the retirement regulations applicable to formal employees: To pay the pension per Labor Standard Law. The Company will also contribute 6% of the total salaries as the labor pension fund on a monthly basis and deposit the same into the employees' personal account at the Bureau of Labor Insurance.

4. Labor-management agreements

The labor-management relationship is fair in the Company. The Company values the communication between the labor and management very much, and holds the labor-management meeting per quarter to maintain the fair relationship.

5. Employees' interest and right protection measures

The Company applies the employees' interest and right protection measures pursuant to laws, and protects the employees' interest and right well.

6. Information for Working Environment and Staffs' Safety Protection

In order to provide an excellent working environment and to protect employees' physical/mental health and safety, the Company implements the following safety measures:

- (1) Access Control: Lobby security personnel are hired to control entry into business premises 24 hours a day and to reinforce night/holidays security. In addition, video surveillance, alarms, and connections to security forces had been installed in every entrance and the corner area to ensure the personal safety of employees.

- (2) Fire Safety: Tai Yuen Hi-Tech Industrial Park ("the Park"), where the Company headquartered, has contracted a qualified professional institute approved by the central regulating authorities to conduct periodical service of fire safety equipment (such as fire alarms, fire extinguishers) on an annual basis, and also designated a personnel in charge of reviewing and filing the service results periodically.

The Park schedules periodical training on fire safety and emergency drills every year to promote cognitive responsibility as well.

(3) Safety of the work environment: To provide employees with clean drinking water, the Company implements inspections of water fountains quarterly. Meanwhile, periodical office cleaning and disinfection are both conducted by the Company to ensure a safe and comfortable workplace environment.

(4) Periodic Health Check-ups: Annual physical examination is provided to all employees by medical team from local reputable hospital to provide professional counseling to employees on health matters.

- (2) List any loss sustained as a result of labor disputes in the most recent year, and during the current fiscal year up to the date of publication of the annual report, disclose an estimate of losses incurred to date or likely to be incurred in the future, and indicate mitigation measures being or to be taken. If the loss cannot be reasonably estimated, make a statement to that effect.

The Company establishes the well-founded system and applies the humane management. Therefore, it maintains the fair labor-management relationship and no loss has been sustained by the Company as a result of labor disputes in the most recent year and during the current fiscal year up to the date of publication of the annual report. Meanwhile, the Company's labor-management communication channels are uninterrupted. Labors' opinion will be valued by the labor and resolved rapidly. Therefore, since the Company was founded, no material labor dispute has been suffered by the Company. In the future, by upholding the harmonious management philosophy by the labor and management, it is expected that no loss is likely to be caused by any labor dispute in the future.

6. Major agreements

Please list the contracting parties, major contents, restrictive clauses, and term of supply/distribution contracts, technical cooperation contracts, engineering/construction contracts, long-term loan contracts, and other contracts that would affect shareholders' equity, where said contracts were either still effective as of the date of printing of the annual report, or expired in the most recent fiscal year

| Nature | Contracting parties | Term of agreement | Major contents | Restrict clauses |
|------------------------------|-----------------------------|-------------------|------------------------------|--|
| Technology License Agreement | WDC | December 1999~ | 6502 Technology license | Not against related laws and regulations |
| Technology license agreement | RDC Semiconductor Co., Ltd. | November 2001~ | 8051 Technology license | Not against related laws and regulations |
| License Agreement | VinChip System | October 2002~ | USB technology license | Not against related laws and regulations |
| Technology License Agreement | ARM | December 2013~ | Cortex-M0 Technology license | Not against related laws and regulations |

VI. Overview of Finance

1. Condensed financial information for the most recent five years

(1) Condensed balance sheet and income statement

1. Consolidated condensed balance sheet - IFRSs

Unit: NTD thousand

| Title | Year | Financial information for the most recent five years (Note 1) | | | | | Financial information available until March 31, 2018 (Note 3) |
|---|---------------------|---|----------|----------|---------|----------|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Current assets | | 432,961 | 407,269 | 469,442 | 457,190 | 366,536 | |
| Property, plant and equipment (Note 2) | | 53,981 | 185,625 | 182,486 | 177,251 | 171,139 | |
| Intangible assets | | 3,199 | 26,633 | 25,560 | 24,844 | 22,304 | |
| Other assets (Note 2) | | 62,658 | 2,335 | 1,567 | 491 | 457 | |
| Total assets | | 552,799 | 621,862 | 679,055 | 659,776 | 560,436 | |
| Current liabilities | Before distribution | 119,258 | 106,264 | 150,478 | 118,719 | 71,622 | |
| | After distribution | 112,076 | 95,939 | 150,478 | 118,719 | 71,622 | |
| Non-current liabilities | | 8,927 | 67,313 | 8,204 | 9,275 | 5,568 | |
| Total liabilities | Before distribution | 128,185 | 173,577 | 158,682 | 127,994 | 77,190 | |
| | After distribution | 121,003 | 163,252 | 158,682 | 127,994 | 77,190 | |
| Equity attributable to owners of the parent | | 423,439 | 448,285 | 520,373 | 531,782 | 483,246 | |
| Capital stock | | 345,309 | 345,309 | 392,999 | 392,999 | 392,999 | |
| Capital surplus | | 17,028 | 17,029 | 40,339 | 46,702 | 46,702 | |
| Retained earnings | Before distribution | 65,758 | 98,559 | 98,483 | 92,258 | 59,951 | |
| | After distribution | 42,098 | 60,223 | 67,814 | 72,608 | (Note 4) | |
| Other equity | | 205 | 808 | 755 | (177) | (624) | |
| Treasury stock | | (4,861) | (13,420) | (12,203) | - | (15,782) | |
| Non-controlling equity | | 1,175 | - | - | - | - | |
| Total equity | Before distribution | 424,614 | 448,285 | 520,373 | 531,782 | 483,246 | |
| | After distribution | 400,954 | 409,949 | 489,704 | 512,133 | (Note 4) | |

*Where the Company has prepared individual financial statements separately, it shall also prepare the individual condensed balance sheet and comprehensive income statement for the most recent five years.

*Where the Company has adopted the IFRSs for less than five years, it shall also prepare the "condensed balance sheet - the R.O.C. Financial Accounting Standards", the financial information prepared based on the R.O.C. Financial Accounting Standards.

Note 1: Years of the financial statements which have not been audited and certified by the external auditor shall be specified: The financial statements for the most recent five years have been audited by the external auditor.

Note 2: If asset revaluation increment has been made in the year, please specify the date and revaluation amount.

Note 3: For the listed company, the most recent quarterly financial information which has been audited or reviewed by the accountant, prior to the publication date of the annual report, should be disclosed.

Note 4: Said distributed amount shall be specified based on the resolution made by the shareholders' meeting of the following year: The allocation of earnings is still pending resolution by the shareholders' meeting.

Note 5: The financial information corrected or re-prepared upon notice by the competent authority, if any, shall apply, and the status and reasons thereof shall be specified.

2. Individual condensed balance sheet - IFRSs

Unit: NTD thousand

| Title | Year | Financial information for the most recent five years (Note 1) | | | | | Financial information available until March 31, 2018 (Note 3) |
|---|---------------------|---|----------|----------|---------|----------|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Current assets | | 411,150 | 390,667 | 452,482 | 440,509 | 349,836 | |
| Property, plant and equipment (Note 2) | | 53,085 | 185,001 | 181,522 | 176,658 | 170,798 | |
| Intangible assets | | 3,036 | 26,489 | 25,445 | 24,761 | 22,246 | |
| Other assets (Note 2) | | 84,330 | 20,355 | 20,105 | 18,214 | 17,855 | |
| Total assets | | 551,601 | 622,512 | 679,554 | 660,142 | 560,735 | |
| Current liabilities | Before distribution | 119,235 | 106,914 | 150,977 | 119,085 | 71,921 | |
| | After distribution | 112,054 | 96,589 | 150,977 | 119,085 | 71,921 | |
| Non-current liabilities | | 8,927 | 67,313 | 8,204 | 9,275 | 5,568 | |
| Total liabilities | Before distribution | 128,162 | 174,227 | 159,181 | 128,360 | 77,489 | |
| | After distribution | 120,980 | 163,902 | 159,181 | 128,360 | 77,489 | |
| Equity attributable to owners of the parent | | 423,439 | 448,285 | 520,373 | 531,782 | 483,246 | |
| Capital stock | | 345,309 | 345,309 | 392,999 | 392,999 | 392,999 | |
| Capital surplus | | 17,028 | 17,029 | 40,339 | 46,702 | 46,702 | |
| Retained earnings | Before distribution | 65,758 | 98,559 | 98,483 | 92,258 | 59,951 | |
| | After distribution | 42,098 | 60,223 | 67,814 | 72,608 | (Note 4) | |
| Other equity | | 205 | 808 | 755 | (177) | (624) | |
| Treasury stock | | (4,861) | (13,420) | (12,203) | - | (15,782) | |
| Non-controlling equity | | - | - | - | - | - | |
| Total equity | Before distribution | 423,439 | 448,285 | 520,373 | 531,782 | 483,246 | |
| | After distribution | 399,779 | 409,949 | 489,704 | 512,133 | (Note 4) | |

*Where the Company has prepared individual financial statements separately, it shall also prepare the individual condensed balance sheet and comprehensive income statement for the most recent five years.

*Where the Company has adopted the IFRSs for less than five years, it shall also prepare the "condensed balance sheet-the R.O.C. Financial Accounting Standards", the financial information prepared based on the R.O.C. Financial Accounting Standards.

Note 1: Years of the financial statements which have not been audited and certified by the external auditor shall be specified: The financial statements for the most recent five years have been audited by the external auditor.

Note 2: If asset revaluation increment has been made in the year, please specify the date and revaluation amount.

Note 3: For the listed company, the most recent quarterly financial information which has been audited or reviewed by the accountant, prior to the publication date of the annual report, should be disclosed.

Note 4: Said distributed amount shall be specified based on the resolution made by the shareholders' meeting of following year: The allocation of earnings is still pending resolution by the shareholders' meeting.

Note 5: The financial information corrected or re-prepared upon notice by the competent authority, if any, shall apply, and the status and reasons thereof shall be specified.

3. Consolidated condensed comprehensive income statement - IFRSs

Unit: NTD thousand

| Title \ Year | Financial information for the most recent five years (Note 1) | | | | | Financial information available until March 31, 2018 (Note 2) |
|---|---|---------|---------|---------|----------|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Operating revenue | 544,960 | 547,767 | 571,986 | 602,098 | 437,095 | |
| Gross profit | 198,803 | 211,873 | 215,062 | 213,479 | 140,335 | |
| Operating profit (loss) | 37,366 | 42,066 | 40,998 | 31,237 | (24,369) | |
| Non-operating revenue and expenditure | 7,559 | 20,551 | 9,668 | (748) | 7,215 | |
| Net profit before tax | 44,925 | 62,617 | 50,666 | 30,489 | (17,154) | |
| Current net profit of continued operations | 39,751 | 57,366 | 39,809 | 25,979 | (15,294) | |
| Loss of discontinuing operations | - | - | - | - | - | |
| Net profit (loss) in current period | 39,751 | 57,366 | 39,809 | 25,979 | (15,294) | |
| Other comprehensive income in the current period (Net after tax) | 1,761 | (301) | (1,602) | (2,467) | 2,190 | |
| Total comprehensive income in the current period | 41,512 | 57,065 | 38,207 | 23,512 | (13,104) | |
| Net profit attributable to owners of the parent | 39,899 | 57,365 | 39,809 | 25,979 | (15,294) | |
| Net profit attributable to non-controlling equity | (148) | 1 | - | - | - | |
| Total comprehensive income attributable to owners of the parent | 41,660 | 57,064 | 38,207 | 23,512 | (13,104) | |
| Total comprehensive income attributable to non-controlling equity | (148) | 1 | - | - | - | |
| EPS | 1.18 | 1.71 | 1.04 | 0.67 | (0.40) | |

*Where the Company has prepared individual financial statements separately, it shall also prepare the individual condensed balance sheet and comprehensive income statement for the most recent five years.

*Where the Company has adopted the IFRSs for less than five years, it shall also prepare the "condensed income statement - the R.O.C. Financial Accounting Standards", the financial information prepared based on the R.O.C. Financial Accounting Standards.

Note 1: Years of the financial statements which have not been audited and certified by the external auditor shall be specified: The financial statements for the most recent five years have been audited by the external auditor.

Note 2: For the listed company, the most recent quarterly financial information which has been audited or reviewed by the accountant, prior to the publication date of the annual report, should be disclosed.

Note 3: The loss of discontinuing operations shall be stated in the net less income tax.

Note 4: The financial information corrected or re-prepared upon notice by the competent authority, if any, shall apply, and the status and reasons thereof shall be specified.

Note 5: EPS has been adjusted retroactively.

4. Individual condensed comprehensive income statement - IFRSs

Unit: NTD thousand

| Title \ Year | Financial information for the most recent five years (Note 1) | | | | | Financial information available until March 31, 2018 (Note 2) |
|---|---|---------|---------|---------|----------|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Operating revenue | 544,719 | 547,527 | 570,028 | 600,775 | 436,688 | |
| Gross profit | 198,852 | 211,665 | 214,641 | 213,429 | 140,027 | |
| Operating profit (loss) | 38,011 | 41,735 | 40,416 | 31,032 | (24,906) | |
| Non-operating revenue and expenditure | 7,051 | 20,793 | 10,040 | (752) | 7,701 | |
| Net profit before tax | 45,062 | 62,528 | 50,456 | 30,280 | (17,205) | |
| Current net profit of continued operations | 39,899 | 57,365 | 39,809 | 25,979 | (15,294) | |
| Loss of discontinuing operations | - | - | - | - | - | |
| Net profit (loss) in current period | 39,899 | 57,365 | 39,809 | 25,979 | (15,294) | |
| Other comprehensive income in the current period (Net after tax) | 1,761 | (301) | (1,602) | (2,467) | 2,190 | |
| Total comprehensive income in the current period | 41,660 | 57,064 | 38,207 | 23,512 | (13,104) | |
| Net profit attributable to owners of the parent | - | - | - | - | - | |
| Net profit attributable to non-controlling equity | - | - | - | - | - | |
| Total comprehensive income attributable to owners of the parent | - | - | - | - | - | |
| Total comprehensive income attributable to non-controlling equity | - | - | - | - | - | |
| EPS | 1.18 | 1.71 | 1.04 | 0.67 | (0.40) | |

*Where the Company has prepared individual financial statements separately, it shall also prepare the individual condensed balance sheet and comprehensive income statement for the most recent five years.

*Where the Company has adopted the IFRSs for less than five years, it shall also prepare the "condensed income statement - the R.O.C. Financial Accounting Standards", the financial information prepared based on the R.O.C. Financial Accounting Standards.

Note 1: Years of the financial statements which have not been audited and certified by the external auditor shall be specified: The financial statements for the most recent five years have been audited by the external auditor.

Note 2: For the listed company, the most recent quarterly financial information which has been audited or reviewed by the accountant, prior to the publication date of the annual report, should be disclosed.

Note 3: The loss of discontinuing operations shall be stated in the net less income tax.

Note 4: The financial information corrected or re-prepared upon notice by the competent authority, if any, shall apply, and the status and reasons thereof shall be specified.

Note 5: EPS has been adjusted retroactively.

(2) The names of external auditors conducting financial audits in the most recent five years and their audit opinions

1. The names of external auditors conducting financial audits in the most recent five years and their audit opinions

| Year | Firm Name | CPA name | Opinion |
|------|-------------------|-------------------------------------|----------------------|
| 2013 | Deloitte & Touche | Tsai, Mei-Chen/ Chen, Chin-Chang | Unqualified opinions |
| 2014 | Deloitte & Touche | Tsai, Mei-Chen/ Chen, Chin-Chang | Unqualified opinions |
| 2015 | Deloitte & Touche | Tsai, Mei-Chen/ Chen, Chin-Chang | Unqualified opinions |
| 2016 | Deloitte & Touche | Tsai, Mei-Chen/ Yeh, Tung-Hui | Unqualified opinions |
| 2017 | Deloitte & Touche | Tsai, Mei-Chen/ Yeh, Tung-Hui | Unqualified opinions |

2. Notes to replacement of the external auditor in the most recent five years: Internal transfer by the CPA Firm.

2. Analysis of financial information for the most recent five years

(1) Financial analysis

1. Analysis of consolidated financial statement - IFRSs

| Year (Note 1) Item of analysis (Note 3) | | Analysis of financial information for the most recent five years | | | | | Financial information available until March 31, 2018 (Note 2) |
|--|--|--|--------|--------|----------|-------------|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Capital Structure (%) | Debts ratio | 23.19 | 27.91 | 23.37 | 19.40 | 13.77 | |
| | Long-term fund to property, plant and equipment | 786.60 | 277.76 | 285.16 | 300.02 | 282.37 | |
| Solvency (%) | Current ratio | 363.05 | 383.26 | 311.97 | 385.10 | 511.76 | |
| | Quick ratio | 312.89 | 321.67 | 274.74 | 322.49 | 436.79 | |
| | Times interest earned | 11,232 | 48.19 | 239.99 | 5,082.50 | (17,153.00) | |
| Operating Performance | Average collection turnover (times) | 8.60 | 7.73 | 7.42 | 6.50 | 5.16 | |
| | Days sales outstanding | 42.44 | 47.22 | 49.19 | 56.15 | 70.73 | |
| | Average inventory turnover (times) | 6.53 | 5.57 | 6.08 | 6.25 | 4.86 | |
| | Average payment turnover (times) | 7.30 | 6.76 | 6.44 | 6.39 | 5.94 | |
| | Average inventory turnover days | 55.90 | 65.53 | 60.03 | 58.40 | 75.10 | |
| | Property, plant and equipment turnover (times) | 9.78 | 4.57 | 3.11 | 3.35 | 2.50 | |
| | Total assets turnover (times) | 1.05 | 0.93 | 0.88 | 0.90 | 0.71 | |
| Profitability | ROA (%) | 7.69 | 9.95 | 6.15 | 3.88 | (2.50) | |
| | ROE (%) | 9.68 | 13.14 | 8.22 | 4.94 | (3.01) | |
| | Pre-tax income to paid-in capital ratio (%) (Note 7) | 13.01 | 18.13 | 12.89 | 7.76 | (4.36) | |
| | Net margin (%) | 7.29 | 10.47 | 6.96 | 4.31 | (3.49) | |
| | EPS (NT\$) | 1.18 | 1.71 | 1.04 | 0.67 | (0.40) | |
| Cash flow | Cash flow ratio (%) | 43.94 | 54.29 | 42.48 | 0.41 | 5.08 | |
| | Cash flow adequacy ratio (%) | 86.46 | 59.47 | 65.26 | 65.32 | 50.45 | |
| | Cash flow reinvestment ratio (%) | 8.06 | 6.76 | 4.88 | 0.00 | 0.00 | |
| Leverage | Operating leverage | 1.25 | 1.26 | 1.24 | 1.35 | 0.58 | |
| | Financial leverage | 1.00 | 1.03 | 1.01 | 1.00 | 0.99 | |
| The causes resulting in changes in financial rates in the most recent two years (not necessary if the changes are less than 20%) | | | | | | | |
| 1. The decrease in debts ratio and times interest earned, and the increase in current ratio and quick ratio is a result of the decrease in operating revenue resulting in a decrease in purchases, accounts payable, and profit. | | | | | | | |
| 2. The decrease in average collection turnover, average inventory turnover, property/plant and equipment turnover, and total assets turnover is a result of the decrease in business operation resulting in a decrease in operating revenue and operating costs. | | | | | | | |
| 3. The decrease in profitability analysis ratios is a result of the decrease in operating revenue resulting in net operating loss and net loss after tax. | | | | | | | |
| 4. The increase in cash flow ratio and decrease in cash flow adequacy ratio: Mainly due to decrease in cash inflow from accounts payable and capital expenditure. | | | | | | | |
| 5. The decrease in operating leverage is a result of the decrease in operating revenue resulting in a decrease in operating variable cost and expense and operating income. | | | | | | | |

2. Analysis of individual financial statement - IFRSs

| Year (Note 1) Item of analysis (Note 3) | | Analysis of financial information for the most recent five years | | | | | Financial information available until March 31, 2018 (Note 2) |
|--|--|--|--------|--------|----------|-------------|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Capital Structure (%) | Debts ratio | 23.23 | 27.99 | 23.42 | 19.44 | 13.81 | |
| | Long-term fund to property, plant and equipment | 797.66 | 278.70 | 286.67 | 301.02 | 282.93 | |
| Solvency (%) | Current ratio | 344.82 | 365.40 | 299.70 | 369.91 | 486.41 | |
| | Quick ratio | 294.69 | 304.45 | 263.05 | 308.06 | 413.01 | |
| | Times interest earned | 11,267 | 48.12 | 239.00 | 5,047.67 | (17,204.00) | |
| Operating Performance | Average collection turnover (times) | 8.66 | 7.75 | 7.44 | 6.50 | 5.13 | |
| | Days sales outstanding | 42.15 | 47.10 | 49.06 | 56.15 | 71.15 | |
| | Average inventory turnover (times) | 6.53 | 5.57 | 6.08 | 6.28 | 4.92 | |
| | Average payment turnover (times) | 7.34 | 6.76 | 6.42 | 6.37 | 5.94 | |
| | Average inventory turnover days | 55.90 | 65.53 | 60.03 | 58.12 | 74.18 | |
| | Property, plant and equipment turnover (times) | 9.93 | 4.60 | 3.11 | 3.35 | 2.51 | |
| | Total assets turnover (times) | 1.06 | 0.93 | 0.88 | 0.90 | 0.71 | |
| Profitability | ROA (%) | 7.75 | 9.96 | 6.14 | 3.88 | (2.50) | |
| | ROE (%) | 9.74 | 13.16 | 8.22 | 4.94 | (3.01) | |
| | Pre-tax income to paid-in capital ratio (%) (Note 7) | 13.05 | 18.11 | 12.84 | 7.70 | (4.37) | |
| | Net margin (%) | 7.32 | 10.48 | 6.98 | 4.32 | (3.50) | |
| | EPS (NT\$) | 1.18 | 1.71 | 1.04 | 0.67 | (0.40) | |
| Cash flow | Cash flow ratio (%) | 43.54 | 54.27 | 42.08 | (0.05) | 3.47 | |
| | Cash flow adequacy ratio (%) | 84.13 | 59.89 | 65.93 | 65.87 | 50.01 | |
| | Cash flow reinvestment ratio (%) | 7.69 | 6.84 | 4.81 | 0.00 | 0.00 | |
| Leverage | Operating leverage | 1.23 | 1.25 | 1.23 | 1.34 | 0.59 | |
| | Financial leverage | 1.00 | 1.03 | 1.01 | 1.00 | 0.99 | |

The causes resulting in changes in financial rates in the most recent two years (not necessary if the changes are less than 20%)

1. The decrease in debts ratio and times interest earned, and the increase in current ratio and quick ratio is a result of the decrease in operating revenue resulting in a decrease in purchases, accounts payable, and profit.
2. The decrease in average collection turnover, average inventory turnover, property/plant and equipment turnover, and total assets turnover is a result of the decrease in business operation resulting in a decrease in operating revenue and operating costs.
3. The decrease in profitability analysis ratios is a result of the decrease in operating revenue resulting in net operating loss and net loss after tax.
4. The increase in cash flow ratio and decrease in cash flow adequacy ratio: Mainly due to decrease in cash inflow from accounts payable and capital expenditure.
5. The decrease in operating leverage is a result of the decrease in operating revenue resulting in a decrease in operating variable cost and expense and operating income.

*Where the Company has prepared individual financial statements separately, it shall also prepare the individual financial ratio analysis.

*Where the Company has adopted the IFRSs for less than five years, it shall also prepare the "financial analysis - the R.O.C. Financial Accounting Standards", the financial information prepared based on the R.O.C. Financial Accounting Standards.

Note 1: Years of the financial statements which have not been audited and certified by the external auditor shall be specified:

The financial statements for the most recent five years have been audited by the external auditor.

Note 2: For the listed company, the most recent quarterly financial information which has been audited or reviewed by the accountant, prior to the publication date of the annual report, should be disclosed.

Note 3: The following equation shall be identified at the end of the Statement:

1. Capital Structure Analysis

(1) Debt ratio = total liabilities / total assets.

(2) Long-term Fund to Property, Plant and Equipment ratio= (Total equity+Non-current liabilities)/net amount of real estate properties, factories and equipment.

2. Liquidity Analysis

(1) Current ratio = current assets / current liabilities.

(2) Quick ratio = (current assets – inventory – prepaid expense) / current liabilities.

(3) Times interest earned = net income before income tax and interest expense / current interest expense.

3. Operating ability

(1) Average Collection Turnover ratio = Net Sales / Average Trade Receivables.

(2) Days Sales Outstanding = 365 / Average Collection Turnover.

(3) Average Inventory Turnover = Cost of Sales / Average Inventory.

(4) Average Payment Turnover = Cost of Sales / Average Trade Payables.

(5) Average Inventory Turnover Days = 365 / Average Inventory Turnover.

(6) Fixed Assets Turnover = Net Sales / Average Net Fixed Assets.

(7) Total Assets Turnover = Net Sales / Average Total Assets.

4. Profitability

(1) Return on assets = [net income + interest expense (1– tax rate)] / average total assets.

(2) ROE = income after tax/net average equity.

(3) Net margin = net income / net sales.

(4) EPS = (income belonging to parent company - stock dividend of preferred stocks)/weighted average number of issued shares.

5. Cash flows

(1) Cash flow ratio = new cash flows from operating activities / current liabilities.

(2) Cash flow adequacy ratio = net cash flows from operating activities in the past five years / (capital expenditure + increase in inventory + cash dividend) in the past five years.

(3) Cash flow reinvestment ratio = (net cash flow of operating activities – cash dividend)/(gross amount of real estate properties, factories and equipment + long-term investment + other non-current assets + operating capital).

6. Leverage:

(1) Operating leverage = (net operating revenues - current operating cost and expense)/operating profit.

(2) Financial leverage = operating income / (operating income – interest expense).

Note 4: The following shall be considered in assessing the equation for EARNINGS PER SHARE as aforementioned

1. Weighted average quantity of shares is on the basis of common stock, not the outstanding shares as of the end of the year.

2. The quantity of new shares for raising new capital or treasury stock trade shall be included in the weighted average quantity of shares during their effective term.

3. Where the shares may be issued through the capitalization of retained earnings or capital surplus, make adjustment in proportion to the quantity of shares issued in calculating the semi-annual or annual EARNINGS PER SHARE of the year. The period for the release of such new shares may be omitted.

4. If the preferred stock is non-convertible cumulative preferred stocks, dividend for the year (issued or not) shall be subtracted from net profit after tax or added to net loss after tax. If the preferred stock is not cumulative, dividend thereon shall be subtracted from net profit after tax if net profit after tax is earned, or no adjustment is required if loss arises.

Note 5: Consider the followings in conducting cash flow analysis:

1. Net cash flow from operating activities refers to net cash inflow from operating activities as stated in the Statement of Cash Flow.

2. Capital expenditure refers to the cash outflow to annual capital investments.

3. The increase in inventory is included only when the balance at the ending is more than that at beginning. If the inventory decreases at the end of the year, it shall be calculated as “zero”.

4. Cash Dividends includes the dividends in cash paid to holders of common shares and preferred shares.

5. Gross property, plant and equipment refer to total property, plant and equipment before subtracting by accumulated depreciation.

Note 6: The issuer shall distinguish the operating costs and operating expenses as fixed and floating ones by nature. If any estimation or judgment is involved, please note the reasonability and consistency.

Note 7: In the case of shares issued by the Company with no par value or a par value other than NT\$10 per share, said calculation about the percentage to the paid-in capital shall be replaced by the equity attributable to the owner of parents identified in the balance sheet.

- 3. Supervisors' Audit Report on the financial statement for the most recent year:
Please refer to Page 98-99.**
- 4. Financial statement for the most recent fiscal year, including an auditor's report prepared by a certified public accountant, and 2-year comparative balance sheet, comprehensive income statement, statement of changes in equity, statement of cash flow, and any related notes or schedules attached thereto: Please refer to Pages 100-170.**
- 5. An individual financial statement for the most recent fiscal year certified by a CPA, but not including the statements of major accounting items: Please refer to Pages 171-239.**
- 6. In the case of any insolvency of the Company and its affiliates for the most recent year and until the date of publication of the annual report, specify its effect on the Company's financial position: N/A**

VII. Review and Analysis of Financial Position and Financial Performance, and Risk Management

1. Financial position

Unit: NTD thousand

| Title \ Year | 2017 | 2016 | Variance | |
|-------------------------------|---------|---------|----------|---------|
| | | | Amount | % |
| Current assets | 366,536 | 457,190 | (90,654) | (19.83) |
| Property, plant and equipment | 171,139 | 177,251 | (6,112) | (3.45) |
| Intangible assets | 22,304 | 24,844 | (2,540) | (10.22) |
| Other assets - non-current | 457 | 491 | (34) | (6.92) |
| Total assets | 560,436 | 659,776 | (99,340) | (15.06) |
| Current liabilities | 71,622 | 118,719 | (47,097) | (39.67) |
| Non-current liabilities | 5,568 | 9,275 | (3,707) | (39.97) |
| Total liabilities | 77,190 | 127,994 | (50,804) | (39.69) |
| Capital stock | 392,999 | 392,999 | 0 | 0 |
| Capital surplus | 46,702 | 46,702 | 0 | 0 |
| Retained earnings | 59,951 | 92,258 | (32,307) | (35.02) |
| Others | (624) | (177) | (447) | 252.54 |
| Total equity | 483,246 | 531,782 | (48,536) | (9.13) |
| Total liabilities and equity | 560,436 | 659,776 | (99,340) | (15.06) |

1. Please specify the analysis, in the case of variances in the previous and latter periods amounting to more than 20% and to 1% of the total assets.

(1) Current liabilities: Mainly due to the decrease in operating revenue resulting in a decrease in accounts payable from purchases.

(2) Retained earnings: Mainly due to the decrease in operating revenue resulting in a decrease in profit.

2. If the effect of said change is of material significance, the annual report shall describe the measures to be taken in response: Said change rendered no material or adverse effect to the Company.

2. Analysis on financial performance

(1) Comparison and analysis of operating results

Unit: NTD thousand

| Title \ Year | 2017 | 2016 | Variance | |
|---|----------|---------|-----------|------------|
| | | | Amount | % |
| Total operating revenue | 437,175 | 602,640 | (165,465) | (27.46) |
| Less: Sales return and discount | 80 | 542 | (462) | (85.24) |
| Total operating revenue, net | 437,095 | 602,098 | (165,003) | (27.40) |
| Operating cost | 296,760 | 388,619 | (91,859) | (23.64) |
| Gross profit | 140,335 | 213,479 | (73,144) | (34.26) |
| Operating expenses | 164,704 | 182,242 | (17,538) | (9.62) |
| Operating income | (24,369) | 31,237 | (55,606) | (178.01) |
| Non-operating revenue and expenditure | 7,215 | (748) | 7,963 | (1,064.57) |
| Net profit before tax | (17,154) | 30,489 | (47,643) | (156.26) |
| Income tax expenses | (1,860) | 4,510 | (6,370) | (141.24) |
| Net profit in current period | (15,294) | 25,979 | (41,273) | (158.87) |
| 1. Please specify the analysis, in the case of variances in the previous and latter periods amounting to more than 20% and to 1% of the total assets. (1) Gross profit reduction: Primarily as a result of the decrease in operating revenue resulting in a decrease in both operating cost and profit margin. (2) Operating expenses reduction: Mainly due to the absence of directors, supervisors compensation and employees bonuses in 2017. (3) The decrease of net profit before tax, income tax expenses, and net profit in current period: Primarily as a result of the decrease in operating revenue. 2. If the effect of said change is of material significance, the annual report shall describe the measures to be taken in response: Said change rendered no material or adverse effect to the Company. | | | | |

(2) Sales volume forecast for following year and the basis thereof

The Company's business department forecast that the sale volume of products in 2018 will grow more than that in 2017, based on its experience, status of promotion of the products to customers and current economic and industrial market status, and the orders received and status of sales from 2018 until the date of publication of the annual report.

Unit: Thousand pieces

| Item | Sale volume forecast |
|-------------|----------------------|
| 8051 MCU | 51,606 |
| 6502 MCU | 23,120 |
| LED Driver | 3,375 |
| S51 USB MCU | 753 |
| ARM CMO MCU | 224 |
| Total | 79,078 |

In order to achieve the sales target this year, the Company will spare no efforts to develop new products, upgrade its R&D ability and product quality, and provide the optimal product specifications and services per the customers' needs for different products.

(3) Effect upon the Company's financial operations as well as measures to be taken in response: No adverse effect has been produced.

3. Cash flow

(1) Analysis of variance in cash flows for the most recent year

| Title \ Year | 2017 | 2016 | Increase (decrease) in proportion |
|--|--------|--------|-----------------------------------|
| Cash flow ratio (%) | 5.08% | 0.41% | 11.39% |
| Cash flow adequacy ratio (%) | 50.45% | 65.32% | (22.76)% |
| Cash flow reinvestment ratio (%) | 0.00% | 0.00% | 0% |
| Analysis of variance in cash flows: 1. The increase in cash flow ratio and decrease in cash flow adequacy ratio: Mainly due to decrease in cash inflow from accounts payable and capital expenditure. | | | |

(2) Corrective action against insufficient liquidity: N/A.

(3) Analysis of variance in cash flows for the future year:

Unit: NTD thousand

| Balance of cash - beginning A | Projected net cash provided by operating activities in the year B | Net cash used in investing and financing activities in the year C | Projected surplus (deficit) A + B - C | Remedy for deficit in cash | |
|----------------------------------|--|--|--|----------------------------|----------------|
| | | | | Investment plan | Financing plan |
| 114,032 | (37,852) | (34,730) | 41,450 | - | - |

4. Major capital expenditure for the most recent year and its effect on financial position and operation of the Company: N/A

5. Direct investment policy, the main reasons for profit or loss, and corrective action plan for the most recent year, and investment plan in the next year

(1) Direct investment policy in the most recent year:

The Company's business management policy about investees serves to be the guidelines to be bound by the management of investees in accordance with the "investment cycle" under the internal control system, "regulations governing management of subsidiaries" and "operating procedure for acquisition or disposition of assets". Each investee shall also provide the Company with its financial information per requirement periodically to enable the Company to verify its financial or business position in a timely manner. Meanwhile, the Company's internal auditing unit also urges subsidiaries to conduct the internal control self-evaluation to evaluate the effectiveness and completeness of its internal control system.

(2) Major cause for earning or loss of direct investment in the most recent year, and corrective action plan:

Unit: NTD thousand, unless otherwise noted

| Investee | Investment amount | Relation | Major cause for earning or loss | Investment gain (loss) in 2017 | Corrective action plan |
|---|-------------------------------|--|--|--------------------------------|------------------------|
| Regent Pacific Management Ltd. | 30,824 US\$921 thousand | A subsidiary wholly owned by the Company | Recognition of investment income from subsidiaries | 246 | - |
| MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | 12,238 US\$385 thousand | A subsidiary wholly owned by Regent Pacific Management Ltd. | Recognition of investment income from subsidiaries | 562 | - |
| MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | 9,459 US\$300 thousand | A subsidiary wholly owned by MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | As a result of the increase in sales of products | 386 | - |

(3) The investment plan for next year: N/A.

6. Analysis of risk factors

Analysis of the following factors for the most recent year and up to the date of publication of this annual report

(1) Impact of interest and exchange rate changes and inflation, and their future countermeasures

Unit: NTD thousand

| Title | 2017 | | 2016 | |
|----------------------------------|---------|------------------------------|---------|------------------------------|
| | Amount | To net profit before tax (%) | Amount | To net profit before tax (%) |
| Interest revenue | 1,607 | (9.37) | 2,369 | 7.77% |
| Interest expenses | 1 | (0.01) | 6 | 0.02% |
| Net foreign exchange gain (loss) | (4,577) | (26.68) | (5,410) | (17.74%) |

Source of data: Financial statements audited and certified by the external auditor

1. Interest

The Company's net interest revenue to net profit before tax was -9.37% and 7.77% in 2017 and 2016. The decrease in interest revenue to net profit before tax in 2017 was a result of the loss in earnings. The Company utilizes the fund according to the conservative policy and continues to allocate the fund to time deposit with high safety, and will pursue short-term investment with high rate of return and better safety, in order to upgrade the rate of return on the entire fund. The Company will keep watching the changes in interest rate and take responsive measures, if necessary, in order to reduce the impact of interest rate on the Company's income.

2. Exchange rate

The Company's net exchange loss were NT\$4,577 thousand and NT\$5,410 thousand in 2017 and 2016, and to the net profit before tax were -26.68% and 17.74% respectively. The Company adopts stable and conservative policy toward foreign currency fund management, and keeps the foreign currency assets and liabilities balanced, adopts the natural hedging policy, controls the information related to exchange rate, takes the Company's foreign currency position into consideration and adjusts the positions to respond to the fluctuation in exchange rate, if any, in hopes of reducing the effect produced by changes in exchange rate to the Company's business.

The Company's financial department personnel will review the professional information provided by correspondent banks and asset management companies to control the exchange rate trend from time to time. Meanwhile, the Company will adjust the foreign currency positions in a timely manner, subject to the changes in the exchange rate, and apply hedging tools, if necessary, in hopes of reducing the effect produced by changes in the exchange rate to the Company's earnings.

3. Inflation

No direct or material effect has been produced by the inflation on the Company's income.

(2) Policy on high-risk, high-leverage investments, loaning of funds, endorsements and guarantees as well as derivatives transactions, major causes for profits or losses and future countermeasures:

The Company is used to carrying out its business by upholding the management philosophy dedicated to its core business operation and practices and applying stable and conservative financial policy. Therefore, the Company does not engage in any high-risk or high-leverage investment. Meanwhile, the Company has never been engaged in granting fund to others, making endorsement/guarantee for others or derivative transactions before the date of publication of the annual report. The Company's policy on loaning of funds, endorsements and guarantees as well as derivatives transactions will comply with the Company's "Operating Procedure for Loaning to Others", "Operating Procedure for Making of Endorsements and Guarantees" and "Operating Procedure for Acquisition or Disposition of Assets" and take the business and financial needs into consideration.

(3) Future R&D plans and expected R&D expenditure

1. Future R&D plans

Based on the existing MCU development foundation, the Company has worked with clients to develop diversified product applications, such as MCUs for electrical/wireless/sensor/ultrasonic applications. Some of the clients had started up mass production. Next, the 8-bit MCU and the CM0 32-bit MCU, which is launched in 2018, will continue to be used in these application fields and will enable users to develop higher-performance control applications and enter high-end product market. For IoT market, the Company had developed several conceptual products and migrated into sample stage.

(1) R&D:

- (A) Develop ARM Coretx-M0 32-bit MCU;
- (B) Enhance MCU framework to upgrade the operating performance;
- (C) Continue upgrading MCU stability to extend the application thereof to

- labor control and car;
- (D) Upgrade precision of embedded crystal ($< \pm 1.0\%$) to replace external crystal;
- (E) Development of accuracy > 18 -bit Sigma-Delta AFE;
- (F) Development of low-power analog IP applied to MCU.
- (2) Product development:
 - (A) Promotion of 32-bit MCU products;
 - (B) Release of low-power 8-bit MCU.

2. R&D expenditure expected to be invested by the Company

The Company expects to invest 10%~15% of turnover as the R&D expenditure to maintain competitiveness of the Company's products.

(4) Changes in important policies and legal environment at home and abroad, and the effect on the financial status and operation of the Company, and Countermeasures:

The Company didn't suffer any changes in important policies and legal environment at home and abroad which affect the financial status and operation of the Company. The Company is engaged in selling products primarily in markets of countries in Asia, mostly in China. Changes in China's political and legal environment will have an impact on the Company. The Company will be concerned about changes at any time and respond in a timely manner.

(5) The effect of technological and industrial changes on financial status and operation of the Company, and countermeasures:

The only countermeasure against technological changes is to keep investing in collection of market intelligence and maintaining the product development strategy upholding self-selected out policy, so that the Company can fight any sudden technological and industrial changes. The Company's core product refers to MCU, a universal-purpose, instead of single-purpose, product. Compared with other ASSP IC, its strength resides in its longer life cycle or market cycle. Notwithstanding, the Company still keeps pushing our platform toward higher rank production process to provide higher integrated characteristics, lower power consumption and best cost to benefit ratio, so as to achieve the self-selected out-style development of innovative products.

(6) Impact of changes in corporate identity on the Company's crisis management, and countermeasures:

The Company is used to upholding the management philosophy valuing "best practice" and "seeking changes and innovation", and valuing the corporate identity and risk control. Meanwhile, the Company believes that the ultimate purpose for which an enterprise is founded is not to pursue the highest profit, but to provide the best quality product to customers in need based on reasonable profit. The Company continues to develop its original profession (MCU) thoroughly and demands improvement of service quality and refined, delicate and sustainable operation. So far, no changes in corporate identity have been incurred to cause crisis to the Company.

(7) Expected benefits and possible risks of merger and acquisition, and countermeasures

The Company had no plan to acquire or merge another company in the most recent year and during the period until the date of publication of the annual report.

(8) Expected benefits and possible risks of facilities expansion, and countermeasures

The Company moved to the new office in Tai Yuen Hi-Tech Industrial Park in 2014 upon thorough evaluation, in order to meet the plan for long-term growth and provide employees with more convenient living function. Notwithstanding, the

Company does not plan to expand facilities for the time being.

(9) Risk from centralized purchasing or selling, and countermeasures

1. Risk from centralized purchasing

The Company's major clients are TSMC and Macronix, both of which are domestic leading wafer suppliers. Since the Company was founded, it has maintained fair cooperation with both. Meanwhile, given the permanent fair relationship between the Company and its OEM, the Company can meet the clients' need in production and term of delivery as the first priority and can provide sufficient productivity. Therefore, there is no risk from centralized purchasing for the time being.

2. Risk from centralized selling

The sale of the top one vendor of the Company accounted for about 27.36% of the Company's operating revenue in 2017. The Company's vendors are IC distributors and agents. The billing period may be shortened and the risk over bad debt may be mitigated, if the sale is conducted via distributors and agents, so that the Company may maintain normal operation of the working capital. Meanwhile, in order to mitigate the risk over sale, the Company also works hard to develop new clients and new IC application to disperse risk.

(10) Impact and risk associated with large share transfers or changes in shareholdings of directors, supervisors, or shareholders who hold more than 10% of the Company's shares, and countermeasures

In the most recent year and during the period until the date of publication of the annual report, no large share transfers or changes in shareholdings of directors, supervisors, or shareholders who hold more than 10% of the Company's shares took place.

(11) Impact and risk associated with changes in management rights, and countermeasures

The Company's equity is considered centralized. Directors and supervisors have participated in the Company's operation permanently. The Company's employees all agree to the orientation of the Company's development and are willing to hold the Company's stock permanently to grow with the Company. Therefore, no large share transfers or changes in management rights take place.

(12) Litigation and non-litigation matters

List major litigious, non-litigious or administrative disputes that involve the Company and/or its director, supervisor, general manager and responsible person with actual responsibility for the Company, major shareholder holding a stake of greater than 10 percent, and/or affiliates controlled by the Company and have been concluded by means of a final and not appealable judgment, or are still under litigation. Where such a dispute could materially affect shareholders' equity or the prices of the company's securities, the annual report shall disclose the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of printing of the annual report: N/A.

(13) Other major risks and countermeasures: N/A

7. Other important notes: N/A

VIII. Special Notes

1. Information About Affiliates

(1) Consolidated report on operation of affiliates 2016:

1. Organizational chart of affiliates

December 31, 2017



2. Profiles of affiliates

Unit: NT\$

| Name | Date of incorporation | Address | Paid-in Capital | Principle Business |
|---|-----------------------|---|-----------------|--------------------|
| Regent Pacific Management Ltd. | July 10, 2001 | G.P.O. Box 365, 307 St James Court, St Denis Street, Port Louis, Republic of Mauritius | USD920,512.83 | General investment |
| MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | September 28, 2001 | Unit 1601, 16/F., Malaysia Building, 50 Gloucester Road, Wanchai, Hong Kong | HKD3,128,787 | General investment |
| MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | October 21, 2008 | No. 10A, 10F, Shui Song Building, Bin He Rd., Che Gong Miao, Fu Tian District, ShenZhen City, China | RMB2,008,410 | After-sale service |

3. Entities presumed in parent-subsidiary relations and information on identical shareholders: N/A.

4. The industries housed in the same business location of the whole business group:

| Company name | Parent (subsidiary) | Parent-subsidiary relations | Business lines conducted by affiliates and the division of labor of the business group |
|---|---|-----------------------------|--|
| Regent Pacific Management Ltd. | MEGAWIN Technology Co., Ltd. | Affiliate | General investment |
| MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | Regent Pacific Management Ltd. | Affiliate | Business promotion |
| MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | Affiliate | After-sale service |

5. Profiles of Directors, Supervisors and Presidents of affiliates

Unit: shares

| Name | Job title | Name or representative | Shareholding | |
|---|-----------|---|------------------|-----------------------|
| | | | Number of shares | Ratio of Shareholding |
| Regent Pacific Management Ltd. | Director | MEGAWIN Technology Co., Ltd. Institutional representative: Wen, Kow-Liang | 920,513 | 100% |
| MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | Director | Regent Pacific Management Ltd. | 3,128,687 | 100% |
| MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | Director | Ely Peng | 0 | 0% |
| | President | Charng Pin | 0 | 0% |

6. Operation Profile of affiliates

| Name Title | MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED (Unit: RMB) | MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED (Unit: HKD) | Regent Pacific Management Ltd. (Unit: NTD) |
|------------------------------|--|--|---|
| Capital | 2,008,410.00 | 3,128,787.00 | 30,823,911 |
| Total assets | 3,208,355.96 | 3,838,669.83 | 17,727,776 |
| Total liabilities | 824,956.99 | - | - |
| Net worth | 2,383,398.97 | 3,838,669.83 | 17,727,776 |
| Operating revenue | 2,862,442.28 | - | - |
| Operating income | 66,536.10 | (14,155.00) | (90,604) |
| Income in the current period | 85,568.31 | 144,044.08 | 246,398 |
| EPS | 0.29 | 0.05 | 0.27 |

(2) Consolidated financial statement of affiliates: Please refer to Pages 100-170.

(3) Affiliation report: It is not necessary for the Company to prepare the affiliation report, as the Company does not meet the elements provided in the Law for presumption of a relationship of control or subordination.

2. Private placement of securities for the most recent year and until the date of publication of the annual report: N/A

3. Holding or disposal of the Company's stock by subsidiaries for the most recent year and until the date of publication of the annual report: N/A

4. Supplementary Disclosure:

Commitment to OTC listing

1. The Company commits to add the paragraph stating that "the Company shall not waive the capital increase in Regent Pacific Management Limited ("Regent Pacific") in following years, and Regent Pacific shall not waive the capital increase in MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED ("Megawin HK") in following years, and Megawin HK shall not waive the capital increase in MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED in the following years. Where any company needs to waive the capital increase in said companies or to dispose of said companies due to strategic alliance, or upon approval of TPEx, it shall seek approval from the Board of Directors through special resolution." In the case of amendments to the Operating Procedure, the same shall be disclosed on the MOPS and reported to TPEx in writing for record.

The Board of Directors has agreed to amend the Operating Procedure for Acquisition or Disposition of Assets on December 23, 2014 in order to add said commitments. The motion was also approved by the shareholders' meeting upon resolution on June 9, 2015.

5. Conditions that will materially affect shareholders' equity or price of securities as referred to in Paragraph 3.2 of Article 36 of the Securities and Exchange Act in the most recent year and until the date of publication of the annual report: N/A.

MEGAWIN Technology Co., Ltd.
Declaration of Internal Control

Date: February 13, 2018

The internal control system in 2017 conforms to the following declarations made in accordance with the self-inspection conducted:

1. We understand it is the responsibility of the Company's management to have internal control system established, enforced, and maintained. The Company has the internal control system established to provide a reasonable assurance for the realization of operating effect and efficiency (including profits, performance, and assets safety), the reliability of financial report, and the obedience of relevant regulations.
2. Internal control system is designed with limitations; therefore, no matter how perfectly it is designed, an effective internal control system is to ensure the realization of the aforementioned three objectives. Due to the change of environment and condition, the effectiveness of an internal control system could change at any time. Our internal control system is designed with self-monitoring mechanism; therefore, we are able to have corrective actions initiated upon identifying any nonconformity.
3. We have based on the internal control criteria of "Governing Rules for handling internal control system by public offering companies" (referred to as "the Governing Rules" hereinafter) to determine the effectiveness of internal control design and enforcement. The internal control criteria of the "Governing Rules" is the management control process and with the internal control divided into five elements: 1. Environment control, 2. Risk analysis, 3. Control process, 4. Information and communication, and 5. Supervision. Each element is subdivided into several items. Please refer to the "Governing Rules" for the details of the said items.
4. We have based on the aforementioned internal control criteria to inspect the effectiveness of internal control design and enforcement.
5. We believe that our audits provide a reasonable basis for our opinion. On December 31, 2017, those standards require that we plan and perform the audit to obtain reasonable assurance about whether the internal control system (including the supervision and management over the subsidiaries) including the fulfillment of business performance and efficiency, the reliability of financial statements and the obedience of governing regulations, and the design and enforcement of internal control system is free of material misstatement and is able to ensure the realization of the aforementioned objectives.
6. The Declaration of Internal Control is the content of our annual report and prospectus for the information of the public. For any forgery and concealment of the aforementioned information to the public, we will be held responsible by law in accordance with Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. We hereby declared that the Declaration of Internal Control was approved by the Board of Directors on February 13, 2018 unanimously by all 7 directors present at the meeting.

MEGAWIN Technology Co., Ltd.

Chairman of Board: Wen, Kow-Liang

(affixation of seal/signature)

President: Chiou, San-Wen

(affixation of seal/signature)

Supervisor's Audit Report

The Board of Directors hereby submits the Company' s 2017 business report, financial statements etc. , among which the financial statements have been audited by certified public accountants Tsai, Mei-Chen and Yeh, Tung-Hui from Deloitte & Touche appointed by the Board of Directors, to issue an independent audit report.

The aforementioned business report and financial statements have been reviewed by the Supervisors, in compliance with the Company Act and relevant regulations, and therefore, we hereby issue this report in accordance to Article 219 of the Company Act.

For your kind verification

To

Megawin Technology Co., Ltd.

2018 Shareholders' Meeting

Supervisor:

Lu, Shao-Chun

Hsu, Min-Hsien

Kung, Ching-Jung

February 13, 2018

Supervisor's Audit Report

The Board of Directors hereby submits the Company' s 2017 proposal of deficit compensation,.

The aforementioned proposal of deficit compensation, has been reviewed by the Supervisors, in compliance with the Company Act and relevant regulations, and therefore, we hereby issue this report in accordance to Article 219 of the Company Act.

For your kind verification

To

Megawin Technology Co., Ltd.

2018 Shareholders' Meeting

Supervisor:

Lu, Shao-Chun

Hsu, Min-Hsien

Kung, Ching-Jung

March 6, 2018

Appendix 1.
Consolidated Financial Statements Audited by the External Auditor
in the Most Recent Year

MEGAWIN Technology Co., Ltd.
and its subsidiaries

Consolidated Financial Statements and
Independent Auditors' Report
2017 and 2016

Address: 7F-1, No. 8, Taiyun 1st St., Jhubei City, Hsinchu County
Tel. No.: (03)5601501

Statement of Declaration

The Company is required to prepare consolidated financial statements 2017 (from January 1 to December 31, 2017) with its subsidiaries under the “Criteria Governing the Preparation of Affiliations Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises”. Subsidiaries of the Company under said rules are identical with the subsidiaries defined under IFRS No. 10. Information on Financial Status and operation performance of such subsidiaries has been included in the disclosure of the aforementioned consolidated financial statement between parent and subsidiaries and therefore will not be prepared separately.

Declared as above.

Company name: MEGAWIN Technology Co., Ltd.

Responsible person: Wen, Kow-Liang

February 13, 2018
Auditor's report

INDEPENDENT AUDITOR'S REPORT

To: MEGAWIN Technology Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheet of MEGAWIN Technology Co., Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement from January 1 to December 31, 2017 and 2016, as well as the notes to consolidated financial statements (including the summary of significant accounting policies).

In our opinion, said consolidated financial statements present fairly, in all material respects, the consolidated financial position of MEGAWIN Technology Co., Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the results of their consolidated operations and cash flows from January 1 to December 31, 2017 and 2016 in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRSs recognized by FSC, and IAS, SIC and IFRIC.

Basis for opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities required under said standards will be detailed in the paragraph about the external auditor's responsibility on auditing consolidated financial statements. Our firm's staff subject to the independence requirements have maintained their independent attitude with MEGAWIN Technology Co., Ltd. and its subsidiaries pursuant to the CPAs' ethical code, and perform the other responsibilities required under said code. We believe that we have obtain sufficient and valid evidence which may afford to serve as the basis for audit opinion.

Key Audit Matter (KAM)

The key audit matter (KAM) refers to the most important matter included in our audit on the consolidated financial statements 2017 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on our professional judgment as the CPA. Said matter has been responded to during the overall audit on the consolidated financial statements and preparation of the audit opinion.

We hereby state the key audit matter (KAM) included in our audit on the consolidated financial statements 2017 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on our professional judgment as the CPA as following:

KAM 1

1. MEGAWIN Technology Co., Ltd. and its subsidiaries are engaged in IC design, whose sales revenue varies depending on their customers' acceptability of products as well as stock prices. Therefore, we presuppose that there might be the risk over the management's earlier recognition of the revenue.
2. MEGAWIN Technology Co., Ltd. and its subsidiaries are primarily engaged in selling MCU. About 38% of the products are shipped to customers directly via an IC testing company based in Mainland China instead of via warehouses belonging to MEGAWIN Technology Co., Ltd. and its subsidiaries. Given this, the closing of revenue might be deferred for the purpose contemplated by the management in the preceding paragraph.
3. Our audit procedure covers:
 - (1) Verification of the procedure for recognition of revenue generated from the shipment via the IC testing company and execution of relevant control tests.
 - (2) Check on whether there is earlier recognition of revenue based on the sales order of the IC testing company in Mainland China on December 31, 2017 and four days thereafter.

KAM 2

1. The inventory of MEGAWIN Technology Co., Ltd. and its subsidiaries valued NT\$51,276 thousand on December 31, 2017. This is considered important to the consolidated financial statements. Please refer to Note 11.
2. MEGAWIN Technology Co., Ltd. and its subsidiaries are engaged in the industry which might suffer slow-moving or obsolete inventory due to changes of technology. That is, the inventory is likely to be unsalable, or needs to be sold at discount and thereby causes the value of inventory less than the book value thereof. For the

related accounting policy and important accounting estimation, please see Note 4 and Note 5.

3. Our audit procedure covers:

- (1) Obtain the details about inventory price decline and slow-moving inventory and information about the age of inventory tested on the balance sheet date, and calculate the allowance for loss on inventory price decline.
- (2) In order to test the book value of the inventory, we verified whether the book value is measured at cost or net realizable value, whichever is lower, and evaluated it based on the methods applied by MEGAWIN Technology Co., Ltd. and its subsidiaries.

Other Matters

We have also audited the individual financial statements of MEGAWIN Technology Co., Ltd. as of and for the years 2017 and 2016, and have issued the auditor's report without qualified opinion.

Management's and corporate governance unit's responsibility toward consolidated financial statements

The management shall be responsible for preparing the consolidated financial statements which fairly present the company in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, IFRSs recognized by FSC, and IAS, interpretations and SIC interpretations, and maintaining necessary internal controls over preparation of consolidated financial statements to ensure that the consolidated financial statements are free from any misrepresentation resulting from corruption or error.

When preparing the consolidated financial statements, the management shall also be responsible for evaluating the ability to continue operations of MEGAWIN Technology Co., Ltd. and its subsidiaries, disclosure of related matters, and adoption of the basis for continued operations, unless the management intends to liquidate MEGAWIN Technology Co., Ltd. and its subsidiaries, or wind up, or there is not any available program other than liquidation or windup.

The corporate governance unit of MEGAWIN Technology Co., Ltd. and its subsidiaries shall be responsible for supervising the financial reporting procedure.

Auditor's Responsibilities for Audit of the Consolidated Financial Statements

We conduct the audit on the consolidated financial statements in order to obtain reasonable assurance about whether the consolidated financial statements are free from

any misrepresentation resulting from corruption or error, and to issue the auditor's report. The reasonable assurance means high assurance. Notwithstanding, the audit conducted in conformity of the auditing standards generally accepted in the Republic of China doesn't warrant discovery of any misrepresentation in the consolidated financial statements. The misrepresentation might result from corruption or error. Where the misrepresented amount or summarization may be reasonably expected to affect the economic decision made by users of the consolidated financial statements, such misrepresentation would be considered material.

We exercise our professional judgment and remain objective professionally when conducting the audit in accordance with the auditing standards generally accepted in the Republic of China. We also execute the following work:

1. Identifying and evaluating the risk over misrepresentation in the consolidated financial statements resulting from corruption or error; designing and implementing adequate countermeasures against the evaluated risk; and obtaining sufficient and valid evidence which may afford to serve as the basis for the audit opinion. As corruption might involve conspiracy, forgery, intentional omission, misrepresentation or failure to comply with internal controls, failing to detect the material misrepresentation resulting from corruption is higher than that of misrepresentation resulting from error.
2. Obtaining the necessary understanding of internal controls critical to the audit; designing an audit procedure suitable under the circumstances; not expressing opinions on the validity of the internal controls of MEGAWIN Technology Co., Ltd. and its subsidiaries.
3. Evaluating the validity of the accounting policies adopted by the management, and the reasonableness of the accounting estimations and disclosures made by the management.
4. Concluding the validity of the accounting basis for continued operations applied by the management, and the existence of uncertainty on the event which might raise material doubt over the ability to continue operations of MEGAWIN Technology Co., Ltd. and its subsidiaries, based on the evidence obtained. Where we believe that some material uncertainty exists, we shall remind users of the consolidated financial statements in our audit report to note the disclosures related to the consolidated financial statements, or modify the audit opinion if the disclosure is considered inadequate. Our conclusion is made based on the evidence available at

the date of the audit report. Notwithstanding this, future events might result in the failure of MEGAWIN Technology Co., Ltd. and its subsidiaries to continue operations.

5. Evaluating the overall expression, structure and contents of the consolidated financial statements (including related notes hereto), and whether the consolidated financial statements adequately express the related transactions and events.
6. Obtaining sufficient and adequate evidence toward the individual financial information of MEGAWIN Technology Co., Ltd. and its subsidiaries to comment on the consolidated financial statements. We are responsible for directing, supervising and conducting the audit on MEGAWIN Technology Co., Ltd. and its subsidiaries, and producing the audit opinion on MEGAWIN Technology Co., Ltd. and its subsidiaries.

The matters communicated between the corporate governance unit and us include the range and time of the planned audit, and material audit findings (including the significant non-conformance in internal control identified in the process of audit).

We also provide the corporate governance unit with the statement of declaration for the compliance of our staff subject to the independence requirements with the independence requirements defined in the CPA's ethical code, and also communicate with the corporate governance unit about the relationships and other matters which are considered potentially affecting the CPA's independence (including related preventive measures).

We decide the key audit matter (KAM) included in our audit on the consolidated financial statements 2017 of MEGAWIN Technology Co., Ltd. and its subsidiaries based on the matters communicated between the corporate governance unit and us. We state the matters in our audit report, unless the laws prohibit disclosure of specific matters, or in some extraordinary circumstance, we decide not to communicate the specific matters in the audit report, as we reasonably expect that the adverse effect arising from the communication is greater than the public interest advanced therefor.

Deloitte & Touche

Tsai, Mei-Chen, CPA

Yeh, Tung-Hui, CPA

FSC Approval No.

Chin-Kuan-Cheng-Shen-Tzu No.
1010028123

FSC Approval No.

Chin-Kuan-Cheng-Shen-Tzu No.
0980032818

February 13, 2018

MEGAWIN Technology Co., Ltd. and subsidiaries
Consolidated balance sheets
December 31, 2017 and 2016

In thousands of NTD

| Code | Assets | December 31, 2017 | | December 31, 2016 | | Code | Liabilities and equity | December 31, 2017 | | December 31, 2016 | |
|------|---|-------------------|------------|-------------------|------------|------|--|-------------------|------------|-------------------|------------|
| | | Amount | % | Amount | % | | | Amount | % | Amount | % |
| | Current assets | | | | | | Current liabilities | | | | |
| 1100 | Cash and cash equivalents (Notes 4, 6 and 25) | \$ 114,032 | 20 | \$ 155,460 | 23 | 2120 | Financial liabilities at fair value through profit or loss (Notes 4, 7 and 25) | \$ - | - | \$ 461 | - |
| 1147 | Debt investments with no active market-current (Note Notes 4, 9 and 25) | 130,407 | 23 | 120,892 | 18 | 2170 | Accounts payable (Notes 4, 16 and 25) | 34,718 | 6 | 65,097 | 10 |
| 1170 | Notes and accounts receivable (Notes 4, 10 and 25) | 66,162 | 12 | 103,202 | 16 | 2200 | Other payables (Notes 4, 17 and 25) | 33,512 | 6 | 47,003 | 7 |
| 130X | Inventories(Notes 4, 5 and 11) | 51,276 | 9 | 70,633 | 11 | 2230 | Current income tax liability (Notes 4 and 22) | 1,234 | - | 3,715 | 1 |
| 1479 | Other current assets (Note 15) | 4,659 | 1 | 7,003 | 1 | 2300 | Other current liabilities (Note 17) | 2,158 | 1 | 2,443 | - |
| 11XX | Total current assets | <u>366,536</u> | <u>65</u> | <u>457,190</u> | <u>69</u> | 21XX | Total current liabilities | <u>71,622</u> | <u>13</u> | <u>118,719</u> | <u>18</u> |
| | Non-current assets | | | | | | Non-current liabilities | | | | |
| 1600 | Property, plant and equipment (Notes 4, 13 and 27) | 171,139 | 31 | 177,251 | 27 | 2640 | Net defined benefit liabilities –non-current (Notes 4 and 18) | 1,904 | - | 4,891 | 1 |
| 1780 | Intangible assets (Notes 4 and 14) | 22,304 | 4 | 24,844 | 4 | 2645 | Guarantee deposits(Note 25) | 3,664 | 1 | 4,384 | - |
| 1920 | Refundable deposits (Note 25) | 457 | - | 491 | - | 25XX | Total noncurrent liabilities | <u>5,568</u> | <u>1</u> | <u>9,275</u> | <u>1</u> |
| 15XX | Total noncurrent assets | <u>193,900</u> | <u>35</u> | <u>202,586</u> | <u>31</u> | 2XXX | Total liabilities | <u>77,190</u> | <u>14</u> | <u>127,994</u> | <u>19</u> |
| | | | | | | | Equity attributable to owners of the company (Notes 4 and 19) | | | | |
| | | | | | | | Share capital | | | | |
| | | | | | | 3110 | Ordinary shares | 392,999 | 70 | 392,999 | 60 |
| | | | | | | 3200 | Capital surplus | 46,702 | 8 | 46,702 | 7 |
| | | | | | | | Retained earnings | | | | |
| | | | | | | 3310 | Legal reserve | 40,043 | 7 | 37,445 | 6 |
| | | | | | | 3320 | Special reserve | 177 | - | - | - |
| | | | | | | 3350 | Unappropriated earnings (Note 22) | 19,731 | 4 | 54,813 | 8 |
| | | | | | | 3300 | Total retained earnings | 59,951 | 11 | 92,258 | 14 |
| | | | | | | 3400 | Other equity | (624) | - | (177) | - |
| | | | | | | 3500 | Treasury stock | (15,782) | (3) | - | - |
| | | | | | | 31XX | Total equity attributable to owners of the company | <u>483,246</u> | <u>86</u> | <u>531,782</u> | <u>81</u> |
| | | | | | | 3XXX | Total equity | <u>483,246</u> | <u>86</u> | <u>531,782</u> | <u>81</u> |
| 1XXX | Total assets | <u>\$ 560,436</u> | <u>100</u> | <u>\$ 659,776</u> | <u>100</u> | | Total liabilities and equity | <u>\$ 560,436</u> | <u>100</u> | <u>\$ 659,776</u> | <u>100</u> |

The accompanying notes constitute an integral part of the consolidated financial statements.

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and subsidiaries
Consolidated statements of comprehensive income statements
January 1~December 31, 2017 and 2016

In thousands of NTD, except
EPS

| Code | | 2017 | | 2016 | |
|------|--|-------------|--------|-------------|--------|
| | | Amount | % | Amount | % |
| 4000 | Operating revenue (Notes 4 and 20) | \$ 437,095 | 100 | \$ 602,098 | 100 |
| 5000 | Operating cost (Notes 11 and 21) | (296,760) | (68) | (388,619) | (65) |
| 5900 | Gross profit | 140,335 | 32 | 213,479 | 35 |
| | Operating expenses (Note 21) | | | | |
| 6100 | Marketing | (24,947) | (6) | (26,892) | (4) |
| 6200 | General and administrative | (60,223) | (14) | (69,797) | (12) |
| 6300 | Research and development | (79,534) | (18) | (85,553) | (14) |
| 6000 | Total operating expenses | (164,704) | (38) | (182,242) | (30) |
| 6900 | Profit (loss) from operations | (24,369) | (6) | 31,237 | 5 |
| | Non-operating income and expenses | | | | |
| 7010 | Other income(Note 21) | 8,386 | 2 | 4,634 | 1 |
| 7020 | Other gains and losses (Note 21) | (1,170) | - | (5,376) | (1) |
| 7050 | Interest expense (Note 21) | (1) | - | (6) | - |
| 7000 | Total non-operating income and expenses | 7,215 | 2 | (748) | - |
| 7900 | Profit (loss) before income tax | (17,154) | (4) | 30,489 | 5 |
| 7950 | Income tax gains (expenses) (Notes 4 and 22) | 1,860 | - | (4,510) | (1) |
| 8200 | Net profit (loss) for the period | (15,294) | (4) | 25,979 | 4 |

(Continued)

(Brought forward)

| Code | | 2017 | | 2016 | |
|------|---|---------------|-------|--------------|---|
| | | Amount | % | Amount | % |
| | Other comprehensive income (Note 4) | | | | |
| | Items that will not be reclassified subsequently to profit or loss: | | | | |
| 8311 | Remeasurement of defined benefit plans (Note 18) | \$ 2,637 | 1 | (\$ 1,535) | - |
| | Items that may be reclassified subsequently to profit or loss: | | | | |
| 8361 | Exchange differences on translation of foreign operations | (447) | - | (932) | - |
| 8300 | Other comprehensive income for the year, net of income tax | 2,190 | 1 | (2,467) | - |
| 8500 | Total comprehensive income for the year | (\$ 13,104) | (3) | \$ 23,512 | 4 |
| | Net profit (loss) attributable to: | | | | |
| 8610 | Owner of the company | (\$ 15,294) | (4) | \$ 25,979 | 4 |
| 8620 | Non-controlling interests | - | - | - | - |
| 8600 | | (\$ 15,294) | (4) | \$ 25,979 | 4 |
| | Total comprehensive income attributable to: | | | | |
| 8710 | Owner of the company | (\$ 13,104) | (3) | \$ 23,512 | 4 |
| 8720 | Non-controlling interests | - | - | - | - |
| 8700 | | (\$ 13,104) | (3) | \$ 23,512 | 4 |
| | EPS (Note 23) | | | | |
| 9750 | Basic | (\$ 0.40) | | \$ 0.67 | |
| 9850 | Diluted | (\$ 0.40) | | \$ 0.66 | |

The accompanying notes constitute an integral part of the consolidated financial statements.

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and subsidiaries
Consolidated Statement of Changes in Equity
January 1~December 31, 2017 and 2016

In thousands of NTD

| | | Equity attributable to owners of the Company | | | | | | Other equity | | |
|------|---|--|------------|-----------------|-------------------|-----------------|-------------------------|---|----------------|--------------|
| Code | | Share Capital | | Capital surplus | Retained earnings | | | Exchange differences on translation of foreign operations | Treasury stock | Total equity |
| | | Shares (In thousands) | Amount | | Legal reserve | Special reserve | Unappropriated earnings | | | |
| A1 | Balance, January 1, 2016 | 39,300 | \$ 392,999 | \$ 40,339 | \$ 33,464 | \$ - | \$ 65,019 | \$ 755 | (\$ 12,203) | \$ 520,373 |
| | Appropriations of 2015 earnings | | | | | | | | | |
| B1 | Legal reserve | - | - | - | 3,981 | - | (3,981) | - | - | - |
| B5 | Cash dividend | - | - | - | - | - | (30,669) | - | - | (30,669) |
| D1 | Net profit for the year ended December 31, 2016 | - | - | - | - | - | 25,979 | - | - | 25,979 |
| D3 | Other comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | (1,535) | (932) | - | (2,467) |
| D5 | Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | 24,444 | (932) | - | 23,512 |
| N1 | Compensation cost of employee share options | - | - | 6,227 | - | - | - | - | - | 6,227 |
| N1 | Reissue of treasury stock to employees | - | - | 136 | - | - | - | - | 12,203 | 12,339 |
| Z1 | Balance, December 31, 2016 | 39,300 | 392,999 | 46,702 | 37,445 | - | 54,813 | (177) | - | 531,782 |
| | Appropriations of 2016 earnings | | | | | | | | | |
| B1 | Legal reserve | - | - | - | 2,598 | - | (2,598) | - | - | - |
| B3 | Special reserve | - | - | - | - | 177 | (177) | - | - | - |
| B5 | Cash dividend | - | - | - | - | - | (19,650) | - | - | (19,650) |
| D1 | Net loss for the year ended December 31, 2017 | - | - | - | - | - | (15,294) | - | - | (15,294) |
| D3 | Other comprehensive income for the year ended December 31, 2017 | - | - | - | - | - | 2,637 | (447) | - | 2,190 |
| D5 | Total comprehensive income for the year ended December 31, 2017 | - | - | - | - | - | (12,657) | (447) | - | (13,104) |
| L1 | Buy-back of treasury stock | - | - | - | - | - | - | - | (15,782) | (15,782) |
| Z1 | Balance, December 31, 2017 | 39,300 | \$ 392,999 | \$ 46,702 | \$ 40,043 | \$ 177 | \$ 19,731 | (\$ 624) | (\$ 15,782) | \$ 483,246 |

The accompanying notes constitute an integral part of the consolidated financial statements.

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and subsidiaries

Consolidated Statements of Cash flows

January 1~December 31, 2017 and 2016

In thousands of NTD

| Code | | 2017 | 2016 |
|--------|--|--------------|------------|
| | Cash flows from operating activities | | |
| A10000 | Profit before income tax | (\$ 17,154) | \$ 30,489 |
| | Adjustments for: | | |
| A20100 | Depreciation expenses | 6,845 | 7,668 |
| A20200 | Amortization expenses | 3,377 | 3,296 |
| A20300 | Impairment loss recognized (reversal of impairment loss) on trade receivables | (437) | 643 |
| A20400 | Net (gain) loss on fair value change of financial liabilities at fair value through profit or loss | (461) | 461 |
| A20900 | Interest expense | 1 | 6 |
| A21200 | Interest income | (1,607) | (2,369) |
| A21900 | Compensation cost of share based payment | - | 6,227 |
| A22500 | Loss on disposal of property, plant and equipment | 2 | - |
| A23100 | Gain on disposal of investment | (2,700) | (1,000) |
| A23500 | Impairment loss on financial liabilities | - | 1,046 |
| A23700 | (Reversal of) write-down of inventories | 2,493 | (1,692) |
| A24100 | Net unrealized gain on foreign currency exchange | (94) | (851) |
| | Net changes in operating assets and liabilities | | |
| A31150 | Notes and accounts receivable | 37,459 | (20,873) |
| A31200 | Inventories | 16,864 | (15,178) |
| A31240 | Other current assets | 2,342 | (1,798) |
| A32150 | Accounts payable | (30,165) | 7,813 |
| A32180 | Other payables | (13,475) | (3,908) |
| A32230 | Other current liabilities | (285) | 95 |
| A32240 | Net defined benefit liabilities | (350) | (373) |
| A33000 | Cash generated from operations | 2,655 | 9,702 |
| A33100 | Interest received | 1,609 | 2,303 |
| A33300 | Interest paid | (1) | (6) |
| A33500 | Income tax paid | (621) | (11,518) |
| AAAA | Net cash provided by operating activities | <u>3,642</u> | <u>481</u> |

(Continued)

(Brought forward)

| Code | | 2017 | 2016 |
|--------|--|------------|------------|
| | Cash flows from investing activities | | |
| B00400 | Proceeds on sale of available-for-sale financial assets | \$ 2,700 | \$ 1,000 |
| B00600 | Purchase of debt investments with no active market | (9,515) | (33,571) |
| B02700 | Acquisitions of property, plant and equipment | (746) | (2,491) |
| B03800 | Decrease in refundable deposits | 34 | 30 |
| B04500 | Acquisitions of intangible assets | (839) | (2,587) |
| BBBB | Net cash used in investing activities | (8,366) | (37,619) |
| | Cash flows from financing activities | | |
| C00200 | Repayments of short-term borrowings | - | (30,000) |
| C03100 | Refund of guarantee deposits received | (720) | (91) |
| C04500 | Cash dividends | (19,650) | (30,669) |
| C04900 | Payments from transaction costs attributable to buy-back of ordinary | (15,782) | - |
| C05100 | Proceeds from reissue of treasury stock | - | 12,339 |
| CCCC | Net cash used in financing activities | (36,152) | (48,421) |
| DDDD | Effect of exchange rate changes on cash and cash equivalents | (552) | (115) |
| EEEE | Net decrease in cash and cash equivalents | (41,428) | (85,674) |
| E00100 | Balance of cash and cash equivalents, beginning of period | 155,460 | 241,134 |
| E00200 | Balance of cash and cash equivalents, end of period | \$ 114,032 | \$ 155,460 |

The accompanying notes constitute an integral part of the consolidated financial statements.

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd. and its subsidiaries

Notes to consolidated financial statements

January 1~December 31, 2017 and 2016

(Amounts in Thousands of New Taiwan Dollard, unless specified otherwise)

1. Corporate milestones

MEGAWIN Technology Co., Ltd. (hereinafter referred to as the "Company") was founded on June 21, 1999, primarily engaged in manufacturing and selling electronic instruments and spare parts thereof.

The Company was approved by TPEx to trade at the TPEx in January 2015.

The consolidated financial statements are expressed in the Company's functional currency, NTD.

2. Date and procedure for ratification of financial report

The consolidated financial statements were ratified and promulgated by the Board of Directors on February 13, 2018.

3. Application of new and amended standards and interpretations

- (1) The first-time application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC and SIC approved and effective upon promulgation by Financial Supervisory Commission (hereinafter referred to as "FSC").

Except the following notes, the application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs approved and effective upon promulgation by FSC will not cause material changes to the accounting policies of the Company and the entities controlled by the Company (hereinafter referred to as the "consolidated companies"):

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

By the Amendments, some accounting titles and requirements about disclosure of impairment on non-financial assets were added to be in line with the IFRSs approved and effective upon promulgation by FSC. Meanwhile, to be in line with implementation of the IFRSs domestically, the Company also emphasized certain requirements about recognition and measurement, and also added the disclosure of transactions with related parties and goodwill.

Per the amendments, where the board chairman or president of another company or institution is the same person as the board chairman or president of the consolidated company, or is the spouse or a relative within the second degree or closer of the board chairman or president of the consolidated company, they shall be deemed to have a substantive related party relationship, unless it can be established that no control or significant influence exists. Meanwhile, the amendments require that the information on the name and relationship of the related party who engages in transactions with the consolidated company shall be disclosed, and where the transaction amount or balance of any single related party reaches 10 percent or more of the consolidated company's total transaction amount or balance of that type of transaction, the name of each such related party shall be individually presented.

(2) The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized by FSC as applied as of 2018

| New/amended/modified standards and interpretations | Effective date released by IASB (Note 1) | | |
|--|--|---------|-----|
| "Improvement from 2014 to 2016" | Note 2 | | |
| Amendments to IFRS 2: "Classification and Measurement of Share-based Payment Transaction" | Monday, 2018 | January | 01, |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | Monday, 2018 | January | 01, |
| IFRS 9 "Financial instruments" | Monday, 2018 | January | 01, |
| Amendments to IFRS 9 and IFRS 7 "Compulsory Effective Date and Transitional Disclosure" | Monday, 2018 | January | 01, |
| IFRS 15 "Revenue from Contracts with Customers" | Monday, 2018 | January | 01, |
| Amendments to IFRS 15 "Clarifications to IFRS 15" | Monday, 2018 | January | 01, |
| Amendments to IAS 7 "Disclosure Initiative " | Sunday, 2017 | January | 01, |
| Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss" | Sunday, 2017 | January | 01, |
| Amendments to IAS 40 "Conversion of Investment Property" | Monday, 2018 | January | 01, |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | Monday, 2018 | January | 01, |

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: The amendments to IFRS 12 are retroactively applied as of January 1, 2017. The amendments to IAS 28 are retroactively applied as of January 1, 2018.

1. IFRS 9 "Financial instruments" and related amendments thereto

Classification, measurement and impairment of financial assets

Any financial assets applicable under IAS 39 "Financial Instruments: Recognition and Measurement" originally shall be measured based on amortized cost or fair value subsequently. The financial assets are classified in the following manner under IFRS9:

If the contractual cash flows for the bond instruments invested by the consolidated companies are solely for the purpose of payments of principal and interest on the principal amount outstanding, the instruments shall be classified and measured as following:

- (1) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows, the financial assets shall be measured at amortized cost. The interest income from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income is stated into income.
- (2) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and sell the financial assets, the financial assets shall be measured at fair value through other comprehensive income. The interest income from such financial assets is stated into income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income and exchange income are stated into income, while the other changes in fair value are stated into other comprehensive income. When derecognizing or reclassifying the financial asset, the accumulated changes in fair value of other comprehensive income shall be reclassified into income.

The financial assets invested by the consolidated companies refer to those other than said assets and are measured at fair value. The changes in fair value are stated into income. Notwithstanding, the consolidated companies may designate the investment other than equity investment held for trading to be measured at fair value through other comprehensive income at the time of initial recognition. Except the income from stock dividend on such financial assets which is stated into income, the other related gains and losses are stated into other comprehensive income. No impairment shall be evaluated subsequently. The accumulated changes in fair value of other comprehensive income need not to be reclassified into income either.

The consolidated companies evaluated that the classification and measurement of the following financial assets will vary upon the application of IFRS 9, based on the financial assets held by them on December 31, 2017 and the facts and circumstances available on the same day.

The investment in Debt investments with no active market was stated as the bond investment measured at amortized cost. The cash flow by contract stated initially was used to pay the principal and the interest accruing thereon in whole. The business model aimed to collect the cash flow by contract and classify the same measured at amortized cost according to IFRS 9.

IFRS 9 adopted the "Expected Credit Loss Model" instead to recognize the impairment on financial assets. Allowance for loss shall be recognized for financial assets measured at amortized cost, bond investment at fair value through profit and loss other comprehensive income, receivable leasehold payment, the contractual assets generated from IFRS 15 "Revenue from Contracts with Customers" or contracts for commitment of loaning and financial guarantee. If the credit risk over financial assets is not increased significantly after the initial recognition, the allowance for credit loss shall be measured based on the expected credit loss for the following twelve (12) months. If the credit risk over financial assets is increased significantly after the initial recognition, which is not considered low credit risk, the allowance for credit loss shall

be measured based on the expected credit loss for the residual period of the duration of the contract. Notwithstanding, for the receivable accounts excluding important financial elements, the allowance for credit loss shall be measured based on the expected credit loss for the duration of the contract.

Meanwhile, for the financial assets on which credit impairment has been recognized at the time of initial recognition, the consolidated companies take the expected credit loss recognized initially to calculate the effective interest rate upon adjustment of credit, and the subsequent allowance for credit loss is measured based on the accumulated changes in subsequent expected credit loss.

The consolidated companies will apply the simplified policy toward receivable accounts, contractual assets and receivable lease payment, by measuring the allowance for loss based on the credit loss expected subject to the period. The consolidated companies evaluates whether the credit risk over bond investment and financial guarantee is increased significantly after the initial recognition to decide whether the allowance for loss should be measured based on the credit loss expected subject to twelve (12) months or the period. The consolidated companies expect that the measurement of credit loss under IFRS 9 will result in earlier recognition of the credit loss on financial assets.

The consolidated companies choose not to re-prepare the comparative information 2017 when applying the classification, measurement and impairment of financial assets defined under IFRS 9. The accumulated effects generated upon the first-time application thereof will be stated on the date of the first application. Meanwhile, the information about changes in classification and adjustment under IFRS 9 will be disclosed too.

The retroactive application of the classification, measurement and impairment of financial assets defined under IFRS 9 renders no effect to the assets, liabilities and equity on January 1, 2018.

2. IFRS 15 “Revenue from Contracts with Customers” and related amendments thereto

IFRS 15 governs the recognition of revenue from contracts with customers, which will replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

Upon application of IFRS 15, the consolidated companies state the revenue in the following manners:

- (1) Identify the contract(s) with a customer;
- (2) Identify the performance obligations in the contract;
- (3) Determine the transaction price;
- (4) Allocate the transaction price to the performance obligations in the contract; and
- (5) Recognize revenue when (or as) the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

The net result of recognized revenue, received and receivable accounts will be stated as the contract assets (liabilities). Before application of IFRS 15, the contract processed based on IAS 18 is stated as receivable account or decrease in unearned revenue when revenue is recognized.

The consolidated companies choose to apply IFRS 15 retroactively only with respect to the contract pending on January 1, 2018. The related accumulated effects will be adjusted as the retained earnings on the same day.

Meanwhile, the consolidated companies will disclose the difference from application of IFRS 15 if the existing accounting treatment policy is still adopted in 2018.

The effects on assets, liabilities and equity to be generated by the retroactive application of IFRS 15 on January 1, 2018 are stated as following:

| | Book value, December 31, 2017 | First-time application adjustment | Book value upon adjustment on January 1, 2018 |
|----------------------------|-------------------------------------|---|---|
| Advanced sales receipts | \$ 1,141 | (\$ 1,141) | \$ - |
| Contract liabilities | - | 1,141 | 1,141 |
| Effect of liabilities | <u>\$ 1,141</u> | <u>\$ -</u> | <u>\$ 1,141</u> |

3. Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"

The amendments to IAS 12 are intended to clarify that irrelevant with the investment in bond instruments expected to be measured based on fair value through sale or collection of contractual cash flows by the consolidated companies and no matter whether the assets incur unrealized loss or not, the temporary difference shall be decided by the price difference between the fair value of assets and taxation basis.

Meanwhile, unless the tax laws restrict the type of income deductible based on the deductible temporary difference and it is necessary to evaluate whether deferred income tax assets shall be stated based on the deductible temporary difference of the same type, all deductible temporary differences shall be evaluated altogether. When evaluating whether deferred income tax assets shall be stated, if there is sufficient evidence to signify that the consolidated companies are very likely to collect assets at the price higher than book value thereof, the collectible amount of assets to be considered in estimation of future taxable income will not be limited to the book value, and the estimation of taxable income shall exclude the effect generated by reversal of deductible temporary difference.

When evaluating deferred income tax assets, the consolidated companies initially estimated the future taxable income based on the collectible amount of assets stated as book value. Notwithstanding, the consolidated companies will retroactively apply said amended rules.

4. IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 requires that the initial recognition of foreign currency transactions generally records foreign currency transactions using the spot conversion rate to that functional currency on the date of the transaction. IFRIC 22 further details that where an enterprise has prepaid or received in advance the consideration prior to initial recognition of non-monetary assets or liabilities, the date of initial recognition of advance consideration shall be identified as the date of the transaction. Where the enterprise prepays or receives in advance the consideration in installment, it shall determine the separate date of transaction for each consideration prepaid or received in advance.

The consolidated companies will defer the application of IFRIC 22 as of January 1, 2018.

In addition to said effects, until the date when the consolidated financial statements were ratified and promulgated, the consolidated companies still continue to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

- (3) IFRSs promulgated by IASB but not yet recognized and became effect upon promulgation by FSC

| <u>New/amended/modified standards and interpretations</u> | <u>Effective date released by IASB (Note 1)</u> |
|--|---|
| "Improvement from 2015 to 2017" | Tuesday, January 01, 2019 |
| Amendments to IFRS 9 "Prepayment Features with Negative Compensation" | Tuesday, January 01, 2019 (Note 2) |
| Amendments to IFRS 10 and IAS 28 "Sale or Investment of Assets between Investors and Their Affiliates or Joint Ventures" | Pending |
| IFRS 16 "Lease" | Tuesday, January 01, 2019 (Note 3) |
| IFRS 17 "Insurance Contracts" | Friday, January 01, 2021 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | Tuesday, January 01, 2019 |
| Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" | Tuesday, January 01, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | Tuesday, January 01, 2019 |

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: FSC approves that the consolidated companies may apply the amendments earlier on January 1, 2018.

Note 3: FSC announced on December 19, 2017 that the enterprises in Taiwan should apply IFRS 16 as of January 1, 2018.

1. IFRS 16 "Lease"

IFRS 16 governs the accounting for lease, which will be replaced by IAS 17 "Lease" and related interpretation.

When applying IFRS 16, where the consolidated company acts as a lessor, the low-price lease and short-term lease may be treated as the operating lease similar to that under IAS 17, while the other leases shall be stated as assets and liabilities of the lease on the consolidated balance sheet. The consolidated income statement shall express the depreciation expenses of the leased assets and interest expenses on the liabilities of the lease calculated at the valid interest rate. In the consolidated cash flow statement, the repayment of principal of the liabilities shall be stated as financing activity, and payment of interest shall be stated as operating activity.

The accounting treatment which holds the consolidated company as the lessor is expected to render no material effect.

After IFRS 16 became effective, the consolidated companies may choose to retroactively apply the standard until the comparative period, or state the accumulated effects for the first-time application on the first-application date.

2 . IFRIC 23 "Uncertainty over Income Tax Treatments"

When uncertain over income tax treatments is verified under IFRIC 23, the consolidated companies shall hypothesize that the tax competent authority will obtain all related information and review the same. If it is judged that the income tax treatment is likely to be accepted by the tax competent authority, the consolidated companies shall adopt the treatment policy identical with that applicable to the income tax return by them when deciding the taxable income, taxable

base, unused taxable loss, unused tax credit and tax rate. If the tax competent authority is not likely to accept the income tax treatment as declared, the consolidated companies shall evaluate based on the probable amount or expected value (either one more likely to forecast the consequence resulting from the uncertainty). In the event of changes in facts or circumstances, the consolidated companies shall re-evaluate their judgment and estimation.

The consolidated companies may apply IFRIC 23 retroactively and re-prepare the information available in the comparative periods, or state the accumulated effects generated upon the first-time application on the date of the first-time application, without relying on hindsight.

In addition to said effects, until the date when the consolidated financial statements were ratified and promulgated, the consolidated companies still continue to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Statement of Compliance

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized and effective upon promulgation by FSC.

(2) Basis of Preparation

Except for financial instruments measured at fair value and the net defined benefit liability stated upon the present value of defined benefit obligation minus the fair value of assets under the Plan, the consolidated financial statement was prepared based on the historical cost.

The fair value measurement is categorized into Tier 1~Tier 3, subject to the observable degree and importance:

1. Tier 1 input value: The public quotation for the same financial assets or liabilities in an active market on the date of measurement (without adjustment).
2. Tier 2 input value: The observable input value other than Tier 1 quotation accessed from assets or liabilities directly (e.g. price) or indirectly (e.g. inferred from the price)

3. Tier 3 input value: The non-observable input value of assets or liabilities.

(3) Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

1. Assets primarily held for the purpose of trading;
2. Assets expected to be realized within twelve (12) months after the date of the balance sheet; and
3. Cash or cash equivalents (exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than twelve (12) months after the date of the balance sheet).

Current liabilities include:

1. Liabilities primarily held for the purpose of trading;
2. Liabilities expected to be repaid within twelve (12) months after the date of the balance sheet; and
3. Liabilities of which the Company does not have an unconditional right to defer settlement for at least twelve (12) months after the date of the balance sheet.

Any liabilities other than the current assets or liabilities shall be classified into noncurrent assets or liabilities.

(4) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and entities controlled by the Company (subsidiaries). The subsidiaries' financial statements have been adjusted to enable their accounting policies to be consistent with the consolidated companies'. The transactions, balance of account, income and expense among the entities have been written off when the Company prepared the consolidated financial statements. The subsidiaries' total comprehensive income is attributable to the owners of parent and non-controlling interest, even if the non-controlling interest becomes balance of loss therefor.

(5) Foreign Currencies

The transactions stated in any currency (foreign currency) other than the Company's functional currency when the Company prepared the separate financial statement shall be re-stated in the functional currency converted based at the foreign exchange rate prevailing on the trading day.

The foreign monetary items shall be converted based on the closing exchange rate on each balance sheet date. The exchange difference derived from settlement of monetary items or conversion of monetary items shall be stated as income in current year.

The non-monetary items at historical cost denominated in foreign currency shall be converted at the exchange rate on the date of transaction.

When the consolidated financial statements were prepared, the assets and liabilities of foreign operations (including subsidiaries situated in the countries where the Company operated using the currency different from that used by the Company) shall be translated into NTD at the exchange rate prevailing on each balance sheet date. The income and expense are translated at the current average exchange rate. The exchange difference generated therefor is stated into other comprehensive income.

(6) Inventories

Inventory includes raw material, products, finished goods and work in process. The inventories shall be stated at the lower of cost and net realizable present value. When the cost and net realizable value are compared, inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value means the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The cost of inventory shall be calculated under the weighted average method.

(7) Property, plant and equipment

Property, plant and equipment shall be stated at cost initially. The following evaluation is based on the cost less accumulated depreciation and accumulated impairment loss.

The Company provides depreciation for each important element of property, plant and equipment under the straight line method within the expected useful years. The consolidated companies shall review the useful years, residual value and depreciation method at least once at the end of each year, and treat the effect on changes in accounting estimation in a deferral manner.

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the property, plant and equipment are derecognized.

(8) Intangible Assets

1. Acquired separately

The intangible assets within limited useful years that are acquired separately shall be stated at cost initially. The following evaluation thereof shall be based on the cost less accumulated amortization and accumulated impairment. The intangible assets are amortized under straight line method within limit useful years, and the useful years, residual value and amortization method shall be reviewed at the end of each year. The effect on changes in accounting estimation shall be treated in a deferral manner. The intangible assets within uncertain useful years are stated at cost less accumulated impairment loss.

2. Domestically generated - R&D expenditure

Research expenditure is stated as expenses when it is incurred.

3. Derecognition

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the intangible assets are derecognized.

(9) Impairment on tangible and intangible assets

The consolidated companies shall evaluate on each balance sheet date whether there is any sign showing that tangible and intangible assets might suffer impairment. If there is, it is necessary to evaluate the collectible amount of the assets. It is impossible to evaluate the collectible amount of individual asset, the consolidated companies shall evaluate the collectible amount of the cash generation unit vested in the asset.

The collectible amount is the higher of fair value less selling cost and its use value. If the collectible amount of individual asset or cash generation unit is less than the book value of the asset, the book value shall be reduced to the collectible, and the impairment loss is stated as income.

When the impairment loss is reversed subsequently, the book value of the asset or cash generation unit shall be increased to the collectible amount after the amendments, provided that the increased book value shall be no

more than the book value of the asset or cash generation unit if no impairment loss was recognized in the previous year (less amortization or depreciation). The reversal of impairment loss is stated as income.

(10) Financial instruments

Financial assets and financial liabilities are stated into the consolidated balance sheet when the consolidated companies became a part to the financial instrument contract.

When recognizing the financial assets or liabilities other than those measured at fair value through profit or loss initially, such assets or liabilities shall be evaluated based on fair value, plus the transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities. The transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities at fair value through profit or loss shall be stated as income immediately.

1. Financial assets

The customary transactions of financial assets shall be recognized and derecognized on the date of transaction.

(1) Types of measurement

The financial assets held by the consolidated companies are classified into loans and receivable accounts.

Loans and receivable accounts

The loans and receivable accounts (including cash and cash equivalents, Investments in Debt Instrument with No Active Market, and notes and accounts receivable) shall be evaluated based on amortized cost less impairment loss under effective interest method, unless the recognition of the interest on short-term accounts receivable is insignificant.

The cash equivalents include the bank time deposits and Repo that have high liquidity within three (3) months, and may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, intended to satisfy the short-term cash commitment.

(2) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each balance sheet date. If there is any objective evidence showing that the future cash flow of the financial assets is affected due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets shall be deemed impaired.

If there is not any objective evidence showing impairment on financial assets stated at amortized cost, such as accounts receivable and other accounts receivable, upon individual evaluation, the impairment shall be evaluated again collectively. The combined objective evidence for accounts receivable might include the Company's past experience in collection, the increase in overdue payment, and observable national or regional economic changes related to the defaulted receivable accounts.

The recognized impairment loss on the financial assets measured at amortized cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at initial interest rate.

Where the decrease in impairment, if any, when the financial assets are measured at amortized cost is objectively related to the events subsequent to recognition of impairment loss, the impairment loss recognized previously shall be reversed and stated as income directly or via adjustment of the allowance account, provided that the book value of such assets upon the reversal shall be no more than the cost after amortization if the impairment was not recognized.

Meanwhile, the fair value of equity investment in available-for-sale declining drastically or permanently until it is less than the cost of the equity investment also constitutes the objective evidence about of impairment.

The other objective evidence about impairment on financial assets include obvious financial problems confronting the issuer or debtor, breach (e.g., overdue or non-performance of interest or

principal payment), the debtor likely to wind up or proceed with other financial reorganizations, and the active market of financial assets extinguishing due to financial difficulty.

When the assets in available-for-sale are impaired, the accumulated gain and loss already stated as other comprehensive income will be reclassified as income.

The impairment loss on equity instruments in available-for-sale that was initially recognized as income shall not be reversed. The revaluation of fair value upon recognition of impairment loss, if any, shall be stated as other comprehensive income. If the revaluation of fair value of obligation instruments in available-for-sale is objectively related to the events subsequent to recognition of impairment loss, it shall be reversed and stated as income.

The impairment loss on financial assets shall be deducted from the book value of financial assets, provided that the book value of receivable accounts and other receivable accounts is adjusted through allowance accounts. If the receivable accounts and other receivable accounts are held uncollectible, they shall write off against the allowance accounts. The accounts initially written off but collected afterwards are credited into the allowance accounts. Unless the receivable accounts and other receivable accounts write off against the allowance accounts because they are held uncollectible, the changes in book value of allowance account shall be stated as income.

(3) Derecognition of financial assets

The consolidated companies will derecognize financial assets only when the contractual rights toward the cash flow of the assets are terminated or the financial assets are transferred and the risk and return over the ownership of the assets are transferred to another enterprise.

When derecognizing a single financial asset in whole, the price difference between the book value and collected or collectible

total consideration plus the value recognized as other comprehensive income shall be recognized as income.

2. Equity instruments

The obligation and equity instruments issued by the consolidated companies are classified into financial liabilities or equities according to definitions of the financial liabilities and equity instruments referred to in an agreement.

The equity instruments issued by the consolidated companies shall be recognized based on the payment of acquisition less the directly issuing cost.

The recalled equity instruments of the consolidated companies shall be recognized and derecognized under equity titles. Purchase, sale, issuance or cancellation of the consolidated companies' equity instruments shall not be stated into income.

3. Financial liabilities

(1) Following measurement

All liabilities are measured under the effective interest method at amortized cost, except:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

The financial liabilities held for trading are measured at fair value. The gains or losses from re-measurement thereof are stated as income. For the approach to determine the fair value, please see Note 25.

(2) Derecognition of financial liabilities

When derecognizing a financial liability in whole, the price difference between the book value and paid consideration (including any transferred assets other than cash or liabilities) shall be recognized as income.

(11) Recognition of revenue

The revenue is stated at the fair value of received or receivable consideration less the sale returns, sales discount and similar discount. Sales

return was provided based on the amount of future returned goods estimated according to past experience and other critical factors reasonably.

1. Sale of goods

The revenue from sale of goods shall be recognized upon satisfaction of the following conditions:

- (1) The consolidated companies had transferred major risk and return over the ownership of goods to the buyer;
- (2) The consolidated companies discontinued to participate in the management of, or to maintain effective control over, the sold goods;
- (3) The revenue may be measured reliably;
- (4) The economic effect related to transactions is very likely to flow into the consolidated companies;
- (5) The cost related to transactions, incurred or to be incurred, may be measured reliably.

The major risk and return over ownership of processed goods are not transferred at the time of processing on order, the processing will not be treated as sale of goods.

2. Interest income

The interest income from financial assets shall be stated when the economic effect is very likely to flow into the consolidated companies and the amount thereof may be measured reliably. The interest income shall be stated based on the outstanding capital and applicable valid interest rate on an accrual basis, by the lapse of time.

(12) Employee benefits

1. Short-term employee benefits

Liabilities related to short-term employee benefit shall be measured at non-discounted rate expected to be paid in exchange of employees' services.

2. Termination benefit

The pension under defined contribution plan shall be stated as current expenses during the employee service years.

The defined benefit cost under the defined benefit pension plan (including service cost, net interest and remeasurement) is actuated

based on the Projected Unit Credit Method. The service cost (including the service cost in the current period) and net interest on net defined benefit liabilities are stated employee benefit expenses when they are incurred. The remeasurement (including actuated income and return on planned assets less interest) is stated into other comprehensive income and included into the retained earnings when it is incurred, but shall not be reclassified into income subsequently.

The net defined benefit liabilities refer to the allocation shortfall of the defined benefit pension plan.

(13) Income tax

Income tax expenses mean the total of current income tax and deferred income tax.

1. Current income tax

The 10% additional income tax levied on unallocated earnings calculated according to the Income Tax Law is stated as the income tax expenses in the year of the resolution made by the shareholders' meeting.

The adjustment of payable income tax for previous years is stated as current income tax.

2. Deferred income tax

The deferred income tax is recognized based on the book value of assets and liabilities and temporary difference generated from the taxation basis for assets and liabilities. The deferred income tax liabilities are recognized based on the taxable temporary difference, while the deferred income tax assets are recognized when it is very likely to generate taxable income enough to deduct temporary difference and income tax credit generated from R&D expenditure.

The taxable temporary difference related to investee subsidiaries is stated as deferred income tax liabilities, unless the consolidated companies were able to control the timing of reversal of temporary difference, and the temporary difference is very unlikely to be reversed in the foreseeable future. The deferred income tax assets generated from deductible temporary difference related to such investment will be recognized only when they are very likely to generate taxable income

enough to realize the gain on temporary difference and expected to be reversed in the foreseeable future.

The book value of deferred income tax assets shall be re-checked on each balance sheet date, and the book value of the assets which are very unlikely to generate taxable income enough to recall all or some of the assets shall be decreased. Those which were not recognized as deferred income tax assets initially shall be re-checked on each balance sheet date, and the book value of the assets which are very likely to generate taxable income enough to recall all or some of the assets shall be increased.

The deferred income tax assets and liabilities are measured at the tax rate prevailing when the assets are expected to be realized or liabilities are expected to be repaid, and based on the statutory tax rate or tax rate substantially enacted on the balance sheet date. The evaluation of deferred income tax liabilities and assets is intended to reflect the taxation consequence arising from the book value of assets and liabilities expected by an enterprise to be collected or repaid on the balance sheet date.

3. Current and deferred income tax

Current and deferred income tax is stated into income, provided that the current and deferred income tax related to other comprehensive income is stated into other comprehensive income separately.

5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

When adopting any accounting policies, the consolidated companies' management shall make the related judgment, estimation and hypotheses toward the related information that cannot be obtained from other source easily based on historical experience and other critical factors. The actual result may vary from the estimation.

The management will continue to review the estimation and basic hypotheses. If modification to estimation only renders effect during the current period, it shall be recognized in the current period. If the modification to accounting estimation renders effect during the current period and in the future, it shall be recognized during the current period and in the future.

Impairment on inventories

Net realizable value was the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The estimates were based on the current market status and historical experience in selling similar goods. The estimation result might vary depending on changes of the market condition.

6. Cash and cash equivalents

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Cash on hand and working capital | \$ 183 | \$ 309 |
| Demand deposits | 20,497 | 32,459 |
| Cash equivalents (Investment to expire within three (3) months initially) | | |
| Bank time deposits | 12,352 | 72,692 |
| Repo | 81,000 | 50,000 |
| | <u>\$114,032</u> | <u>\$155,460</u> |

7. Financial Assests and instruments at fair value through profit or loss

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| <u>Financial liabilities - current</u> | | |
| Held for trading | | |
| Derivative instruments (without designated hedge) | | |
| — Forward Foreign Exchange Contracts(1) | \$ - | \$ 461 |

- (1) The forward foreign exchange contracts which didn't apply the hedging accounting or hadn't yet been matured on the balance sheet date:

December 31, 2016

| | Currency type | M a t u r i t y | Contract amount (NT\$ thousand) |
|---------------------------------|-----------------------|--|------------------------------------|
| Forward foreign exchange - sell | RMB exchanged for NTD | From January 16, 2017 to February 15, 2017 | RMB 7,947 |

The consolidated companies engaged in forward foreign exchange rate transactions primarily in order to hedge against the risk on foreign currency assets and liabilities arising from fluctuations in foreign exchange rates.

8. Financial assets in available-for-sale

| | December 31, 2017 | December 31, 2016 |
|------------------------|----------------------|----------------------|
| <u>Non-current</u> | | |
| Domestic investment | | |
| Unlisted/non-OTC stock | \$ - | \$ - |

9. Debt Investments with no active market

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| <u>Current</u> | | |
| Bank time deposit to expire after more than three (3) months initially | \$130,407 | \$99,492 |
| Repo to expire after more than three (3) months initially | - | 21,400 |
| | <u>\$130,407</u> | <u>\$120,892</u> |

Until December 31, 2017 and 2016, the interest rate ranges of the bank time deposits and Repo to expire after more than three (3) months initially were 0.11%~1.55% and 0.05%~1.55%.

10. Notes and accounts receivable

| | December 31, 2017 | December 31, 2016 |
|------------------------------|----------------------|----------------------|
| <u>Receivable notes</u> | | |
| Incurred for business | <u>\$ 3,379</u> | <u>\$ 3,512</u> |
| <u>Receivable accounts</u> | | |
| Receivable accounts | \$65,406 | \$102,750 |
| Less: allowance for bad debt | (2,623) | (3,060) |
| | <u>\$62,783</u> | <u>\$99,690</u> |

The loan period for sale of goods granted by the consolidated companies lasts 5~90 days. When deciding collectability of receivable accounts, the consolidated companies would consider any changes in credit quality of receivable accounts from the date of initial loan until the balance sheet date. According to the historical experience, there were no receivable accounts that were overdue for more than 360 days. Meanwhile, based on the conservative and stable policy, the consolidated companies provided 100% allowance for bad debt for receivable accounts overdue for more than 360 days, and provided the allowance for bad debt for receivable accounts overdue for no more than 360

days, according to the trading counterpart's record and analysis on its financial position.

The age of account for receivable accounts is analyzed as following:

| | December 31, 2017 | December 31, 2016 |
|------------|----------------------|----------------------|
| 0~30 days | \$ 32,182 | \$102,750 |
| 31~90 days | <u>33,224</u> | <u>-</u> |
| | <u>\$65,406</u> | <u>\$102,750</u> |

Said age of account analysis was conducted based on the post date.

The consolidated companies had no overdue receivable accounts, but unimpaired or individually impaired receivable accounts on the balance sheet date.

The information about changes in allowance for bad debt for receivable accounts:

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Balance, beginning | \$ 3,060 | \$ 2,417 |
| Add: Expenses for bad debt provided this year | (<u>437</u>) | <u>643</u> |
| Balance, ending | <u>\$ 2,623</u> | <u>\$ 3,060</u> |

11. inventories

| | December 31, 2017 | December 31, 2016 |
|-----------------|----------------------|----------------------|
| Finished goods | \$33,373 | \$40,332 |
| Work in process | 13,450 | 24,014 |
| Raw materials | 3,685 | 5,651 |
| Goods | <u>768</u> | <u>636</u> |
| | <u>\$51,276</u> | <u>\$70,633</u> |

The cost of sold goods related to inventory in 2017 and 2016 were NT\$296,760 thousand and NT\$388,619 thousands.

The cost of sold goods related to inventory in 2017 included the loss from price decline of inventory, NT\$2,493 thousands. The cost of sold goods related to inventory in 2016 included the price recovery from net realizable value of inventory, NT\$6,007 thousands, and the loss from scrapping of inventory, NT\$4,315 thousands. The price recovery from net realizable value of inventory primarily resulted from the increase in selling price of the inventory in specific markets.

12. Subsidiary

Subsidiaries included into consolidated financial statements

The subjects included into the consolidated financial statements are stated as following:

| I n v e s t o r | S u b s i d i a r y | N a t u r e o f b u s i n e s s | O w n e r s h i p o f e q u i t y (%) | |
|---|---|---|---------------------------------------|---------------------|
| | | | 2017 December 31 | 2016 December 31 |
| The Company | Regent Pacific Management Ltd. | General investment | 100.00% | 100.00% |
| Regent Pacific Management Ltd. | MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | IC design service, trading and general investment | 100.00% | 100.00% |
| MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | IC design service, trading and general investment | 100.00% | 100.00% |

13. Property, plant and equipment

| | Own land | Building | R&D equipment | Furniture & fixture | Other equipment | Leasehold improvement | Total |
|----------------------------------|------------------|------------------|-----------------|---------------------|-----------------|-----------------------|------------------|
| <u>Cost</u> | | | | | | | |
| Balance, January 1, 2016 | \$ 45,279 | \$136,298 | \$ 2,702 | \$ 11,098 | \$ 9,107 | \$ 700 | \$205,184 |
| Addition | - | - | 599 | 1,492 | 400 | - | 2,491 |
| Disposition | - | - | - | (62) | - | - | (62) |
| Net exchange differences | - | - | (18) | (54) | (102) | - | (174) |
| Balance, December 31, 2016 | <u>\$ 45,279</u> | <u>\$136,298</u> | <u>\$ 3,283</u> | <u>\$ 12,474</u> | <u>\$ 9,405</u> | <u>\$ 700</u> | <u>\$207,439</u> |
| <u>Accumulated depreciations</u> | | | | | | | |
| Balance, January 1, 2016 | \$ - | \$ 6,691 | \$ 2,242 | \$ 5,641 | \$ 7,834 | \$ 290 | \$ 22,698 |
| Depreciation expenses | - | 3,760 | 318 | 2,249 | 991 | 350 | 7,668 |
| Disposition | - | - | - | (62) | - | - | (62) |
| Net exchange differences | - | - | (12) | (38) | (66) | - | (116) |
| Balance, December 31, 2016 | <u>\$ -</u> | <u>\$ 10,451</u> | <u>\$ 2,548</u> | <u>\$ 7,790</u> | <u>\$ 8,759</u> | <u>\$ 640</u> | <u>\$ 30,188</u> |
| Net, December 31, 2016 | <u>\$ 45,279</u> | <u>\$125,847</u> | <u>\$ 735</u> | <u>\$ 4,684</u> | <u>\$ 646</u> | <u>\$ 60</u> | <u>\$177,251</u> |

(Continued)

(Brought forward)

| | | | | | | | |
|----------------------------------|------------------|------------------|-----------------|------------------|-----------------|---------------|------------------|
| <u>Cost</u> | | | | | | | |
| Balance, January 1, 2017 | \$ 45,279 | \$136,298 | \$ 3,283 | \$ 12,474 | \$ 9,405 | \$ 700 | \$207,439 |
| Addition | - | - | 110 | 426 | 210 | - | 746 |
| Disposition | - | - | - | (6) | - | - | (6) |
| Net exchange differences | - | - | (3) | (7) | (15) | - | (25) |
| Balance, December 31, 2017 | <u>\$ 45,279</u> | <u>\$136,298</u> | <u>\$ 3,390</u> | <u>\$ 12,887</u> | <u>\$ 9,600</u> | <u>\$ 700</u> | <u>\$208,154</u> |
| <u>Accumulated depreciations</u> | | | | | | | |
| Balance, January 1, 2017 | \$ - | \$ 10,451 | \$ 2,548 | \$ 7,790 | \$ 8,759 | \$ 640 | \$ 30,188 |
| Depreciation expenses | - | 3,760 | 386 | 2,090 | 549 | 60 | 6,845 |
| Disposition | - | - | - | (4) | - | - | (4) |
| Net exchange differences | - | - | (1) | (5) | (8) | - | (14) |
| Balance, December 31, 2017 | <u>\$ -</u> | <u>\$ 14,211</u> | <u>\$ 2,933</u> | <u>\$ 9,871</u> | <u>\$ 9,300</u> | <u>\$ 700</u> | <u>\$ 37,015</u> |
| Net, December 31, 2017 | <u>\$ 45,279</u> | <u>\$122,087</u> | <u>\$ 457</u> | <u>\$ 3,016</u> | <u>\$ 300</u> | <u>\$ -</u> | <u>\$171,139</u> |

The depreciation expenses were provided under straight-line basis over the useful years:

| | |
|-----------------------|------------|
| Building | 8~50 years |
| R&D equipment | 3~5 years |
| Furniture & fixture | 1~5 years |
| Other equipment | 1~4 years |
| Leasehold improvement | 2 years |

For the property, plant and equipment pledged to secure the loan, please see Note 27.

14. Intangible assets

| | Computer software | Technology license | Total |
|----------------------------|-------------------|--------------------|------------------|
| <u>Cost</u> | | | |
| Balance, January 1, 2016 | \$ 24,518 | \$ 27,123 | \$ 51,641 |
| Addition | 865 | 1,722 | 2,587 |
| Net exchange differences | (19) | - | (19) |
| Balance, December 31, 2016 | <u>\$ 25,364</u> | <u>\$ 28,845</u> | <u>\$ 54,209</u> |

(Continued)

(Brought forward)

| | | | |
|---------------------------------|--------------------|-------------------|--------------------|
| <u>Accumulated amortization</u> | | | |
| Balance, January 1, 2016 | (\$ 22,615) | (\$ 3,466) | (\$ 26,081) |
| Amortization expenses | (1,009) | (2,287) | (3,296) |
| Net exchange differences | <u>12</u> | <u>-</u> | <u>12</u> |
| Balance, December 31, 2016 | <u>(\$ 23,612)</u> | <u>(\$ 5,753)</u> | <u>(\$ 29,365)</u> |
| Net, December 31, 2016 | <u>\$ 1,752</u> | <u>\$ 23,092</u> | <u>\$ 24,844</u> |
| <u>Cost</u> | | | |
| Balance, January 1, 2017 | \$ 25,364 | \$ 28,845 | \$ 54,209 |
| Addition | 839 | - | 839 |
| Net exchange differences | (<u>3</u>) | <u>-</u> | (<u>3</u>) |
| Balance, December 31, 2017 | <u>\$ 26,200</u> | <u>\$ 28,845</u> | <u>\$ 55,045</u> |
| <u>Accumulated amortization</u> | | | |
| Balance, January 1, 2017 | (\$ 23,612) | (\$ 5,753) | (\$ 29,365) |
| Amortization expenses | (995) | (2,382) | (3,377) |
| Net exchange differences | <u>1</u> | <u>-</u> | <u>1</u> |
| Balance, December 31, 2017 | <u>(\$ 24,606)</u> | <u>(\$ 8,135)</u> | <u>(\$ 32,741)</u> |
| Net, December 31, 2017 | <u>\$ 1,594</u> | <u>\$ 20,710</u> | <u>\$ 22,304</u> |

The amortization expenses were provided under straight-line basis over the useful years:

| | |
|--------------------|------------|
| Computer software | 1~10 years |
| Technology license | 3~15 years |

15. Other current assets

| | December 31, 2017 | December 31, 2016 |
|-------------------------------|----------------------|----------------------|
| Prepayment | \$ 2,417 | \$ 3,696 |
| Receivable and refundable tax | 1,718 | 2,694 |
| Other receivables | 386 | 458 |
| Others | <u>138</u> | <u>155</u> |
| | <u>\$ 4,659</u> | <u>\$ 7,003</u> |

16. Payable notes and accounts receivable

| | December 31, 2017 | December 31, 2016 |
|-------------------------|----------------------|----------------------|
| <u>Accounts payable</u> | | |
| Incurred for business | <u>\$34,718</u> | <u>\$65,097</u> |

The credit period applicable to the consolidated companies' purchase of goods was OA 30~60 days. The consolidated companies had defined the financial risk management policy to ensure that all accounts payable are repaid within the credit period agreed previously.

17. Other liabilities

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| <u>Current</u> | | |
| Other payables | | |
| Payable salary and bonus | \$ 15,247 | \$ 20,122 |
| Payable remuneration to employees | - | 4,542 |
| Payable remuneration to directors/supervisors | - | 1,514 |
| Payable labor service fees | 2,645 | 3,425 |
| Payable loss on scrapping and slow-moving of wafer | 581 | 1,905 |
| Payable optical mask fees | 37 | 131 |
| Other payable expenses | <u>15,002</u> | <u>15,364</u> |
| | <u>\$33,512</u> | <u>\$47,003</u> |
| Other current liabilities | | |
| Advance receipts | \$ 1,141 | \$ 1,411 |
| Temporary receipts | 727 | 727 |
| Receipts under custody | <u>290</u> | <u>305</u> |
| | <u>\$ 2,158</u> | <u>\$ 2,443</u> |

18. Termination benefit plan

(1) Defined contribution plan

Among the consolidated companies, the Company applies the pension system under the "Labor Pension Act", which refers to the defined contribution plan managed by the Government. The pension fund equivalent to 6% of each employee's monthly salary is contributed to the exclusive personal account maintained at Bureau of Labor Insurance on a monthly basis.

(2) Defined benefit plan

Among the consolidated companies, the Company applies the pension system under the "Labor Standard Law" refers to the defined benefit pension plan managed by the Government. The employee pension was paid according to the employee's seniority and average salary of the six (6) months prior to his/her retirement as approved. The Company contributes 2% of the total salaries of the employees and have the same deposited into the special

pension fund account maintained at Bank of Taiwan via the Employee Pension Fund Reserve Supervisory Committee in the name of the Committee, on a monthly basis. If the balance in said account is estimated to be insufficient for the payment of pension to workers who meet the retirement conditions in next year, the price difference shall be allocated in full by the end of March of the next year. The special pension fund account is managed by Bureau of Labor Funds, Ministry of Labor on a commission basis. The Company has no right to affect the investment management strategies.

The defined benefit plan amounts included into the consolidated balance sheet are listed as following:

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Present value of defined benefit obligation | \$ 13,159 | \$ 15,627 |
| Fair value of assets under the Plan | (<u>11,255</u>) | (<u>10,736</u>) |
| Net defined benefit liabilities | <u>\$ 1,904</u> | <u>\$ 4,891</u> |

Changes in net defined benefit liabilities:

| | Present value of defined benefit obligation | Fair value of assets under the Plan | Net defined benefit liabilities Benefit liabilities |
|--|--|---|---|
| Balance, January 1, 2016 | <u>\$ 13,966</u> | (<u>\$ 10,237</u>) | <u>\$ 3,729</u> |
| Interests expenses (revenue) | <u>209</u> | (<u>157</u>) | <u>52</u> |
| Stated into income | <u>209</u> | (<u>157</u>) | <u>52</u> |
| Remeasurement | | | |
| Return on assets under the Plan (exclusive of the amount included into net interest) | - | 83 | 83 |
| Actuarial losses — changes in hypothesis about demographics | 699 | - | 699 |

(Continued)

(Brought forward)

| | | | |
|--|------------------|---------------------|-----------------|
| Actuarial losses — changes in hypothesis about finance | 401 | - | 401 |
| Actuarial losses - experience adjustment | <u>352</u> | <u>-</u> | <u>352</u> |
| Stated into other comprehensive income | <u>1,452</u> | <u>83</u> | <u>1,535</u> |
| Contributed by employer | <u>-</u> | <u>(425)</u> | <u>(425)</u> |
| Balance, December 31, 2016 | <u>15,627</u> | <u>(10,736)</u> | <u>4,891</u> |
| Interests expenses (revenue) | <u>196</u> | <u>(137)</u> | <u>59</u> |
| (continued) | | | |
| (Brought forward) | | | |
| Stated into income | <u>196</u> | <u>(137)</u> | <u>59</u> |
| Remeasurement | | | |
| Return on assets under the Plan (exclusive of the amount included into net interest) | - | 27 | 27 |
| Actuarial losses — changes in hypothesis about demographics | 404 | - | 404 |
| Actuarial losses — changes in hypothesis about finance | 151 | - | 151 |
| Actuarial losses - experience adjustment | <u>(3,219)</u> | <u>-</u> | <u>(3,219)</u> |
| Stated into other comprehensive income | <u>(2,664)</u> | <u>27</u> | <u>(2,637)</u> |
| Contributed by employer | <u>-</u> | <u>(409)</u> | <u>(409)</u> |
| Balance, December 31, 2017 | <u>\$ 13,159</u> | <u>(\$ 11,255)</u> | <u>\$ 1,904</u> |

The consolidated companies are exposed to the following risk due to the pension system under "Labor Standard Law":

1. Investment risk: The Bureau of Labor Funds, Ministry of Labor invests the labor pension fund, via proprietary trading and discretionary investment service, in domestic (foreign) equity securities and bond securities and bank deposits, provided that the amount allocated from the Company's assets under the Plan shall be no less than the income calculated at the interest rate applicable to the local bank's two-year time deposits.
2. Interest rate risk: The decline of interest rate on government bonds will result in increase in the present value of defined benefit obligation, but also increase in the return on the obligation investment of assets under the Plan relatively. They both will offset against the effect of net defined benefit liabilities in part.
3. Salary risk: The present value of defined benefit obligation is calculated based on the future salary of the members under the Plan. Therefore, the increase in salary of the members under the Plan will result in increase in the present value of defined benefit obligation.

The present value of defined benefit obligation of the consolidated companies is actuated by a qualified actuary.

The important hypotheses applied subsidiaries the date of measurement are stated as following:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|----------------------|----------------------|
| Discount rate | 1.125% | 1.250% |
| Expected rate of increase in salary | 3.000% | 3.000% |

If the important actuation hypotheses are changed reasonably, while the other hypotheses remain unchanged, the increase (decrease) in the present value of defined benefit obligation is stated as following:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|----------------------|----------------------|
| Discount rate | | |
| Increase by 0.25% | (\$ 311) | (\$ 421) |
| Decrease by 0.25% | <u>\$ 323</u> | <u>\$ 437</u> |
| Expected rate of increase in salary | | |
| Increase by 0.25% | <u>\$ 312</u> | <u>\$ 423</u> |
| Decrease by 0.25% | (<u>\$ 302</u>) | (<u>\$ 409</u>) |

Given that the hypotheses might be related to each other, it is not likely that one single hypothesis would vary independently, said analysis of sensitivity might be unable to reflect the actual changes in the present value of defined benefit obligation.

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Amount expected to be contributed within one year | <u>\$ 348</u> | <u>\$ 448</u> |
| Average maturity of defined benefit obligation | 9.6 years | 11 years |

19. Equity

(1) Share capital

1. Common stock

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Authorized quantity (thousand shares) | <u>60,000</u> | <u>60,000</u> |
| Authorized share capital | <u>\$600,000</u> | <u>\$600,000</u> |
| Quantity of issued and paid-up shares (thousand shares) | <u>39,300</u> | <u>39,300</u> |
| Issued share capital | <u>\$392,999</u> | <u>\$392,999</u> |

The par value of issued common stock is NT\$10 per share. Each share is entitled to one voting right and right to collect stock dividend.

The share capital retained for issuance of employee stock options in the authorized share capital totaled 5,000 thousand shares.

The information about employee stock options given by the consolidated companies due to transfer of treasury stock in 2016 is stated as following:

| | 2016 | |
|--|-----------------|--|
| Employee stock options | Unit (Thousand) | Weighted average Exercise price (NT\$) |
| Outstanding, beginning | - | \$ - |
| Given this year | 964 | 12.8 |
| Executed this year | (964) | 12.8 |
| Outstanding, ending | - | |
| Executable at the end of the year | - | |
| Weighted average fair value of stock options granted this year | \$ 6.46 | |

The remuneration cost recognized based on the employee stock options due to transfer of treasury stock in 2016 was NT\$6,227 thousand. The treasury stock was transferred to employees in April 2016.

(1) Capital surplus

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| <u>To cover loss, distribute cash dividend or allocate share capital (1)</u> | | |
| Stock issued in excess of par value | \$ 37,304 | \$ 37,304 |
| Trading of treasury stock | 7,675 | 7,675 |
| Price difference between the proceeds from acquisition of subsidiaries' equity and book value of the equity | 1 | 1 |
| <u>Not used for any other purposes</u> | | |
| Employee stock options | 1,722 | 1,722 |
| | <u>\$ 46,702</u> | <u>\$ 46,702</u> |

- Such capital surplus may be used to cover losses or allocate cash dividend or be transferred to share capital when the Company suffers no loss, provided that such capital surplus transferred to share capital shall be within a certain ratio of the paid-in share capital per year.

(3) Retained earnings and dividend policy

According to the amendments to Company Law in May 2015, the stock dividend and bonus shall be allocated to shareholders, while employees are excluded from the subjects to whom earnings should be allocated. The Company has resolved to pass the earnings allocation policy under the amended Articles of Incorporation at the general shareholders' meeting on June 7, 2016, and also defined the policy for allocation of remuneration to employees and directors/supervisors in the Articles of Incorporation.

According to the earnings allocation policy under the amended Articles of Incorporation, if the Company has a profit at the year's final accounting, it shall be allocated in the following order:

1. To pay tax;
2. To offset against loss;
3. To allocate 10% as the legal reserve, unless the accumulated legal reserve amounts to the Company's paid-in capital;
4. To set aside or reverse the special reserve pursuant to the Securities and Exchange Act;
5. The balance refers to the shareholders' bonus, which will be allocated on a pro rata basis subject to the total shareholdings or retained upon resolution of the shareholders' meeting.

For the policies for allocation of remuneration to employees and directors/supervisors defined in the Articles of Incorporation before and after the amendments, please see Note 21(6) Remuneration to employees and directors/supervisors.

According to the Company's Articles of Incorporation, under the environment in which the competition becomes intensive increasingly, the Company adopts the dividend equalization policy in order to pursue sustainable operation, by taking the long-term financial planning and funding need into consideration. Notwithstanding, the shareholders' meeting may adjust the policy subject to the earnings gained in the year. The payment ratio of cash dividend shall be no less than 10% of the total stock dividend allocated from earnings for then year.

The Company shall contribute the legal reserve until it is equivalent to the paid-in capital. The legal reserve may be used to cover loss. When the Company suffers no loss, cash may be allocated from the legal reserve,

provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

The Company provided and reversed special reserve pursuant to the FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010012865, FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010047490 and "Q&A for Provision of Special Reserve upon Adoption of IFRSs".

When unallocated earnings are allocated, any shareholders other than those residing within the territories of the R.O.C. may receive the shareholders' deductible tax at the tax credit rate prevailing on the date of allocation of stock dividend.

The Company held the general shareholders' meeting on May 23, 2017 and June 7, 2016, resolving to pass the motions for allocation of earnings 2016 and 2015:

| | Motion for allocation of earnings | | EPS (NT\$) | |
|-----------------|-----------------------------------|----------|------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| Legal reserve | \$ 2,598 | \$ 3,981 | \$ - | \$ - |
| Special reserve | 177 | - | - | - |
| Cash dividend | 19,650 | 30,669 | 0.513 | 0.80 |

Before the reporting date, the Company's board of directors has not yet resolved the motion for allocation of earnings 2017.

The motion for allocation of earnings 2017 is still pending resolution by the general shareholders' meeting to be called on May 23, 2018.

(4) Special reserve

| | 2017 | 2016 |
|------------------------------|---------------|-------------|
| Balance, beginning | \$ - | \$ - |
| Provision of special reserve | | |
| Provision of other equity | | |
| deductions | 177 | - |
| Balance, ending | <u>\$ 177</u> | <u>\$ -</u> |

(5) Treasury stock

| <u>Cause of collection</u> | <u>Transfer shares to employees (Thousand shares)</u> |
|--|---|
| Quantity of shares, January 1, 2016 | 964 |
| Decrease this year | (<u>964</u>) |
| Quantity of shares, December 31, 2016 | <u><u>-</u></u> |
| Quantity of shares, January 1, 2017 | - |
| Increase in current year | <u>1,000</u> |
| Quantity of shares, December 31, 2017 | <u><u>1,000</u></u> |

According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged, or entitled to the right to allocate stock dividends and vote.

20. Revenue

| | <u>2017</u> | <u>2016</u> |
|----------------------------|------------------|------------------|
| Revenue from sale of goods | <u>\$437,095</u> | <u>\$602,098</u> |

21. Net profit of continued operations

Net profit of continued operations consists of the following elements:

(1) Other income

| | <u>2017</u> | <u>2016</u> |
|-----------------|-----------------|-----------------|
| Interest income | \$ 1,607 | \$ 2,369 |
| Others | <u>6,779</u> | <u>2,265</u> |
| | <u>\$ 8,386</u> | <u>\$ 4,634</u> |

(2) Other gains and losses

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Net foreign currency exchange income | (\$ 4,577) | (\$ 5,410) |
| Gain (loss) from financial liabilities held for trading | 461 | (239) |
| Gain from disposition of investment | 2,700 | 1,000 |
| Loss from impairment on financial assets | - | (1,046) |
| Loss from disposition of property, plant and equipment | (2) | - |
| Others | <u>248</u> | <u>319</u> |
| | <u>(\$ 1,170)</u> | <u>(\$ 5,376)</u> |

(3) Interest expense

| | 2017 | 2016 |
|------------------------|-------------|-------------|
| Interest on bank loans | <u>\$ 1</u> | <u>\$ 6</u> |

(4) Depreciation and amortization

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Property, plant and equipment | \$ 6,845 | \$ 7,668 |
| Intangible assets | <u>3,377</u> | <u>3,296</u> |
| Total | <u>\$10,222</u> | <u>\$10,964</u> |
| Depreciation expenses summarized by function | | |
| Operating cost | \$ 356 | \$ 629 |
| Operating expenses | <u>6,489</u> | <u>7,039</u> |
| | <u>\$ 6,845</u> | <u>\$ 7,668</u> |

(Continued)

(Brought forward)

| | | |
|---|-----------------|-----------------|
| Amortization expenses summarized by function | | |
| Marketing | \$ 22 | \$ - |
| General and administrative expenses | 847 | 923 |
| R&D expenditures | <u>2,508</u> | <u>2,373</u> |
| | <u>\$ 3,377</u> | <u>\$ 3,296</u> |

(5) Employee benefit expenses

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|------------------|------------------|
| Short-term employee benefits | <u>\$ 99,491</u> | <u>\$106,422</u> |
| Termination benefit | | |
| Defined contribution plan | 4,314 | 4,226 |
| Defined benefit plan (Note 18) | <u>-</u> | <u>-</u> |
| | <u>4,314</u> | <u>4,226</u> |
| Share-based payment (Note 19) | | |
| Settlement of equity | <u>-</u> | <u>6,227</u> |
| Total employee benefit expenses | <u>\$103,805</u> | <u>\$116,875</u> |
| Summarized by function | | |
| Operating cost | \$ - | \$ - |
| Operating expenses | <u>103,805</u> | <u>116,875</u> |
| | <u>\$103,805</u> | <u>\$116,875</u> |

(6) Remuneration to directors/supervisors

The Company allocated 12%~15% and 3%~5% of the income before tax before deduction of remuneration to employees and directors/supervisors as the remuneration to employees and directors/supervisors. Because the Company suffered loss in 2017, no remuneration to employees and directors/supervisors were stated. The remuneration to employees and directors/supervisors in 2016 was allocated subject to the following resolution made by the directors' meetings on February 14, 2017:

Estimated percentage

| | <u>2016</u> |
|---------------------------------------|-------------|
| Remuneration to employees | 12.5% |
| Remuneration to directors/supervisors | 4.2% |

Amount

| | <u>2016</u> | |
|---------------------------------------|-------------|-----------------------|
| | <u>Cash</u> | <u>Stock dividend</u> |
| Remuneration to employees | \$ 4,542 | \$ - |
| Remuneration to directors/supervisors | 1,514 | - |

In the case of variation in the amount on the date of approval and release of the consolidated financial statements, the variation shall be treated as the change in accounting estimation and stated in next year.

There was no variance between the remuneration to employees and directors/supervisors allocated actually in 2016 and that stated in the consolidated financial statements 2016.

The remuneration to employees and directors/supervisors allocated upon resolution of the directors' meeting on March 15, 2016, and that is recognized in the consolidated financial statements is stated as follows:

| | 2015 | |
|--|---------------------------|---------------------------------------|
| | Remuneration to employees | Remuneration to directors/supervisors |
| Amount to be allocated upon resolution by the directors' meeting | <u>\$ 7,568</u> | <u>\$ 2,523</u> |
| Amounts recognized in the annual financial statements | <u>\$ 9,460</u> | <u>\$ 3,153</u> |

Said variance was adjusted as income 2016.

For the information about remuneration to employees and directors/supervisors resolved by the Company's directors' meeting in 2018 and 2017, please visit the "MOPS" website of the TWSE.

22. Income tax of continued operations

(1) The income tax expenses stated into income consist of the following elements:

| | 2017 | 2016 |
|---|---------------------|-----------------|
| Current income tax | | |
| Generated this year | \$ 51 | \$ 4,537 |
| Levied on unappropriated earnings | 355 | 516 |
| Adjustment in previous years | (<u>2,266</u>) | (<u>543</u>) |
| | (<u>1,860</u>) | 4,510 |
| Deferred income tax | | |
| Generated this year | <u>-</u> | <u>-</u> |
| Income tax (gain) expenses stated into income | (<u>\$ 1,860</u>) | <u>\$ 4,510</u> |

The accounting income and income tax expenses are adjusted as following:

| | 2017 | 2016 |
|--|----------------------|------------------|
| Net profit (loss) before tax of continued operations | (<u>\$ 17,154</u>) | <u>\$ 30,489</u> |
| Income tax for which the net profit before tax is calculated at statutory tax rate | \$ - | \$ 5,183 |
| Levied on unappropriated earnings | 355 | 516 |
| Unrecognized deductible temporary difference | - | (820) |
| Effect of application of different tax rates by entities included into the consolidated financial statements | 51 | 174 |
| Current adjustment of current income tax expenses of previous years | (<u>2,266</u>) | (<u>543</u>) |
| Income tax (gain) expenses stated into income | (<u>\$ 1,860</u>) | <u>\$ 4,510</u> |

The consolidated companies shall apply the tax rate, 17%, which the entity may apply under the R.O.C. Income Tax Law. The subsidiary in territories of Mainland China shall apply the tax rate, 25%. The tax derived in any other jurisdiction shall be calculated at the tax rate prevailing in the relevant jurisdiction.

According to the R.O.C. Income Tax Law amended and promulgated by the Presidential Order in February 2018, the profit-making business income tax rate shall be adjusted from 17% to 20% as of 2018. Meanwhile, the tax rate applicable to unallocated earnings 2018 shall be adjusted from 10% to 5%.

(2) Current income tax liabilities

| | December 31, 2017 | December 31, 2016 |
|--------------------------------|----------------------|----------------------|
| Current income tax liabilities | | |
| Payable income tax | <u>\$ 1,234</u> | <u>\$ 3,715</u> |

(3) Items not recognized as deferred income tax assets

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Deductible temporary difference | | |
| Loss credit | \$ 2,600 | \$ - |
| Loss from inventory price decline and obsolete and slow-moving inventories | 2,531 | 2,107 |
| Income of subsidiary under equity method | 2,196 | 2,162 |
| Others | <u>2,015</u> | <u>2,632</u> |
| | <u>\$ 9,342</u> | <u>\$ 6,901</u> |

(4) Information about two-in-one tax policy:

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Unappropriated earnings After 1998 | <u>\$19,731</u> | <u>\$54,813</u> |
| Balance of shareholders' deductible tax account | <u>\$ 5,118</u> | <u>\$ 9,372</u> |
| | 2016 (Projected) | 2016 |
| Tax credit ratio applicable to allocation of earnings | Note: | 15.80% |

Note: Considering that the amended Income Tax Law promulgated in February 2018 abolished the two-in-one tax policy, the Company expects that said tax credit ratio is not applicable to the allocation of earnings 2018.

The Company had no unallocated earnings before 1997 (inclusive).

(5) Authorization of income tax

The income tax returns of the Company until 2015 have been authorized by the tax collection authority.

23. EPS

The earnings and number of the weighted average shares of outstanding common stock used to calculate the EPS are stated as following:

Current income (loss)

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|------------------|
| Net profit (loss) attributable to shareholders of the parent | (<u>\$ 15,294</u>) | <u>\$ 25,979</u> |
| Net profit (loss) used to calculate basic EPS | (<u>15,294</u>) | <u>25,979</u> |
| Net profit (loss) used to calculate diluted EPS | (<u>\$ 15,294</u>) | <u>\$ 25,979</u> |

Quantity of shares

Unit: Thousand shares

| | <u>2017</u> | <u>2016</u> |
|---|---------------|---------------|
| Quantity of the weighted average shares of common stock used to calculate the EPS | 38,543 | 39,059 |
| Effect of dilutive potential common stock: | | |
| Remuneration to employees | <u>-</u> | <u>436</u> |
| Quantity of the weighted average shares of common stock used to calculate the EPS | <u>38,543</u> | <u>39,495</u> |

If the consolidated companies may choose to grant remuneration to employees in the form of stock or in cash, when calculating the diluted EPS, it shall hypothesize that remuneration to employees will be granted in the form of stock, and include the weighted average quantity of outstanding shares when the potential common stock is dilutive, so as to calculate the EPS. When calculating diluted EPS before resolving the quantity of shares granted as remuneration to employees in next year, the Company should also continue to consider the dilutive effect of the potential common stock.

24. Capital risk management

The consolidated companies proceeded with capital management to ensure that the member enterprises within the consolidated companies could maximize

shareholders' return by optimizing the balance of debt and equity, on the premises that their operation may be continued.

The consolidated companies' capital structure consists of its net obligation (i.e. the loan less cash and cash equivalents) and equity attributable to the owners of parent (namely, share capital, capital surplus, retained earnings and other equities).

The consolidated companies' management will check the consolidated companies' capital structure from time to time, by taking into consideration various capital costs and related risks. The consolidated companies balanced its entire capital structure by payment of stock dividend, issuance of new shares, repurchase of shares, issuance of new obligation or repayment of old obligation according to the management's suggestion.

The consolidated companies did not need to comply with the other external capital requirements.

25. Financial instruments

(1) Information about fair value - Financial instruments not measured at fair value

There was no material difference between the book value of financial assets and liabilities not measured at fair value, and the fair value thereof.

(2) Information about fair value - Financial instruments measured at fair value on a repeated basis

1. Tiers of fair value

December 31, 2016

| | <u>Tier 1</u> | <u>Tier 2</u> | <u>Tier 3</u> | <u>Total</u> |
|---|---------------|---------------|---------------|--------------|
| <u>Financial liabilities at fair value through profit or loss</u> | | | | |
| Derivative instruments | \$ - | \$ 461 | \$ - | \$ 461 |

In 2017 and 2016, no transfer between Tier 1 and Tier 2 of fair value took place.

2. Adjustment of financial instruments measured at fair value of Tier 3

| | Investment in equity instruments in available-for-sale | |
|-------------------------|---|-------------|
| | Investment in equity instruments | |
| | 2017 | 2016 |
| <u>Financial assets</u> | | |
| Balance, beginning | \$ - | \$ 1,046 |
| Stated into income | | |
| — Realized | - | (1,046) |
| Balance, ending | <u>\$ -</u> | <u>\$ -</u> |

In the total earnings or loss 2016, the loss on assets measured at fair value of Tier 3 held at the end of the year was NT\$1,046 thousands.

3. Valuation technology and input value for measurement at fair value of Tier 2

| <u>Types of financial instruments</u> | <u>Valuation technology and input value</u> |
|---|--|
| Derivative instrument— Forward Foreign Exchange Contracts | Discounted cash flow method: To estimate the future cash flow based on the observable forward foreign exchange rate at the end of year and foreign exchange rate defined in the contract, and to discount the same based on the discount rate which may reflect various trading counterparts' credit risk. |

4. Valuation technology and input value for measurement at fair value of Tier 3

Domestic/overseas unlisted (non-OTC) equity investment applies the market-based approaches. Namely, the value of evaluated object is estimated by appropriate multiples based on the trading price of comparable object and by taking into consideration of the difference between the evaluated object and comparable object. The common valuation under the market-based approach is based on the price of stock with active market of the stock of the enterprise engaged in the same or similar business lines to decide the relevant multiples and evaluate.

(2) Types of financial instruments

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| <u>Financial assets</u> | | |
| Loans and receivable accounts (Note 1) | \$311,058 | \$380,045 |
| <u>Financial liabilities</u> | | |
| at fair value through profit or loss | | |
| Held for trading | - | 461 |
| Measured at amortized cost (Note 2) | 71,894 | 116,484 |

Note 1: The balance includes the loans and accounts receivable measured at cost after amortization including cash and cash equivalent, Debt investments with no active market, receivable notes, receivable accounts and refundable deposits.

Note 2: The balance includes the financial liabilities measured at cost after amortization including short-term borrowing, accounts payable, other accounts payable, and guarantee deposits.

(4) Purpose and policy of financial risk management

The consolidated companies' main financial instruments include equity investment, receivable accounts and accounts payable. The consolidated companies' financial management department is dedicated to providing various business units with services, coordinating the operation in domestic and international financial markets, and analyzing risk per the degree and extension of risk and managing the financial risk over the Company's operation. The risks include market risk (including foreign exchange rate risk and the interest risks), credit risk and liquidity risk.

The consolidated companies hedged exposure via the financial derivatives to mitigate the effect produced by the risk. The utilization of financial derivatives is governed by the policy approved by the Company's Board. The policy refers to the written principles for the utilization of foreign exchange risk, interest rate risk, credit risk, financial derivatives and non-financial derivatives and investment of residual working capital. Internal auditors shall re-audit compliance with the policy and exposure limit. The

consolidated companies never engaged in transactions of financial instruments (including financial derivatives) for the purpose of speculation.

1. Market risk

The main market risk borne by the consolidated companies' operating activities means the risk over changes in foreign exchange rate of foreign currency (see the following (1)) and risk over changes in interest rate (see the following (2)). The foreign currency exchange rate risk borne by the consolidated companies to manage forward contract.

The consolidated companies' exposure related to financial instrument market risk and the management and evaluation of such exposure remain unchanged.

(1) Foreign exchange rate risk

The consolidated companies engaged in sale and purchase denominated in foreign currency and thereby exposed it to the risk over changes of foreign exchange rate. About 90% of the consolidated companies' turnover were denominated in the currency other than functional currency, and about 74% of the cost were denominated in the currency other than functional currency. The consolidated companies' exposure to the risk over foreign exchange rate was managed in the form of forward contract, insofar as it was permitted by the relevant policy. Meanwhile, the consolidated companies also had some bank deposits denominated in foreign currency to collect the interest income. Until December 31, 2017, about 10% of the cash and cash equivalents have been denominated in the currency other than functional currency.

For the book value of the consolidated companies' monetary assets and monetary liabilities denominated in the currency other than functional currency on the balance sheet date, please refer to Note 28.

Sensitivity analysis

The consolidated companies were primarily affected by the fluctuation in USD and RMB.

The following table states the consolidated companies' sensitivity analysis in the case of increase/decrease in foreign exchange rate of NTD (functional currency) vs. USD/RMB by 1%. 1% means the sensitivity ratio which is applied when reporting the foreign interest rate risk to the management within the consolidated companies, also representing the management's evaluation about reasonable potential changes in the foreign exchange rate of foreign currency. The sensitivity analysis only included the outstanding monetary items denominated in the foreign currency, and adjusted the conversion at the end of year by changes in the foreign exchange rate by 1%. The following table states that the revaluation of NTD against USD/RMB by 1% will result in decrease or increase in net income before tax. Notwithstanding, the devaluation of NTD against USD/RMB by 1%, the effect on net income before tax will be the equivalent amount positively.

| | Effect of USD | | Effect of RMB | |
|--------|---------------|------------|---------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Income | (\$ 276) | (\$ 686) | (\$ 307) | (\$ 571) |
| Equity | (276) | (686) | (307) | (571) |

(2) Interest rate risk

The consolidated companies evaluated the hedging activities periodically to keep them consistent with the view about interest rate and existing risk preference and to ensure the adoption of hedging strategies that met the cost benefit best.

The book value of the consolidated companies' monetary assets and monetary liabilities exposed to the interest rate risk on the balance sheet date is stated as following:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------|----------------------|----------------------|
| Fair value interest rate risk | | |
| - Financial assets | \$223,759 | \$243,584 |
| Cash flow interest rate risk | | |
| - Financial assets | 20,497 | 32,459 |
| - Financial liabilities | - | - |

2. Credit risk

The credit risk refers to the consolidated companies' financial loss risk derived from the failure of any trading counterpart to perform its contractual obligation. Until the balance sheet date, the maximum credit risk which the consolidated companies might be exposed to because of the trading counterpart's failure to perform the contractual obligation has primarily resulted from the book value of financial assets stated in the consolidated balance sheet.

In order to mitigate the credit risk, the consolidated companies' management designated the dedicated team to decide the facility to be granted, approve facility and handle other controlling procedures, in order to ensure that appropriate measures have been taken to collect overdue receivables. Meanwhile, the consolidated companies would check the collectible amount of receivable accounts one by one on the balance sheet date to ensure that appropriate impairment loss has been provided for the receivable accounts which could not be collected. Given this, the consolidated companies' management considered that its credit risk shall have been mitigated significantly.

Meanwhile, the trading counterpart of working capital and financial derivatives was the bank that was granted high credit rating by the international credit rating organization. Therefore, the credit risk shall be considered minor.

The consolidated companies' credit risk by territory was primarily centralized in Hong Kong and Mainland China, which has accounted for 37% and 44%, and 47% and 46% of the total receivable accounts until December 31, 2017 and 2016.

The consolidated companies' risk credit was primarily centralized in its top 5 customers. The receivable accounts from said customers have been accounted for 81% and 86% of the total receivable accounts until December 31, 2017 and 2016.

3. Liquidity risk

The consolidated companies managed and maintained sufficient cash and cash equivalents to cover the consolidated companies' operation and mitigate the effect produced by fluctuation in cash flows. The consolidated companies' management supervised the status of

bank facility to ensure compliance with the terms and conditions in the loan contract.

For the consolidated companies, the bank loan was a very important source of liquidity. For the facility that has been drawn down by the consolidated companies before December 31, 2017 and 2016, please see the following Note (2), facility.

(1) Statement of liquidity and interest rate risk of non-derivative financial liabilities

The analysis on residual duration of contract for non-derivative financial liabilities was prepared in accordance with the earliest date of repayment which was requested from the consolidated companies and non-discounted cash flows for financial liabilities (including the principal and estimated interest). Therefore, the bank loans that the consolidated companies could be requested to repay immediately are listed in the earliest period identified in the following table, without needing to take the opportunity of the bank's immediate exercise of the right into consideration. The analysis on expiry of other non-derivative financial liabilities was prepared based on the agreed date of repayment.

December 31, 2017

| | Payable on demand or less than one months | 1~3 months | 3 months~ 1 year | 1~5 years | 5 years or more |
|---|--|-----------------|------------------------|--------------|--------------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Liabilities without interest | <u>\$24,080</u> | <u>\$17,572</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

(Continued)

(Brought forward)

December 31, 2016

| | Payable on demand or less than one months | 1~3 months | 3 months~ 1 year | 1~5 years | 5 years or more |
|---|--|-----------------|------------------------|-----------------|--------------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Liabilities without interest | <u>\$36,752</u> | <u>\$33,533</u> | <u>\$ -</u> | <u>\$ 2,019</u> | <u>\$ -</u> |

(2) Facility

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-----------------------------------|------------------------------|------------------------------|
| Non-secured bank loan facility | | |
| - Amount drew down | \$ - | \$ - |
| - Amount not yet drawn down | <u>65,000</u> | <u>74,675</u> |
| | <u>\$65,000</u> | <u>\$74,675</u> |
| Secured bank loan facility | | |
| - Amount drew down | \$ - | \$ - |
| - Amount not yet drawn down | <u>-</u> | <u>112,875</u> |
| | <u>\$ -</u> | <u>\$112,875</u> |

26. Transactions with related parties

The transactions, balance of account, income and expenses between the Company and its subsidiaries (the Company's related parties) were written off at the time of consolidation and, therefore, are not disclosed herein. In addition to the transactions disclosed in the other notes, the transactions between the consolidated companies and related parties are stated as following:

Remuneration to the management

| | 2017 | 2016 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | \$ 14,534 | \$ 16,013 |
| Termination benefit | 603 | 509 |
| | <u>\$ 15,137</u> | <u>\$ 16,522</u> |

The remuneration to directors and the other management was decided by the Remuneration Committee subject to personal performance and market trend.

27. Pledged assets

The following assets were furnished as the collateral to secure the facility:

| | December 31, 2017 | December 31, 2016 |
|-----------------------------|----------------------|----------------------|
| Own land and buildings, net | <u>\$161,553</u> | <u>\$164,076</u> |

28. Information about foreign-currency-denominated assets and liabilities that have significant influence

The following is expressed by summarization of the foreign currencies other than functional currencies applied by entities in the consolidated companies. The foreign exchange rate as disclosed refers to the foreign exchange rate applied to conversion of the foreign currency to the functional currency. Foreign-currency-denominated assets and liabilities that have significant influence::

December 31, 2017

| | Foreign currency | Foreign exchange rate | Book value |
|-------------------------------------|---------------------|--------------------------|------------------|
| <u>Foreign currency assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 1,744 | 29.76 | \$ 51,893 |
| RMB | 6,718 | 4.57 | 30,717 |
| HKD | 38 | 3.76 | 143 |
| | | | <u>\$ 82,753</u> |
| <u>Foreign currency liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 817 | 29.77 | \$ 24,324 |
| HKD | 440 | 4.20 | 1,850 |
| | | | <u>\$ 26,174</u> |

(Continued)

(Brought forward)

December 31, 2016

| | Foreign currency | Foreign exchange rate | Book value |
|-------------------------------------|---------------------|--------------------------|------------------|
| <u>Foreign currency assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 3,628 | 32.24 | \$116,963 |
| RMB | 12,365 | 4.62 | 57,088 |
| HKD | 994 | 4.16 | 4,135 |
| | | | <u>\$178,186</u> |
| <u>Foreign currency liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 1,504 | 32.15 | \$ 48,360 |
| HKD | 1,139 | 4.13 | 4,708 |
| | | | <u>\$ 53,068</u> |

Foreign-currency-denominated exchange income (unrealized) that has significant influence:

| | 2017 | | 2016 | |
|---------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| Foreign currency | Foreign exchange rate | Net exchange income | Foreign exchange rate | Net exchange income |
| USD | 30.43 (USD:NTD) | (\$ 224) | 32.26 (USD:NTD) | \$ 938 |
| RMB | 4.51 (RMB:NTD) | 315 | 4.84 (RMB:NTD) | 28 |
| HKD | 3.91 (HKD:NTD) | (1) | 4.16 (HKD:NTD) | (128) |
| | | <u>\$ 90</u> | | <u>\$ 838</u> |

29. Noted disclosure

(1) Important transactions and (2) Information about investees:

1. Fund granted to others: N/A
2. Endorsement and guarantee made for others: N/A
3. Marketable securities-end (exclusive of those held by investment in subsidiaries): see Schedule 1.
4. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
5. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
6. Amount on disposal of real estate reaching 300 million NTD or more than 20% of the paid-in capital: N/A.

7. Purchase/sale amount of transactions with related parties reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
8. Accounts receivable-related party reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
9. Transactions of derivatives: N/A.
10. Others: Business relationship and material transactions between parent company and subsidiaries: see Schedule 2.
11. Information about investees: see Schedule 3.

(3) Information about investment in Mainland China:

1. Name of investee in Mainland China, principal business, paid-in capital, mode of investment, outward/inward remittance of fund, shareholding percentage, investment income, book value of investment, ending, investment income repatriated to Taiwan, and limit of investment in Mainland China: see Schedule 4.
2. Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof: see Schedule 5.
 - (1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - (3) The amount of property transactions and the amount of the resultant gains or losses.
 - (4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - (5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - (6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

30. Information by department

It refers to the information provided to the decision maker to allocate resources and evaluate departments' performance, primarily focused on the

types of product or labor service as delivered or provided. The consolidated companies primarily engaged in MCU products, namely the IC design business, dedicated to the principal business. The information provided to the decision maker to allocate resources and evaluate departments' performance is that identified in the consolidated financial statements.

(1) Revenue from main product

| | <u>2017</u> | <u>2016</u> |
|-----|------------------|------------------|
| MCU | <u>\$437,095</u> | <u>\$602,098</u> |

(2) Information by territory

The Company primarily operates in two territories - Taiwan and Mainland China.

The consolidated companies' continued operations revenue from external customers is listed as follows by territory of operation and non-current assets:

| | <u>Revenue from external customers</u> | | <u>Non-current assets</u> | |
|----------------|--|------------------|---------------------------|--------------------------|
| | <u>2017</u> | <u>2016</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
| Taiwan | \$432,076 | \$598,467 | \$193,044 | \$201,419 |
| Mainland China | <u>5,019</u> | <u>3,631</u> | <u>399</u> | <u>676</u> |
| | <u>\$437,095</u> | <u>\$602,098</u> | <u>\$193,443</u> | <u>\$202,095</u> |

The consolidated companies' revenue by territory was calculated based on the territory where the revenue was generated. The non-current assets refer to fixed assets and other assets, exclusive of financial instruments and deferred income tax assets.

(3) Information about important customers

Customers from whom the income accounts for more than 10% of the consolidated companies' total sale revenue in 2017 and 2016:

| | <u>2017</u> | | <u>2016</u> | |
|------------------------|---------------|-------------------|---------------|-------------------|
| <u>Customer's name</u> | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> |
| Company A | \$119,578 | 27% | \$193,554 | 32% |
| Company B | 98,194 | 22% | 60,845 | 10% |
| Company C | 51,381 | 12% | 153,589 | 26% |

MEGAWIN Technology Co., Ltd. and its subsidiaries
Marketable securities-end
December 31, 2017

Schedule 1 Unit: Unless otherwise noted,

In thousands of NTD

| Holder of securities | Type and Name | Affiliation with issuer | Account title | Ending | | | | Remarks |
|----------------------|-----------------|-------------------------|---------------------------|------------------|------------|-----------------------|------------|----------------------------------|
| | | | | Number of shares | Book value | Ratio of Shareholding | Fair value | |
| The Company | Government bond | N/A | Cash and cash equivalents | - | \$ 81,000 | Not applicable | \$ 81,000 | No guarantee or pledge was made. |

Note: For the information about investment in a subsidiary, please see Schedule 3 and Schedule 4.

MEGAWIN Technology Co., Ltd. and its subsidiaries
Business relationship and material transactions between parent company and subsidiaries
January 1~December 31, 2017

Schedule 2

In thousands of NTD

| No. (Note 1) | Name of trader | Trading counterpart | Affiliation to trader (Note 2) | Transaction | | | |
|--------------|------------------------------|---|--------------------------------|-----------------------------|----------|--------------------|---|
| | | | | Title | Amount | Trading conditions | Percentage in consolidated total revenue or total assets (Note 3) |
| 0 | MEGAWIN Technology Co., Ltd. | MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | (1) | Operating revenue | \$ 4,612 | Note 5 | 1% |
| | | | | Other non-operating revenue | 105 | Note 5 | - |
| | | | | Marketing | 13,779 | Note 6 | 3% |
| | | | | Receivable accounts | 3,024 | - | 1% |
| | | | | Other payables | 1,039 | - | - |

Note 1: The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

(1) "0" for parent company

(2) Subsidiaries shall be numbered from 1 in accordance with the type of company.

Note 2: The affiliation to traders shall be numbered and noted in the following three (3) types (provided that the same transaction between the parent company and subsidiary, or subsidiaries do not need to be disclosed repeatedly. For example, if the parent company has disclosed any transaction between the parent company and subsidiary, it is not necessary to disclose the same transaction between subsidiaries again. If a transaction between subsidiaries has been disclosed by either of the subsidiaries, the other subsidiary does not need to disclose the same transaction again.):

(1) Parent company vs. subsidiary

(2) Subsidiary vs. parent company

(3) Subsidiary vs. subsidiary

Note 3: Percentage in consolidated total revenue or total assets shall be calculated at the percentage of the balance-end in consolidated total assets, in the case of asset/liability titles, and at the percentage of cumulative amount-midterm in consolidated total revenue, in the case of income titles.

Note 4: The major transactions referred to herein may be identified based on the materiality principle subject to the Company's sole discretion.

Note 5: The trading price of the Company's transactions with related parties was agreed by both parties. Generally, the collection period was OA 30 days.

Note 6: The Company appointed MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED to provide the after-sale service to customers in the territories of Mainland China. The Company would pay the after-sale service fees at specific percentage per the agreement.

MEGAWIN Technology Co., Ltd. and its subsidiaries
Information related to the investees, such as names and locations, etc.
January 1~December 31, 2017

Schedule 3

Unit: NTD and foreign currency thousands dollars/thousand shares

| Investor | Investee | Address | Principle Business | Original investment cost | | End | | | Investee Income in the current period | Investment income recognized in the current period Investment income | Remarks |
|--|--|-------------------|--|------------------------------|----------------------------------|----------------------------------|-------------------|------------------------|---|--|------------------------------|
| | | | | End of the current period | End of the previous period | Quantity (thousand shares) | Percentage (%) | Book value | | | |
| The Company | Regent Pacific Management Ltd. | Mauritius | General investment | \$ 30,824 (US\$ 921) | \$ 30,824 (US\$ 921) | 921 | 100 | \$ 17,601 | \$ 246 | \$ 246 | Subsidiary |
| Regent Pacific Management Ltd. | MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | Hong Kong | IC design service, trading and general investment | 12,238 (US\$ 385) | 12,238 (US\$ 385) | 3,129 | 100 | 14,614 | 562 | 562 | Indirect subsidiary |
| MEGAWIN TECHNOLO GY H.K. COMPANY LIMITED | MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | Mainland China | IC design service, trading and general investment | 9,459 (US\$ 300) | 9,459 (US\$ 300) | 300 | 100 | 10,880 (HK\$ 2,858) | 386 (HK\$ 99) | 386 (HK\$ 99) | Great-grandson subsidiary |

Note: For the information about investees in Mainland China, please see Schedule 4.

MEGAWIN Technology Co., Ltd. and its subsidiaries
Information about investment in Mainland China
January 1~December 31, 2017

Schedule 4

Unit: Unless otherwise noted,
NT\$ thousand

| Name of investee in Mainland China Company name | Principle Business | Paid-in Capital | Mode of investment | at beginning Cumulative investments outward remitted from Taiwan Investment amount | Investment Remittance or Regain during the fiscal Year | | at ending Cumulative investments outward remitted from Taiwan Investment amount | Investee Income in the current period | The Company' s Direct or Indirect Investment Holding Ratio | recognized in the current period Investment income | Investment, ending Book value | Investment income repatriated to Taiwan in the current period | Remar ks |
|--|--|-------------------------------------|-----------------------|--|---|-------------|--|---|--|--|--|---|-------------|
| | | | | | Outward remitted | Repatriated | | | | | | | |
| MEGAWIN TECHNOLOG Y SHENZHEN COMPANY LIMITED | IC design service, trading and general investment | \$ 9,459 (US\$ 300 thousands) | Note 1 | \$ 9,459 (US\$ 300 thousands) | \$ - | \$ - | \$ 9,459 (US\$ 300 thousands) | \$ 386 (HK\$ 99 thousands) | 100% | \$ 386 (HK\$ 99 thousands) (Note 2) | \$ 10,880 (HK\$ 2,858 thousands) | \$ - | — |

| Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term | Investment Amount Approved by Investment Commission of MOEAIC | Mainland China Investment Ceiling As Regulated by Investment Commission of MOEAIC |
|--|--|---|
| US\$300 thousands (equivalent to NT\$9,459 thousands) | US\$300 thousands (equivalent to NT\$9,459 thousands) | \$289,948 thousands |

Note 1: Invested through the company invested by Regent Pacific Management Limited in the third region, MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED.

Note 2: The investment income recognized in the current period was recognized based on the financial statements audited by the parent company in Taiwan.

Appendix 2.
An Individual Financial Statement for
the Most Recent Fiscal Year, Certified by A CPA

MEGAWIN Technology Co., Ltd.

Individual Financial Statements and
Independent Auditors' Report
2017 and 2016

Address: 7F-1, No. 8, Taiyuan 1st St., Jhubei City, Hsinchu County
Tel. No.: (03)5601501

INDEPENDENT AUDITOR'S REPORT

To: MEGAWIN Technology Co., Ltd.

Opinion

We have audited the accompanying individual balance sheet of MEGAWIN Technology Co., Ltd. as of December 31, 2017 and 2016 , and the individual comprehensive income statement, individual statement of changes in equity and individual cash flow statement from January 1 to December 31, 2017 and 2016, as well as the notes to individual financial statements (including the summary of significant accounting policies).

In our opinion, said individual financial statements present fairly, in all material respects, the individual financial position of MEGAWIN Technology Co., Ltd. as of December 31, 2017 and 2016, and the results of its individual operations and individual cash flows from January 1 to December 31, 2017 and 2016 in conformity 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 Attestation of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities required under said standards will be detailed in the paragraph about the external auditor's responsibility on auditing individual financial statements. Our firm's staff subject to the independence requirements have maintained their independent attitude with MEGAWIN Technology Co., Ltd. and its subsidiaries pursuant to the CPAs' ethical code, and perform the other responsibilities required under said code. We believe that we have obtain sufficient and valid evidence which may afford to serve as the basis for audit opinion.

Key Audit Matter (KAM)

The key audit matter (KAM) refers to the most important matter included in our audit on the individual financial statements 2017 of MEGAWIN Technology Co., Ltd. based on our professional judgment as the CPA. Said matter has been responded to during the overall audit on the individual financial statements and preparation of the audit opinion.

We hereby state the key audit matter (KAM) included in our audit on the individual financial statements 2017 of MEGAWIN Technology Co., Ltd. as following:

KAM 1

1. MEGAWIN Technology Co., Ltd. are engaged in IC design, whose sales revenue varies depending on their customers' acceptability of products as well as stock prices as well. Therefore, we presuppose that there might be the risk over the management's earlier recognition of the revenue.
2. MEGAWIN Technology Co., Ltd. is primarily engaged in selling MCU. About 38% of the product are shipped to customers directly via an IC testing company based in Mainland China instead of via warehouses belonging to MEGAWIN Technology Co., Ltd. Given this, the closing of revenue might be deferred for the purpose contemplated by the management in the preceding paragraph.
3. Our audit procedure covers:
 - (1) Verification of the procedure for recognition of revenue generated from the shipment via the IC testing company and execution of relevant control tests.
 - (2) Check on whether there is earlier recognition of revenue based on the sales order of the IC testing company in Mainland China December 31, 2017 and four days thereafter.

KAM 2

1. The inventory of MEGAWIN Technology Co., Ltd. valued NT\$50,508 thousand on December 31, 2017. This is considered important to the individual financial statements. Please refer to Note 11.
2. MEGAWIN Technology Co., Ltd. is engaged in the industry which might suffer slow-moving or obsolete inventory due to changes of technology. That is, the inventory is likely to be unsalable, or needs to be sold at discount and thereby causes the value of inventory less than the book value thereof. For the related accounting policy and important accounting estimation, please see Note 4 and Note 5.
3. Our audit procedure covers:
 - (1) Obtain the details about inventory price decline and slow-moving inventory and information about the age of inventory tested on the balance sheet date, and calculate the allowance for loss on inventory price decline.
 - (2) In order to test the book value of inventory, we verify whether the book value is measured at cost or net realizable value, whichever is lower, and evaluate it based on the method applied by MEGAWIN Technology Co., Ltd..

Management's and corporate governance unit's responsibility toward individual financial statements

The management shall be responsible for preparing the individual financial statements which fairly present the company in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and maintaining necessary internal controls over preparation of individual financial statements to ensure that the individual financial statements are free from any misrepresentation resulting from corruption or error.

When preparing the individual financial statements, the management shall also be responsible for evaluating the ability to continue operations of MEGAWIN Technology Co., Ltd., disclosure of related matters, and adoption of the basis for continued operations, unless the management intends to liquidate MEGAWIN Technology Co., Ltd., or to wind up, or there is not any available program other than liquidation or windup.

The corporate governance unit of MEGAWIN Technology Co., Ltd. (including supervisors) shall be responsible for supervising the financial reporting procedure.

External Auditor's Responsibilities for Audit of the Individual Financial Statements

We conduct the audit on the individual financial statements in order to obtain reasonable assurance about whether the individual financial statements are free from any misrepresentation resulting from corruption or error, and to issue the auditor's report. The reasonable assurance means high assurance. Notwithstanding, the audit conducted in conformity of the auditing standards generally accepted in the Republic of China doesn't warrant discovery of any misrepresentation in the individual financial statements. The misrepresentation might result from corruption or error. Where the misrepresented amount or summarization may be reasonably expected to affect the economic decision made by users of the individual financial statements, such misrepresentation would be considered material.

We exercise our professional judgment and remain objective when conducting the audit in accordance with the auditing standards generally accepted in the Republic of China. We also execute the following work:

1. To identify and evaluate the risk over misrepresentation in the individual financial statements resulting from corruption or error, design and implement the adequate countermeasures against the evaluated risk, and obtain sufficient and valid evidence which may afford to serve as the basis for the audit opinion. As corruption might involve conspiracy, forgery, intentional omission, misrepresentation or failure to comply with internal control, the risk over failure to detect the material

misrepresentation resulting from corruption is higher than that over the misrepresentation resulting from error.

2. Obtaining the necessary understanding about the internal controls critical to the audit to design an audit procedure suitable for the circumstances, but not expressing opinions on the validity of the internal controls of MEGAWIN Technology Co., Ltd..
3. To evaluate the validity of the accounting policies adopted by the management, and reasonableness of the accounting estimation and disclosure made by the management.
4. To conclude the validity of the accounting basis for continued operations applied by the management, and existence of uncertainty on the event or circumstance which might raise material doubt over the ability to continue operations of MEGAWIN Technology Co., Ltd., based on the evidence obtained by us. Where we believe that some material uncertainty exists in the event or circumstance, we shall remind the users of the individual financial statements in our audit report to note the disclosures related to the individual financial statements, or modify the audit opinion if the disclosure is considered inadequate. Our conclusion is made based on the evidence available until the date of audit report. Notwithstanding, the future event or circumstance might result in failure of MEGAWIN Technology Co., Ltd. to continue operations.
5. To evaluate the overall expression, structure and contents of the individual financial statements (including related notes hereto), and whether the individual financial statements adequate express the related transactions and events.
6. To obtain sufficient and adequate evidence toward the individual financial information of MEGAWIN Technology Co., Ltd. to comment on the individual financial statements. We are responsible for directing, supervising and conducting the audit on MEGAWIN Technology Co., Ltd., and producing the audit opinion on MEGAWIN Technology Co., Ltd..

The matters communicated between the corporate governance unit and us include the range and time of the planned audit, and material audit findings (including the significant non-conformance in internal control identified in the process of audit).

We also provide the corporate governance unit with the statement of declaration for the compliance of our staff subject to the independence requirements with the independence requirements defined in the CPA's ethical code, and also communicate with the corporate governance unit about the relationships and other matters which are

considered potentially affecting the CPA's independence (including related preventive measures).

We decide the key audit matter (KAM) included in our audit on the individual financial statements 2017 of MEGAWIN Technology Co., Ltd. based on the matters communicated between the corporate governance unit and us. We state the matters in our audit report, unless the laws prohibit disclosure of specific matters, or in some extraordinary circumstance, we decide not to communicate the specific matters in the audit report, as we reasonably expect that the adverse effect arising from the communication is greater than the public interest advanced therefor.

Deloitte & Touche

Tsai, Mei-Chen, CPA

Yeh, Tung-Hui, CPA

FSC Approval No.

Chin-Kuan-Cheng-Shen-Tzu No.
1010028123

FSC Approval No.

Chin-Kuan-Cheng-Shen-Tzu No.
0980032818

February 13, 2018

MEGAWIN Technology Co., Ltd.
Parent company only balance sheets
December 31, 2017 and 2016

In thousands of NTD

| Code | Assets | December 31, 2017 | | December 31, 2016 | | Code | Liabilities and equity | December 31, 2017 | | December 31, 2016 | |
|------|--|-------------------|-----|-------------------|-----|------|--|-------------------|-------|-------------------|-----|
| | | Amount | % | Amount | % | | | Amount | % | Amount | % |
| | Current assets | | | | | 2120 | Current liabilities | | | | |
| 1100 | Cash and cash equivalents (Notes 4, 6 and and 25) | \$ 104,112 | 19 | \$ 146,508 | 22 | | Financial liabilities at fair value through profit or loss (Notes 4, 7 and 25) | \$ - | - | \$ 461 | - |
| 1147 | Debt Instrument with no active market -current (Notes 4, 9 and 25) | 123,800 | 22 | 113,900 | 17 | 2170 | Accounts payable (Notes 4, 16 and 25) | 34,718 | 6 | 65,097 | 10 |
| 1170 | Notes and accounts receivable (Notes 4, 10 and 25) | 63,879 | 11 | 103,146 | 16 | 2200 | Other payables (Notes 4, 17, 25 and 26) | 33,811 | 6 | 47,369 | 7 |
| 1180 | Receivables from related parties (Notes 4, 10 , 25 and 26) | 3,024 | - | - | - | 2230 | Current income tax liabilities (Notes 4 and 22) | 1,234 | - | 3,715 | 1 |
| 130X | Inventories (Notes 4, 5 and 11) | 50,508 | 9 | 69,997 | 11 | 2300 | Other current liabilities (Note 17) | 2,158 | 1 | 2,443 | - |
| 1479 | Other current assets (Note 15) | 4,513 | 1 | 6,958 | 1 | 21XX | Total current liabilities | 71,921 | 13 | 119,085 | 18 |
| 11XX | Total current assets | 349,836 | 62 | 440,509 | 67 | | | | | | |
| | Non-current assets | | | | | 2640 | Non-current liabilities | | | | |
| 1550 | Investments accounted for using equity method (Notes 4 and 12) | 17,601 | 3 | 17,929 | 2 | | Net defined benefit liabilities – non-current (Notes 4 and 18) | 1,904 | - | 4,891 | 1 |
| 1600 | Property, plant and equipment (Notes 4, 13 and 27) | 170,798 | 31 | 176,658 | 27 | 2645 | Guarantee deposits (Note 25) | 3,664 | 1 | 4,384 | - |
| 1780 | Intangible Assets (Notes 4 and 14) | 22,246 | 4 | 24,761 | 4 | 25XX | Total non-current liabilities | 5,568 | 1 | 9,275 | 1 |
| 1920 | Refundable deposits (Note 25) | 254 | - | 285 | - | 2XXX | Total liabilities | 77,489 | 14 | 128,360 | 19 |
| 15XX | Total non-current assets | 210,899 | 38 | 219,633 | 33 | | Equity (Notes 4 and 19) | | | | |
| | | | | | | | Share Capital | | | | |
| | | | | | | 3110 | Ordinary shares | 392,999 | 70 | 392,999 | 60 |
| | | | | | | 3200 | Capital surplus | 46,702 | 8 | 46,702 | 7 |
| | | | | | | | Retained earnings | | | | |
| | | | | | | 3310 | Legal reserve | 40,043 | 7 | 37,445 | 6 |
| | | | | | | 3320 | Special reserve | 177 | - | - | - |
| | | | | | | 3350 | Unappropriated earnings (Note 22) | 19,731 | 4 | 54,813 | 8 |
| | | | | | | 3300 | Total retained earnings | 59,951 | 11 | 92,258 | 14 |
| | | | | | | 3400 | Other equity | (624) | - | (177) | - |
| | | | | | | 3500 | Treasury stock | (15,782) | (3) | - | - |
| | | | | | | 3XXX | Total equity | 483,246 | 86 | 531,782 | 81 |
| 1XXX | Total assets | \$ 560,735 | 100 | \$ 660,142 | 100 | | Total liabilities and equity | \$ 560,735 | 100 | \$ 660,142 | 100 |

The accompanying notes constitute an integral part of the parent company only financial statements.

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd.
Parent company only statements of comprehensive income
January 1~December 31, 2017 and 2016

In thousands of NTD, except EPS

| Code | | 2017 | | 2016 | |
|------|---|----------------|-----------|----------------|-----------|
| | | Amount | % | Amount | % |
| 4000 | Operating revenue(Notes 4, 20 and 26) | \$ 436,688 | 100 | \$ 600,775 | 100 |
| 5000 | Operating cost (Notes 11 and 21) | (296,534) | (68) | (387,346) | (65) |
| 5900 | Gross profit | 140,154 | 32 | 213,429 | 35 |
| 5910 | Unrealized loss on sales to subsidiaries | (127) | - | - | - |
| 5950 | Gross profit | <u>140,027</u> | <u>32</u> | <u>213,429</u> | <u>35</u> |
| | Operating expenses (Notes 21 and 26) | | | | |
| 6100 | Marketing | (33,103) | (8) | (35,260) | (6) |
| 6200 | General and administrative | (55,975) | (13) | (65,370) | (11) |
| 6300 | Research and development | (75,855) | (17) | (81,767) | (13) |
| 6000 | Total operating expenses | (164,933) | (38) | (182,397) | (30) |
| 6900 | Profit (loss) from operations | (24,906) | (6) | <u>31,032</u> | <u>5</u> |
| | Non-operating income and expenses | | | | |
| 7010 | Other income (Note 21) | 8,252 | 2 | 4,492 | 1 |
| 7020 | Other gains and losses (Note 21) | (796) | - | (5,338) | (1) |
| 7050 | Interest expenses (Note 21) | (1) | - | (6) | - |
| 7070 | Share of profits of subsidiaries (Notes 4 and 12) | <u>246</u> | - | <u>100</u> | - |
| 7000 | Total non-operating income and expense | <u>7,701</u> | <u>2</u> | (752) | - |

(Continued)

(Brought forward)

| Code | | 2017 | | 2016 | |
|------|--|--------------------|-------------|------------------|-------------|
| | | Amount | % | Amount | % |
| 7900 | Profit (loss) before income tax | (\$ 17,205) | (4) | \$ 30,280 | 5 |
| 7950 | Income tax gains (expenses) (Notes 4 and 22) | <u>1,911</u> | <u>-</u> | <u>(4,301)</u> | <u>(1)</u> |
| 8200 | Net profit (loss) for the period | <u>(15,294)</u> | <u>(4)</u> | <u>25,979</u> | <u>4</u> |
| | Other comprehensive income (Note 4) | | | | |
| | Items that will not be reclassified subsequently to profit or loss: | | | | |
| 8311 | Remeasurement of defined benefit plan (Note 18) | 2,637 | 1 | (1,535) | - |
| | Items that will may be reclassified subsequently to profit or loss: | | | | |
| 8361 | Exchange differences on translation of foreign operations | <u>(447)</u> | <u>-</u> | <u>(932)</u> | <u>-</u> |
| 8300 | Other comprehensive income for the year, net of income tax | <u>2,190</u> | <u>1</u> | <u>(2,467)</u> | <u>-</u> |
| 8500 | Total comprehensive income for the year | <u>(\$ 13,104)</u> | <u>(3)</u> | <u>\$ 23,512</u> | <u>4</u> |
| | EPS (Note 23) | | | | |
| 9750 | Basic | <u>(\$ 0.40)</u> | | <u>\$ 0.67</u> | |
| 9850 | Diluted | <u>(\$ 0.40)</u> | | <u>\$ 0.66</u> | |

The accompanying notes constitute an integral part of the parent company only financial statements.

Chairman: Wen, Kow-Liang
Hsien-Ling

President: Chiou, San-Wen

Chief

Accountant:

Hung,

MEGAWIN Technology Co., Ltd.
Parent company only statements Statement of Changes in Equity
January 1~December 31, 2017 and 2016

In thousands of NTD

| Code | | Share Capital | | Capital surplus | Retained earnings | | | Other equity Exchange difference on translation of foreign operations. | Treasury stock | Total equity |
|------|---|--------------------------|-------------------|------------------|-------------------|-----------------|----------------------------|--|----------------------|-------------------|
| | | Shares (In thousands) | Amount | | Legal reserve | Special reserve | Unappropriated earnings | | | |
| A1 | Balance, January 1, 2016 | 39,300 | \$ 392,999 | \$ 40,339 | \$ 33,464 | \$ - | \$ 65,019 | \$ 755 | (\$ 12,203) | \$ 520,373 |
| | Appropriations of 2015 earnings | | | | | | | | | |
| B1 | Legal reserve | - | - | - | 3,981 | - | (3,981) | - | - | - |
| B5 | Cash dividend | - | - | - | - | - | (30,669) | - | - | (30,669) |
| D1 | Net profit for the year ended December 31, 2016 | - | - | - | - | - | 25,979 | - | - | 25,979 |
| D3 | Other comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | (1,535) | (932) | - | (2,467) |
| D5 | Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | 24,444 | (932) | - | 23,512 |
| N1 | Compensation cost of employee share options | - | - | 6,227 | - | - | - | - | - | 6,227 |
| N1 | Reissue of treasury stock to employees | - | - | 136 | - | - | - | - | 12,203 | 12,339 |
| Z1 | Balance, December 31, 2016 | 39,300 | 392,999 | 46,702 | 37,445 | - | 54,813 | (177) | - | 531,782 |
| | Appropriations of 2016 earnings | | | | | | | | | |
| B1 | Legal reserve | - | - | - | 2,598 | - | (2,598) | - | - | - |
| B3 | Special reserve | - | - | - | - | 177 | (177) | - | - | - |
| B5 | Cash dividend | - | - | - | - | - | (19,650) | - | - | (19,650) |
| D1 | Net loss for the year ended December 31, 2017 | - | - | - | - | - | (15,294) | - | - | (15,294) |
| D3 | Other comprehensive income for the year ended December 31, 2017 | - | - | - | - | - | 2,637 | (447) | - | 2,190 |
| D5 | Total comprehensive income for the year ended December 2017 | - | - | - | - | - | (12,657) | (447) | - | (13,104) |
| L1 | Buy-back of treasury stock | - | - | - | - | - | - | - | (15,782) | (15,782) |
| Z1 | Balance, December 31, 2017 | <u>39,300</u> | <u>\$ 392,999</u> | <u>\$ 46,702</u> | <u>\$ 40,043</u> | <u>\$ 177</u> | <u>\$ 19,731</u> | <u>(\$ 624)</u> | <u>(\$ 15,782)</u> | <u>\$ 483,246</u> |

The accompanying notes constitute an integral part of the parent company only financial statements.

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd.
Parent company only statements of cash flows
January 1~December 31, 2017 and 2016

In thousands of NTD

| Code | | 2017 | 2016 |
|--------|--|--------------|--------------|
| | Cash flows from operating activities | | |
| A10000 | Profit before income tax | (\$ 17,205) | \$ 30,280 |
| | Adjustments for: | | |
| A20100 | Depreciation expenses | 6,590 | 7,330 |
| A20200 | Amortization expenses | 3,354 | 3,271 |
| A20300 | Impairment loss recognized (reversal of impairment loss) | | |
| | on trade receivables | (437) | 643 |
| A20400 | Net (gain) loss on fair value change of financial liabilities at fair value through profit or loss | (461) | 461 |
| A20900 | Interest expense | 1 | 6 |
| A21200 | Interest income | (1,506) | (2,228) |
| A21900 | Compensation cost of share based payment | - | 6,227 |
| A22400 | Share of profits of subsidiaries | (246) | (100) |
| A22500 | Loss on disposal of property, plant and equipment | 2 | - |
| A23100 | Gain on disposal of investment | (2,700) | (1,000) |
| A23500 | Impairment loss on financial assets | - | 1,046 |
| A23700 | (Reversal of) write-down of inventories | 2,493 | (1,692) |
| A23900 | Unrealized sales income | 127 | - |
| A24100 | Net unrealized gain on foreign currency exchange | (192) | (85) |
| | Net changes in operating assets and liabilities | | |
| A31150 | Notes and accounts receivable | 39,686 | (21,400) |
| A31160 | Receivable from related parties | (3,052) | 120 |
| A31200 | Inventories | 16,996 | (15,003) |
| A31240 | Other current assets | 2,444 | (2,262) |
| A32150 | Accounts payable | (30,165) | 7,799 |
| A32180 | Other payables | (13,534) | (4,069) |
| A32230 | Other current liabilities | (285) | 123 |
| A32240 | Net defined benefit liabilities | (350) | (373) |
| A33000 | Cash generated from operations | 1,560 | 9,094 |
| A33100 | Interest received | 1,507 | 2,157 |
| A33300 | Interest paid | (1) | (6) |
| A33500 | Income tax paid | (570) | (11,309) |
| AAAA | Net cash (used in) provided by operating activities | <u>2,496</u> | <u>(64)</u> |

(Continued)

(Brought forward)

| Code | | 2017 | 2016 |
|--------|--|------------|------------|
| | Cash flows from investing activities | | |
| B00400 | Proceeds on sale of available-for-sale financial assets | \$ 2,700 | \$ 1,000 |
| B00600 | Purchase of debt investments with no active market | (9,900) | (33,935) |
| B02700 | Acquisitions of property, plant and equipment | (732) | (2,466) |
| B03800 | Decrease in refundable deposits | 31 | 13 |
| B04500 | Acquisitions of intangible assets | (839) | (2,587) |
| BBBB | Net cash used in investing activities | (8,740) | (37,975) |
| | Cash flows from financing activities | | |
| C00200 | Repayments of short-term borrowings | - | (30,000) |
| C03100 | Refund of guarantee deposits received | (720) | (91) |
| C04500 | Cash dividends | (19,650) | (30,669) |
| C04900 | Payments from transaction costs attributable to buy-back of ordinary | (15,782) | - |
| C05100 | Proceeds from reissue of treasury stock | - | 12,339 |
| CCCC | Net cash used in financing activities | (36,152) | (48,421) |
| EEEE | Net increase (decrease) in cash and cash equivalents | (42,396) | (86,460) |
| E00100 | Balance of cash and cash equivalents, beginning of period | 146,508 | 232,968 |
| E00200 | Balance of cash and cash equivalents, end of period | \$ 104,112 | \$ 146,508 |

The accompanying notes constitute an integral part of the parent company only financial statements.

Chairman: Wen, Kow-Liang

President: Chiou, San-Wen

Chief Accountant: Hung, Hsien-Ling

MEGAWIN Technology Co., Ltd.
Notes to individual financial statements
January 1~December 31, 2017 and 2016
Amounts in Thousands of New Taiwan Dollars,
unless specified otherwise

1. Corporate milestones

MEGAWIN Technology Co., Ltd. (hereinafter referred to as the "Company") was founded on June 21, 1999, primarily engaged in manufacturing and selling electronic instruments and spare parts thereof.

The Company was approved by TPEx to trade at the TPEx in January 2015.

The individual financial statements are expressed in the Company's functional currency, NTD.

2. Date and procedure for ratification of financial report

The individual financial statements were ratified and promulgated by the Board of Directors on February 13, 2018.

3. Application of new and amended standards and interpretations

- (1) The first-time application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC and SIC approved and effective upon promulgation by Financial Supervisory Commission (hereinafter referred to as "FSC").

Except the following notes, the application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs approved and effective upon promulgation by FSC will not cause material changes to the accounting policies of the Company:

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

By the Amendments, some accounting titles and requirements about disclosure of impairment on non-financial assets were added to be in line with the IFRSs approved and effective upon promulgation by FSC. Meanwhile, to be in line with implementation of the IFRSs domestically, the Company also emphasized certain requirements about recognition and measurement, and also added the disclosure of transactions with related parties and goodwill.

Per the amendments, where the board chairman or president of another company or institution is the same person as the board chairman or president of the Company, or is the spouse or a relative within the second degree or closer of the board chairman or president of the Company shall be deemed to have a substantive related party relationship, unless it can be established that no control or significant influence exists. Meanwhile, the amendments require that the information on the name and relationship of the related party who engages in transactions with the Company shall be disclosed, and where the transaction amount or balance of any single related party reaches 10 percent or more of the Company's total transaction amount or balance of that type of transaction, the name of each such related party shall be individually presented.

(2) The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized by FSC as applied as of 2018

| New/amended/modified standards and interpretations | Effective date released by IASB (Note 1) | | |
|--|--|---------|-----|
| "Improvement from 2014 to 2016" | Note 2 | | |
| Amendments to IFRS 2: "Classification and Measurement of Share-based Payment Transaction" | Monday, 2018 | January | 01, |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | Monday, 2018 | January | 01, |
| IFRS 9 "Financial instruments" | Monday, 2018 | January | 01, |
| Amendments to IFRS 9 and IFRS 7 "Compulsory Effective Date and Transitional Disclosure" | Monday, 2018 | January | 01, |
| IFRS 15 "Revenue from Contracts with Customers" | Monday, 2018 | January | 01, |
| Amendments to IFRS 15 "Clarifications to IFRS 15" | Monday, 2018 | January | 01, |
| Amendments to IAS 7 "Disclosure Initiative " | Sunday, 2017 | January | 01, |
| Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss" | Sunday, 2017 | January | 01, |
| Amendments to IAS 40 "Conversion of Investment Property" | Monday, 2018 | January | 01, |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | Monday, 2018 | January | 01, |

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: The amendments to IFRS 12 are retroactively applied as of January 1, 2017. The amendments to IAS 28 are retroactively applied as of January 1, 2018.

1. IFRS 9 "Financial instruments" and related amendments thereto

Classification, measurement and impairment of financial assets

Any financial assets applicable under IAS 39 "Financial Instruments: Recognition and Measurement" originally shall be measured based on amortized cost or fair value subsequently. The financial assets are classified in the following manner under IFRS9:

If the contractual cash flows for the bond instruments invested by the Company are solely for the purpose of payments of principal and interest on the principal amount outstanding, the instruments shall be classified and measured as following:

- (1) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows, the financial assets shall be measured at amortized cost. The interest income from such financial assets is stated in income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income is stated in income.
- (2) If the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and sell the financial assets, the financial assets shall be measured at fair value through other comprehensive income. The interest income from such financial assets is stated in income based on effective interest rate subsequently. The impairment thereof is evaluated continuously and the impairment income and exchange income are stated in income, while the other changes in fair value are stated in other comprehensive income. When derecognizing or reclassifying the financial asset, the accumulated changes in fair value of other comprehensive income shall be reclassified into income.

The financial assets invested by the Company refer to those other than said assets and are measured at fair value. The changes in fair value are stated in income. Notwithstanding, the Company may designate the investment other than equity investment held for trading to be measured at fair value through other comprehensive income at the time of initial recognition. Except the income from stock dividend on such financial assets that is stated in income, the other related gains and losses are stated in other comprehensive income. No impairment shall be evaluated subsequently. The accumulated changes in fair value of other comprehensive income need not to be reclassified into income either.

The Company evaluated that the classification and measurement of the following financial assets will vary upon the application of IFRS 9, based on the financial assets held by them on December 31, 2017 and the facts and circumstances available on the same day.

The investment in Investments in purchase of debt investments with no active market was stated as the bond investment measured at amortized cost. The cash flow by contract stated initially was used to pay the principal and the interest accruing thereon in whole. The business model aimed to collect the cash flow by contract and classify the same measured at amortized cost according to IFRS 9.

IFRS 9 adopted the "Expected Credit Loss Model" instead to recognize the impairment on financial assets. Allowance for loss shall be recognized for financial assets measured at amortized cost, bond investment at fair value through profit and loss other comprehensive income, receivable leasehold payment, the contractual assets generated from IFRS 15 "Revenue from Contracts with Customers" or contracts for commitment of loaning and financial guarantee. If the credit risk over financial assets is not increased significantly after the initial recognition, the allowance for credit loss shall be measured based on the expected credit loss for the following twelve (12) months. If the credit risk over financial assets is increased significantly after the initial recognition, which is not considered low credit risk, the allowance for credit loss shall be measured based on the expected credit loss for the residual period of

the duration of the contract. Notwithstanding, for the receivable accounts excluding important financial elements, the allowance for credit loss shall be measured based on the expected credit loss for the duration of the contract.

Meanwhile, for the financial assets on which credit impairment has been recognized at the time of initial recognition, the Company take the expected credit loss recognized initially to calculate the effective interest rate upon adjustment of credit, and the subsequent allowance for credit loss is measured based on the accumulated changes in subsequent expected credit loss.

The Company will apply the simplified policy toward receivable accounts, contractual assets and receivable lease payment, by measuring the allowance for loss based on the credit loss expected subject to the period. The Company evaluates whether the credit risk over bond investment and financial guarantee is increased significantly after the initial recognition to decide whether the allowance for loss should be measured based on the credit loss expected subject to twelve (12) months or the period. The Company expects that the measurement of credit loss under IFRS 9 will result in earlier recognition of the credit loss on financial assets.

The Company choose not to re-prepare the comparative information 2017 when applying the classification, measurement and impairment of financial assets defined under IFRS 9. The accumulated effects generated upon the first-time application thereof will be stated on the date of the first application. Meanwhile, the information about changes in classification and adjustment under IFRS 9 will be disclosed too.

The retroactive application of the classification, measurement and impairment of financial assets defined under IFRS 9 renders no effect to the assets, liabilities and equity on January 1, 2018.

2. IFRS 15 “Revenue from Contracts with Customers” and related amendments thereto

IFRS 15 governs the recognition of revenue from contracts with customers, which will replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

Upon application of IFRS 15, the Company states the revenue in the following manners:

- (1) Identify the contract(s) with a customer;
- (2) Identify the performance obligations in the contract;
- (3) Determine the transaction price;
- (4) Allocate the transaction price to the performance obligations in the contract; and
- (5) Recognize revenue when (or as) the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

The net result of recognized revenue, received and receivable accounts will be stated as the contract assets (liabilities). Before application of IFRS 15, the contract processed based on IAS 18 is stated as receivable account or decrease in unearned revenue when revenue is recognized.

The Company choose to apply IFRS 15 retroactively only with respect to the contract pending on January 1, 2018. The related accumulated effects will be adjusted as the retained earnings on the same day.

Meanwhile, the Company will disclose the difference from application of IFRS 15 if the existing accounting treatment policy is still adopted in 2018.

The effects on assets, liabilities and equity to be generated by the retroactive application of IFRS 15 on January 1, 2018 are stated as following:

| | Book value, December 31, 2017 | First-time application adjustment | Book value upon adjustment on January 1, 2018 |
|-------------------------|-------------------------------------|---|---|
| Advanced sales receipts | \$ 1,141 | (\$ 1,141) | \$ - |
| Contract liabilities | - | 1,141 | 1,141 |
| Effect of liabilities | <u>\$ 1,141</u> | <u>\$ -</u> | <u>\$ 1,141</u> |

3. Amendments to IAS 12 "Recognition of Deferred Income Tax Assets of Unrealized Loss"

The amendments to IAS 12 are intended to clarify that irrelevant with the investment in bond instruments expected to be measured based on fair value through sale or collection of contractual cash flows by the Company and no matter whether the assets incur unrealized loss or not, the temporary difference shall be decided by the price difference between the fair value of assets and taxation basis.

Meanwhile, unless the tax laws restrict the type of income deductible based on the deductible temporary difference and it is necessary to evaluate whether deferred income tax assets shall be stated based on the deductible temporary difference of the same type, all deductible temporary differences shall be evaluated altogether. When evaluating whether deferred income tax assets shall be stated, if there is sufficient evidence to signify that the Company is very likely to collect assets at the price higher than book value thereof, the collectible amount of assets to be considered in estimation of future taxable income will not be limited to the book value, and the estimation of taxable income shall exclude the effect generated by reversal of deductible temporary difference.

When evaluating deferred income tax assets, the Company initially estimated the future taxable income based on the collectible amount of assets stated as book value. Notwithstanding, the consolidated companies will retroactively apply said amended rules in 2018.

4. IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 requires that the initial recognition of foreign currency transactions generally records foreign currency transactions using the spot conversion rate to that functional currency on the date of the transaction. IFRIC 22 further details that where an enterprise has prepaid or received in advance the consideration prior to initial recognition of non-monetary assets or liabilities, the date of initial recognition of advance consideration shall be identified as the date of the transaction. Where the enterprise prepays or receives in advance the consideration in installment, it shall determine the separate date of transaction for each consideration prepaid or received in advance.

The Company will defer the application of IFRIC 22 as of January 1, 2018.

In addition to said effects, until the date when the individual financial statements were ratified and promulgated, the Company still continues to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

- (3) IFRSs promulgated by IASB but not yet recognized and became effect upon promulgation by FSC

| <u>New/amended/modified standards and interpretations</u> | <u>Effective date released by IASB (Note 1)</u> |
|--|---|
| "Improvement from 2015 to 2017" | Tuesday, January 01, 2019 |
| Amendments to IFRS 9 "Prepayment Features with Negative Compensation" | Tuesday, January 01, 2019 (Note 2) |
| Amendments to IFRS 10 and IAS 28 "Sale or Investment of Assets between Investors and Their Affiliates or Joint Ventures" | Pending |
| IFRS 16 "Lease" | Tuesday, January 01, 2019 (Note 3) |
| IFRS 17 "Insurance Contracts" | Friday, January 01, 2021 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | Tuesday, January 01, 2019 |
| Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" | Tuesday, January 01, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | Tuesday, January 01, 2019 |

Note 1: Unless otherwise specified, said new/amended/modified standards or interpretations shall become effective during the years or periods ended after said respective date.

Note 2: FSC approves that the Company may apply the amendments earlier on January 1, 2018.

Note 3: FSC announced on December 19, 2017 that the enterprises in Taiwan should apply IFRS 16 as of January 1, 2018.

1. IFRS 16 "Lease"

IFRS 16 governs the accounting for lease, which will be replaced by IAS 17 "Lease" and related interpretation.

When applying IFRS 16, where the Company acts as a lessor, the low-price lease and short-term lease may be treated as the operating lease similar to that under IAS 17, while the other leases shall be stated as assets and liabilities of the lease on the individual balance sheet. The individual comprehensive income statement shall express the depreciation expenses of the leased assets and interest expenses on the liabilities of lease calculated at valid interest rate. In the individual cash flow statement, the repayment of principal of the liabilities shall be stated as financing activity, and payment of interest shall be stated as operating activity.

The accounting treatment which holds the Company as the lessor is expected to render no material effect.

After IFRS 16 became effective, the Company may choose to retroactively apply the standard until the comparative period, or state the accumulated effects for the first-time application on the first-application date.

2 . IFRIC 23 "Uncertainty over Income Tax Treatments"

When uncertain over income tax treatments is verified under IFRIC 23, the Company shall hypothesize that the tax competent authority will obtain all related information and review the same. If it is judged that the income tax treatment is likely to be accepted by the tax competent authority, the Company shall adopt the treatment policy identical with that applicable to the income tax return by them when deciding the taxable income, taxable base, unused taxable loss, unused tax credit

and tax rate. If the tax competent authority is not likely to accept the income tax treatment as declared, the Company shall evaluate based on the probable amount or expected value (either one more likely to forecast the consequence resulting from the uncertainty). In the event of changes in facts or circumstances, the Company shall re-evaluate their judgment and estimation.

The Company may apply IFRIC 23 retroactively and re-prepare the information available in the comparative periods, or state the accumulated effects generated upon the first-time application on the date of the first-time application, without relying on hindsight.

In addition to said effects, until the date when the individual financial statements were ratified and promulgated, the Company still continues to evaluate the effect produced by the amendments to the other standards and interpretations to the financial status and performance. The related effects will be disclosed upon completion of the evaluation.

4. Summary of significant accounting policies as follows:

(1) Statement of Compliance

The individual financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs recognized by FSC.

(2) Basis for preparation

Except for financial instruments measured at fair value and the net defined benefit liability stated upon the present value of defined benefit obligation minus the fair value of assets under the Plan, the individual financial statement was prepared based on the historical cost.

The fair value measurement is categorized into Tier 1~Tier 3, subject to the observable degree and importance:

1. Tier 1 input value: The public quotation for the same financial assets or liabilities in an active market on the date of measurement (without adjustment).
2. Tier 2 input value: The observable input value other than Tier 1 quotation accessed from assets or liabilities directly (e.g. price) or indirectly (e.g. inferred from the price)
3. Tier 3 input value: The non-observable input value of assets or liabilities.

When preparing the individual financial statements, the Company treated the investment in subsidiaries under equity method. In order to have the current income, other comprehensive income and equity in the individual financial statements match the current income, other comprehensive income and equity attributed to the owners of parent in the Company's consolidated financial statements, several variances in accounting treatment under individual basis and consolidated basis resulted from adjustment the "investment under the equity method", "share of income of subsidiaries under the equity method" and related equity titles.

(3) Current and non-current assets and liabilities

Current assets include:

1. Assets primarily held for the purpose of trading;
2. Assets expected to be realized within twelve (12) months after the date of the balance sheet; and
3. Cash or cash equivalents (exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than twelve (12) months after the date of the balance sheet).

Current liabilities include:

1. Liabilities primarily held for the purpose of trading;
2. Liabilities expected to be repaid within twelve (12) months after the date of the balance sheet; and
3. Liabilities of which the Company does not have an unconditional right to defer settlement for at least twelve (12) months after the date of the balance sheet.

Any liabilities other than the current assets or liabilities shall be classified into non-current assets or liabilities.

(4) Foreign currency

The transactions stated in any currency (foreign currency) other than the Company's functional currency when the Company prepared the separate financial statement shall be re-stated in the functional currency converted based at the foreign exchange rate prevailing on the trading day.

The foreign monetary items shall be converted based on the closing exchange rate on each balance sheet date. The exchange difference derived

from settlement of monetary items or conversion of monetary items shall be stated as income in current year.

The non-monetary items at historical cost denominated in foreign currency shall be converted at the exchange rate on the date of transaction.

(5) Inventories

Inventories includes raw material, products, finished goods and work in process. The inventories shall be stated at the lower of cost and net realizable present value. When the cost and net realizable value are compared, inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value means the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The cost of inventory shall be calculated under the weighted average method.

(6) Investment in subsidiaries

The Company treated the investment in subsidiaries under equity method.

The subsidiary means the entity over which the Company has control.

Under the equity method, the initial investment is stated at cost. The book value after the date of acquisition shall be increased or decreased according to the share of income on subsidiaries and allocation of profit on subsidiaries vested in the Company. Meanwhile, the variances in other equity of subsidiaries vested in the Company were recognized subject to the shareholdings.

The unrealized gain or loss generated from downstream transactions by the Company shall be derecognized in the individual financial statement.

(7) Property, plant and equipment

Property, plant and equipment shall be stated at cost initially. The following evaluation is based on the cost less accumulated depreciation and accumulated impairment loss.

The Company provides depreciation for each important element of property, plant and equipment under the straight line method within the expected useful years. The Company shall review the useful years, residual value and depreciation method at least once at the end of each year, and treat the effect on changes in accounting estimation in a deferral manner.

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the property, plant and equipment are derecognized.

(8) Intangible Assets

1. Acquired separately

The intangible assets within limited useful years that are acquired separately shall be stated at cost initially. The following evaluation thereof shall be based on the cost less accumulated amortization and accumulated impairment. The intangible assets are amortized under straight line method within limit useful years, and the useful years, residual value and amortization method shall be reviewed at the end of each year. The effect on changes in accounting estimation shall be treated in a deferral manner. The intangible assets within uncertain useful years are stated at cost less accumulated impairment loss.

2. Domestically generated - R&D expenditure

Research expenditure is stated as expenses when it is incurred.

3. Derecognition

The price difference between net proceeds from disposition of assets and book value of the assets shall be stated as income, when the intangible assets are derecognized.

(9) Impairment on tangible and intangible assets

The Company shall evaluate on each balance sheet date whether there is any sign showing that tangible and intangible assets might suffer impairment. If there is, it is necessary to evaluate the collectible amount of the assets. It is impossible to evaluate the collectible amount of individual asset, the consolidated companies shall evaluate the collectible amount of the cash generation unit vested in the asset.

The collectible amount is the higher of fair value less selling cost and its use value. If the collectible amount of individual asset or cash generation unit is less than the book value of the asset, the book value shall be reduced to the collectible, and the impairment loss is stated as income.

When the impairment loss is reversed subsequently, the book value of the asset or cash generation unit shall be increased to the collectible amount after the amendments, provided that the increased book value shall be no

more than the book value of the asset or cash generation unit if no impairment loss was recognized in the previous year (less amortization or depreciation). The reversal of impairment loss is stated as income.

(10) Financial Instruments

Financial assets and financial liabilities are stated in the individual balance sheet when the Company became a part to the financial instrument contract.

When recognizing the financial assets or liabilities other than those measured at fair value through profit or loss initially, such assets or liabilities shall be evaluated based on fair value, plus the transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities. The transaction cost directly attributable to acquisition or issuance of financial assets or financial liabilities at fair value through profit or loss shall be stated as income immediately.

1. Financial assets

The customary transactions of financial assets shall be recognized and derecognized on the date of transaction.

(1) Types of measurement

The financial assets held by the Company are classified into loans and receivable accounts.

Loans and receivable accounts

The loans and receivable accounts (including cash and cash equivalents, bond investment without active market, and notes and accounts receivable) shall be evaluated based on amortized cost less impairment loss under effective interest method, unless the recognition of the interest on short-term accounts receivable is insignificant.

The cash equivalents include the bank time deposits and Repo that have high liquidity within three (3) months, and may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, intended to satisfy the short-term cash commitment.

(2) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each balance sheet date. If there is any objective evidence showing that the future cash flow of the financial assets is affected due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets shall be deemed impaired.

If there is not any objective evidence showing impairment on financial assets stated at amortized cost, such as accounts receivable and other accounts receivable, upon individual evaluation, the impairment shall be evaluated again collectively. The combined objective evidence for accounts receivable might include the Company's past experience in collection, the increase in overdue payment, and observable national or regional economic changes related to the defaulted receivable accounts.

The recognized impairment loss on the financial assets measured at amortized cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at initial interest rate.

Where the decrease in impairment, if any, when the financial assets are measured at amortized cost is objectively related to the events subsequent to recognition of impairment loss, the impairment loss recognized previously shall be reversed and stated as income directly or via adjustment of the allowance account, provided that the book value of such assets upon the reversal shall be no more than the cost after amortization if the impairment was not recognized.

Meanwhile, the fair value of equity investment in available-for-sale declining drastically or permanently until it is less than the cost of the equity investment also constitutes the objective evidence about of impairment.

The other objective evidence about impairment on financial assets include obvious financial problems confronting the issuer or debtor, breach (e.g., overdue or non-performance of interest or

principal payment), the debtor likely to wind up or proceed with other financial reorganizations, and the active market of financial assets extinguishing due to financial difficulty.

When the assets in available-for-sale are impaired, the accumulated gain and loss already stated as other comprehensive income will be reclassified as income.

The impairment loss on equity instruments in available-for-sale that was initially recognized as income shall not be reversed. The revaluation of fair value upon recognition of impairment loss, if any, shall be stated as other comprehensive income. If the revaluation of fair value of obligation instruments in available-for-sale is objectively related to the events subsequent to recognition of impairment loss, it shall be reversed and stated as income.

The impairment loss on financial assets shall be deducted from the book value of financial assets, provided that the book value of receivable accounts and other receivable accounts is adjusted through allowance accounts. If the receivable accounts and other receivable accounts are held uncollectible, they shall write off against the allowance accounts. The accounts initially written off but collected afterwards are credited into the allowance accounts. Unless the receivable accounts and other receivable accounts write off against the allowance accounts because they are held uncollectible, the changes in book value of allowance account shall be stated as income.

(3) Derecognition of financial assets

The Company will derecognize financial assets only when the contractual rights toward the cash flow of the assets are terminated or the financial assets are transferred and the risk and return over the ownership of the assets are transferred to another enterprise.

When derecognizing a single financial asset in whole, the price difference between the book value and collected or collectible total consideration plus the value recognized as other comprehensive income shall be recognized as income.

2. Equity instruments

The obligation and equity instruments issued by the Company are classified into financial liabilities or equities according to definitions of the financial liabilities and equity instruments referred to in an agreement.

The equity instruments issued by the Company shall be recognized based on the payment of acquisition less the directly issuing cost.

The recalled equity instruments of the Company shall be recognized and derecognized under equity titles. Purchase, sale, issuance or cancellation of the Company's equity instruments shall not be stated in income.

3. Financial liabilities

(1) Following measurement

All liabilities are measured under the effective interest method at amortized cost, except:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

The financial liabilities held for trading are measured at fair value. The gains or losses from re-measurement thereof are stated as income. For the approach to determine the fair value, please see Note 25.

(2) Derecognition of financial liabilities

When derecognizing a financial liability in whole, the price difference between the book value and paid consideration (including any transferred assets other than cash or liabilities) shall be recognized as income.

(11) Recognition of revenue

The revenue is stated at the fair value of received or receivable consideration less the sale returns, sales discount and similar discount. Sales return was provided based on the amount of future returned goods estimated according to past experience and other critical factors reasonably.

1. Sale of goods

The revenue from sale of goods shall be recognized upon satisfaction of the following conditions:

- (1) The Company had transferred major risk and return over the ownership of goods to the buyer;
- (2) The Company discontinued to participate in the management of, or to maintain effective control over, the sold goods;
- (3) The revenue may be measured reliably;
- (4) The economic effect related to transactions is very likely to flow into the Company;
- (5) The cost related to transactions, incurred or to be incurred, may be measured reliably.

The major risk and return over ownership of processed goods are not transferred at the time of processing on order, the processing will not be treated as sale of goods.

2. Interest income

The interest income from financial assets shall be stated when the economic effect is very likely to flow into the Company and the amount thereof may be measured reliably. The interest income shall be stated based on the outstanding capital and applicable valid interest rate on an accrual basis, by the lapse of time.

(12) Employee benefits

1. Short-term employee benefits

Liabilities related to short-term employee benefit shall be measured at non-discounted rate expected to be paid in exchange of employees' services.

2. Termination benefit

The pension under defined contribution plan shall be stated as current expenses during the employee service years.

The defined benefit cost under the defined benefit pension plan (including service cost, net interest and remeasurement) is actuated based on the Projected Unit Credit Method. The service cost (including the service cost in the current period) and net interest on net defined benefit liabilities are stated employee benefit expenses when they are incurred. The remeasurement (including actuated income and return on

planned assets less interest) is stated in other comprehensive income and included into the retained earnings when it is incurred, but shall not be reclassified into income subsequently.

The net defined benefit liabilities refer to the allocation shortfall of the defined benefit pension plan.

(13) Income tax

Income tax expenses mean the total of current income tax and deferred income tax.

1. Current income tax

The 10% additional income tax levied on unallocated earnings calculated according to the Income Tax Law is stated as the income tax expenses in the year of the resolution made by the shareholders' meeting.

The adjustment of payable income tax for previous years is stated as current income tax.

2. Deferred income tax

The deferred income tax is recognized based on the book value of assets and liabilities and temporary difference generated from the taxation basis for assets and liabilities. The deferred income tax liabilities are recognized based on the taxable temporary difference, while the deferred income tax assets are recognized when it is very likely to generate taxable income enough to deduct temporary difference and income tax credit generated from R&D expenditure.

The taxable temporary difference related to investee subsidiaries is stated as deferred income tax liabilities, unless the Company is able to control the timing of reversal of temporary difference, and the temporary difference is very unlikely to be reversed in the foreseeable future. The deferred income tax assets generated from deductible temporary difference related to such investment will be recognized only when they are very likely to generate taxable income enough to realize the gain on temporary difference and expected to be reversed in the foreseeable future.

The book value of deferred income tax assets shall be re-checked on each balance sheet date, and the book value of the assets which are

very unlikely to generate taxable income enough to recall all or some of the assets shall be decreased. Those which were not recognized as deferred income tax assets initially shall be re-checked on each balance sheet date, and the book value of the assets which are very likely to generate taxable income enough to recall all or some of the assets shall be increased.

The deferred income tax assets and liabilities are measured at the tax rate prevailing when the assets are expected to be realized or liabilities are expected to be repaid, and based on the statutory tax rate or tax rate substantially enacted on the balance sheet date. The evaluation of deferred income tax liabilities and assets is intended to reflect the taxation consequence arising from the book value of assets and liabilities expected by an enterprise to be collected or repaid on the balance sheet date.

3. Current and deferred income tax

Current and deferred income tax is stated in income, provided that the current and deferred income tax related to other comprehensive income is stated in other comprehensive income separately.

5. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

When adopting any accounting policies, the Company's management shall make the related judgment, estimation and hypotheses toward the related information that cannot be obtained from other source easily based on historical experience and other critical factors. The actual result may vary from the estimation.

The management will continue to review the estimation and basic hypotheses. If modification to estimation only renders effect during the current period, it shall be recognized in the current period. If the modification to accounting estimation renders effect during the current period and in the future, it shall be recognized during the current period and in the future.

Impairment on inventories

Net realizable value was the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. The estimates were based on the current market status and historical experience in selling similar

goods. The estimation result might vary depending on changes of the market condition.

6. Cash and cash equivalents

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Cash on hand and working capital | \$ 137 | \$ 262 |
| Demand deposits | 13,154 | 26,087 |
| Cash equivalents (Investment to expire within three (3) months initially) | | |
| Bank time deposits | 9,821 | 70,159 |
| Repo | <u>81,000</u> | <u>50,000</u> |
| | <u>\$104,112</u> | <u>\$146,508</u> |

7. Financial Asste and instruments at fair value through profit or loss

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| <u>Financial liabilities - current</u> | | |
| Held for trading | | |
| Derivative instruments (without designated hedge) | | |
| — Forward Foreign Exchange Contracts(1) | \$ - | \$ 461 |

- (1) The forward foreign exchange contracts which didn't apply the hedging accounting or hadn't yet been matured on the balance sheet date:

December 31, 2016

| | Currency type | Maturity | Contract amount (NT\$ thousands) |
|-------------------------------|-----------------------|--|----------------------------------|
| Forward foreign exchange sell | RMB exchanged for NTD | From January 16, 2017 to February 15, 2017 | RMB 7,947 |

The Company engaged in forward foreign exchange rate transactions primarily in order to hedge against the risk over foreign currency assets and liabilities arising from fluctuation in foreign exchange rate.

8. Financial assets in available-for-sale

| | December 31, 2017 | December 31, 2016 |
|------------------------|----------------------|----------------------|
| <u>Non-current</u> | | |
| Domestic investment | | |
| Unlisted/non-OTC stock | \$ - | \$ - |

9. Investments in Purchase of debt investments with no active market

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| <u>Current</u> | | |
| Bank time deposit to expire after more than three (3) months initially | \$123,800 | \$92,500 |
| Repo to expire after more than three (3) months initially | - | 21,400 |
| | <u>\$123,800</u> | <u>\$113,900</u> |

Until December 31, 2017 and 2016, the interest rate ranges of the bank time deposits and Repo to expire after more than three (3) months initially were 0.11%~0.795% and 0.35%~1.04%.

10. Notes and receivable accounts receivable

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|----------------------|----------------------|
| <u>Receivable notes</u> | | |
| Incurred for business | <u>\$ 3,379</u> | <u>\$ 3,512</u> |
| <u>Receivable accounts</u> | | |
| Receivable accounts | \$63,123 | \$102,694 |
| Less: allowance for bad debt | (2,623) | (3,060) |
| | 60,500 | 99,634 |
| Receivables from related parties | 3,024 | - |
| | <u>\$63,524</u> | <u>\$99,634</u> |

The loan period for sale of goods granted by the consolidated companies lasts 5~90 days. When deciding collectability of receivable accounts, the Company would consider any changes in credit quality of receivable accounts from the date of initial loan until the balance sheet date. According to the historical experience, there were no receivable accounts overdue for more than 360 days. Meanwhile, based on the conservative and stable policy, the Company provided 100% allowance for bad debt for receivable accounts overdue for more than 360 days, and provided the allowance for bad debt for

receivable accounts overdue for no more than 360 days, according to the trading counterpart's record and analysis on its financial position.

The age of account for receivable accounts is analyzed as following:

| | December 31, 2017 | December 31, 2016 |
|------------|----------------------|----------------------|
| 0~30 days | \$ 31,641 | \$102,694 |
| 31~60 days | 34,506 | - |
| | <u>\$66,147</u> | <u>\$102,694</u> |

Said age of account analysis was conducted based on the post date.

The Company had no overdue but unimpaired or individually impaired receivable accounts on the balance sheet date

The information about changes in allowance for bad debt for receivable accounts:

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Balance, beginning | \$ 3,060 | \$ 2,417 |
| Add: Expenses for bad debt provided this year | (437) | 643 |
| Balance, ending | <u>\$ 2,623</u> | <u>\$ 3,060</u> |

11. Inventories

| | December 31, 2017 | December 31, 2016 |
|-----------------|----------------------|----------------------|
| Finished goods | \$ 33,373 | \$ 40,332 |
| Work in process | 13,450 | 24,014 |
| Raw materials | 3,685 | 5,651 |
| | <u>\$ 50,508</u> | <u>\$ 69,997</u> |

The cost of sold goods related to inventory in 2017 and 2016 were NT\$296,534 thousands and NT\$387,346 thousands.

The cost of sold goods related to inventory in 2017 included the loss from price decline of inventory, NT\$2,493 thousands. The cost of sold goods related to inventory in 2016 included the price recovery from net realizable value of inventory, NT\$6,007 thousands, and the loss from scrapping of inventory, NT\$4,315 thousands. The price recovery from net realizable value of inventory primarily resulted from the increase in selling price of the inventory in specific markets.

12. Investments accounted for using under equity method

| | December 31, 2017 | December 31, 2016 |
|-----------------------------------|---|------------------------------|
| <u>Investment in subsidiaries</u> | | |
| Unlisted (non-OTC) companies | | |
| Regent Pacific Management Ltd. | <u>\$17,601</u> | <u>\$17,929</u> |
| | <u>Percentage of ownership and voting right</u> | |
| <u>Subsidiary</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
| Regent Pacific Management Ltd. | 100% | 100% |

For the statement of investment in subsidiaries indirectly held by the Company, please see Schedule 2.

The income of subsidiaries under equity method and share of other comprehensive income in 2017 and 2016 were recognized based on the financial statement of the various subsidiaries covering the same period as audited by the external auditor.

13. Property, plant and equipment

| | Own land | Building | R&D equipment | Furniture & fixture | Other equipment | Leasehold improvement | Total |
|----------------------------------|-----------------|------------------|-----------------|---------------------|-----------------|-----------------------|------------------|
| <u>Cost</u> | | | | | | | |
| Balance, January 1, 2016 | \$45,279 | \$136,298 | \$ 2,462 | \$10,347 | \$ 7,755 | \$ 700 | \$202,841 |
| Addition | - | - | 574 | 1,492 | 400 | - | 2,466 |
| Balance, December 31, 2016 | <u>\$45,279</u> | <u>\$136,298</u> | <u>\$ 3,036</u> | <u>\$11,839</u> | <u>\$ 8,155</u> | <u>\$ 700</u> | <u>\$205,307</u> |
| <u>Accumulated depreciations</u> | | | | | | | |
| Balance, January 1, 2016 | \$ - | \$ 6,691 | \$ 2,113 | \$ 5,137 | \$ 7,088 | \$ 290 | \$21,319 |
| Depreciation expenses | - | 3,760 | 269 | 2,173 | 778 | 350 | 7,330 |
| Balance, December 31, 2016 | <u>\$ -</u> | <u>\$10,451</u> | <u>\$ 2,382</u> | <u>\$ 7,310</u> | <u>\$ 7,866</u> | <u>\$ 640</u> | <u>\$28,649</u> |
| Net, December 31, 2016 | <u>\$45,279</u> | <u>\$125,847</u> | <u>\$ 654</u> | <u>\$ 4,529</u> | <u>\$ 289</u> | <u>\$ 60</u> | <u>\$176,658</u> |
| <u>Cost</u> | | | | | | | |
| Balance, January 1, 2017 | \$45,279 | \$136,298 | \$ 3,036 | \$11,839 | \$ 8,155 | \$ 700 | \$205,307 |
| Addition | - | - | 110 | 412 | 210 | - | 732 |
| Disposition | - | - | - | (4) | - | - | (4) |
| Balance, December 31, 2017 | <u>\$45,279</u> | <u>\$136,298</u> | <u>\$ 3,146</u> | <u>\$12,247</u> | <u>\$ 8,365</u> | <u>\$ 700</u> | <u>\$206,035</u> |

(Continued)

(Brought forward)

| | | | | | | | |
|----------------------------------|-----------------|------------------|-----------------|-----------------|-----------------|---------------|------------------|
| <u>Accumulated depreciations</u> | | | | | | | |
| Balance, January 1, 2017 | \$ - | \$10,451 | \$ 2,382 | \$ 7,310 | \$ 7,866 | \$ 640 | \$28,649 |
| Depreciation expenses | - | 3,760 | 343 | 2,022 | 405 | 60 | 6,590 |
| Disposition | - | - | - | (2) | - | - | (2) |
| Balance, December 31, 2017 | <u>\$ -</u> | <u>\$14,211</u> | <u>\$ 2,725</u> | <u>\$ 9,330</u> | <u>\$ 8,271</u> | <u>\$ 700</u> | <u>\$35,237</u> |
| Net, December 31, 2017 | <u>\$45,279</u> | <u>\$122,087</u> | <u>\$ 421</u> | <u>\$ 2,917</u> | <u>\$ 94</u> | <u>\$ -</u> | <u>\$170,798</u> |

The depreciation expenses were provided under straight-line basis over the useful years:

| | |
|-----------------------|------------|
| Building | 8~50 years |
| R&D equipment | 3 years |
| Furniture & fixture | 1~5 years |
| Other equipment | 1~2 years |
| Leasehold improvement | 2 years |

For the property, plant and equipment pledged to secure the loan, please see Note 27.

14. Intangible Assets

| | Computer software | Technology license | Total |
|---------------------------------|--------------------|--------------------|--------------------|
| <u>Cost</u> | | | |
| Balance, January 1, 2016 | \$ 24,261 | \$ 27,123 | \$ 51,384 |
| Addition | <u>865</u> | <u>1,722</u> | <u>2,587</u> |
| Balance, December 31, 2016 | <u>\$ 25,126</u> | <u>\$ 28,845</u> | <u>\$ 53,971</u> |
| <u>Accumulated amortization</u> | | | |
| Balance, January 1, 2016 | (\$ 22,473) | (\$ 3,466) | (\$ 25,939) |
| Amortization expenses | <u>(984)</u> | <u>(2,287)</u> | <u>(3,271)</u> |
| Balance, December 31, 2016 | <u>(\$ 23,457)</u> | <u>(\$ 5,753)</u> | <u>(\$ 29,210)</u> |
| Net, December 31, 2016 | <u>\$ 1,669</u> | <u>\$ 23,092</u> | <u>\$ 24,761</u> |

(Continued)

(Brought forward)

| | Computer software | Technology license | Total |
|---------------------------------|----------------------|-----------------------|--------------------|
| <u>Cost</u> | | | |
| Balance, January 1, 2017 | \$ 25,126 | \$ 28,845 | \$ 53,971 |
| Addition | <u>839</u> | <u>-</u> | <u>839</u> |
| Balance, December 31, 2017 | <u>\$ 25,965</u> | <u>\$ 28,845</u> | <u>\$ 54,810</u> |
| <u>Accumulated amortization</u> | | | |
| Balance, January 1, 2017 | (\$ 23,457) | (\$ 5,753) | (\$ 29,210) |
| Amortization expenses | <u>(972)</u> | <u>(2,382)</u> | <u>(3,354)</u> |
| Balance, December 31, 2017 | <u>(\$ 24,429)</u> | <u>(\$ 8,135)</u> | <u>(\$ 32,564)</u> |
| Net, December 31, 2017 | <u>\$ 1,536</u> | <u>\$ 20,710</u> | <u>\$ 22,246</u> |

The amortization expenses were provided under straight-line basis over the useful years:

| | |
|--------------------|------------|
| Computer software | 1~5 years |
| Technology license | 3~15 years |

15. Other current assets

| | December 31, 2017 | December 31, 2016 |
|-------------------------------|----------------------|----------------------|
| Prepayment | \$ 2,286 | \$ 3,661 |
| Receivable and refundable tax | 1,718 | 2,694 |
| Other receivables | 371 | 449 |
| Others | <u>138</u> | <u>154</u> |
| | <u>\$ 4,513</u> | <u>\$ 6,958</u> |

16. Accounts Payable

| | December 31, 2017 | December 31, 2016 |
|-------------------------|----------------------|----------------------|
| <u>Payable accounts</u> | | |
| Incurred for business | <u>\$34,718</u> | <u>\$65,097</u> |

The credit period applicable to the Company's purchase of goods was OA 30~60 days. The Company had defined the financial risk management policy to ensure that all payable accounts are repaid within the credit period agreed previously.

17. Other liabilities

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| <u>Current</u> | | |
| Other payables | | |
| Payable bonus and salary | \$ 14,845 | \$ 19,753 |
| Payable remuneration to employees | - | 4,542 |
| Payable remuneration to directors/supervisors | - | 1,514 |
| Payable labor service fees | 2,613 | 3,389 |
| Payable loss on scrapping and slow-moving of wafer | 581 | 1,905 |
| Payable trade promotion fees | 1,039 | 1,144 |
| Other payable expenses | <u>14,733</u> | <u>15,122</u> |
| | <u>\$33,811</u> | <u>\$47,369</u> |
| Other liabilities | | |
| Advance receipts | \$ 1,141 | \$ 1,411 |
| Temporary receipts | 727 | 727 |
| Receipts under custody | <u>290</u> | <u>305</u> |
| | <u>\$ 2,158</u> | <u>\$ 2,443</u> |

18. Termination benefit plan

(1) Defined contribution plan

The Company applies the pension system under the "Labor Pension Act", which refers to the defined contribution plan managed by the Government. The pension fund equivalent to 6% of each employee's monthly salary will be contributed to the exclusive personal account maintained at Bureau of Labor Insurance on a monthly basis.

(2) Defined benefit plan

The Company applies the pension system under the "Labor Standard Law" which refers to the defined benefit pension plan managed by the Government. The employee pension is paid according to the employee's seniority and average salary of the six (6) months prior to his/her retirement as approved. The Company contributes 2% of the total salaries of the employees and have the same deposited into the special pension fund account maintained at Bank of Taiwan via the Employee Pension Fund Reserve Supervisory Committee in the name of the Committee, on a monthly basis. If the balance in said account is estimated to be insufficient for the

payment of pension to workers who meet the retirement conditions in next year, the price difference shall be allocated in full by the end of March of the next year. The special pension fund account is managed by Bureau of Labor Funds, Ministry of Labor on a commission basis. The Company has no right to affect the investment management strategies.

The defined benefit plan amounts included into the individual balance sheet are listed as following:

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Present value of defined benefit obligation | \$ 13,159 | \$ 15,627 |
| Fair value of assets under the Plan | (11,255) | (10,736) |
| Net defined benefit liabilities | <u>\$ 1,904</u> | <u>\$ 4,891</u> |

Changes in net defined benefit liabilities:

| | Present value of defined benefit obligation | Fair value of assets under the Plan | Net defined benefit liabilities |
|--|--|---|---------------------------------------|
| Balance, January 1, 2016 | <u>\$ 13,966</u> | (\$ 10,237) | <u>\$ 3,729</u> |
| Interests expenses (revenue) | <u>209</u> | (<u>157</u>) | <u>52</u> |
| Stated into income | <u>209</u> | (<u>157</u>) | <u>52</u> |
| Remeasurement | | | |
| Return on assets under the Plan (exclusive of the amount included into net interest) | | | |
| | - | 83 | 83 |
| Actuarial losses - changes in hypothesis about demographics | 699 | - | 699 |
| Actuarial losses — changes in hypothesis about finance | 401 | - | 401 |

(Continued)

(Brought forward)

| | | | |
|---|------------------|--------------------|-----------------|
| Actuarial losses - experience adjustment | <u>352</u> | <u>-</u> | <u>352</u> |
| Stated into other comprehensive income | <u>1,452</u> | <u>83</u> | <u>1,535</u> |
| Contributed by employer | <u>-</u> | <u>(425)</u> | <u>(425)</u> |
| Balance, December 31, 2016 | <u>15,627</u> | <u>(10,736)</u> | <u>4,891</u> |
| Interests expenses (revenue) | <u>196</u> | <u>(137)</u> | <u>59</u> |
| Stated into income | <u>196</u> | <u>(137)</u> | <u>59</u> |
| Remeasurement Return on assets under the Plan (exclusive of the amount included into net interest) | - | 27 | 27 |
| Actuarial losses - changes in hypothesis about demographics | 404 | - | 404 |
| Actuarial losses — changes in hypothesis about finance | 151 | - | 151 |
| Actuarial gains - experience adjustment | <u>(3,219)</u> | <u>-</u> | <u>(3,219)</u> |
| Stated into other comprehensive income | <u>(2,664)</u> | <u>27</u> | <u>(2,637)</u> |
| Contributed by employer | <u>-</u> | <u>(409)</u> | <u>(409)</u> |
| Balance, December 31, 2017 | <u>\$ 13,159</u> | <u>(\$ 11,255)</u> | <u>\$ 1,904</u> |

The Company is exposed to the following risk due to the pension system under "Labor Standard Law":

1. Investment risk: The Bureau of Labor Funds, Ministry of Labor invests the labor pension fund, via proprietary trading and discretionary investment service, in domestic (foreign) equity securities and bond securities and bank deposits, provided that the amount allocated from

the Company's assets under the Plan shall be no less than the income calculated at the interest rate applicable to the local bank's two-year time deposits.

2. Interest rate risk: The declination of interest rate on government bonds will result in increase in the present value of defined benefit obligation, but also increase in the return on the obligation investment of assets under the Plan relatively. They both will offset against the effect of net defined benefit liabilities in part.
3. Salary risk: The present value of defined benefit obligation is calculated based on the future salary of the members under the Plan. Therefore, the increase in salary of the members under the Plan will result in increase in the present value of defined benefit obligation.

The present value of defined benefit obligation is actuated by a qualified actuary. The important hypotheses applied on the date of measurement are stated as following:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|----------------------|----------------------|
| Discount rate | 1.125% | 1.250% |
| Expected rate of increase in salary | 3.000% | 3.000% |

If the important actuation hypotheses are changed reasonably, while the other hypotheses remain unchanged, the increase (decrease) in the present value of defined benefit obligation is stated as following:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------------|----------------------|----------------------|
| Discount rate | | |
| Increase by 0.25% | (\$ 311) | (\$ 421) |
| Decrease by 0.25% | <u>\$ 323</u> | <u>\$ 437</u> |
| Expected rate of increase in salary | | |
| Increase by 0.25% | <u>\$ 312</u> | <u>\$ 423</u> |
| Decrease by 0.25% | (<u>\$ 302</u>) | (<u>\$ 409</u>) |

Given that the hypotheses might be related to each other, it is not likely that one single hypothesis would vary independently, said analysis of sensitivity might be unable to reflect the actual changes in the present value of defined benefit obligation.

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Amount expected to be contributed within one year | <u>\$ 348</u> | <u>\$ 448</u> |
| Average maturity of defined benefit obligation | 9.6 years | 11 years |

19. Equity

(1) Capital Stock

1. Common stock

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Authorized quantity (thousand shares) | <u>60,000</u> | <u>60,000</u> |
| Authorized capital stock | <u>\$600,000</u> | <u>\$600,000</u> |
| Quantity of issued and paid-up shares (thousand shares) | <u>39,300</u> | <u>39,300</u> |
| Issued capital stock | <u>\$392,999</u> | <u>\$392,999</u> |

The par value of issued common stock is NT\$10 per share. Each share is entitled to one voting right and right to collect stock dividend.

The capital stock retained for issuance of employee stock options in the authorized capital stock totaled 5,000 thousands shares.

The information about employee stock options given by the Company due to transfer of treasury stock in 2016 is stated as following:

| | 2016 | |
|--|----------------|--|
| Employee stock options | Unit | Weighted average Exercise price (NT\$) |
| Outstanding, beginning | - | \$ - |
| Given this year | 964 | 12.8 |
| Executed this year | (<u>964</u>) | 12.8 |
| Outstanding, ending | <u>-</u> | |
| Executable at the end of the year | <u>-</u> | |
| Weighted average fair value of stock options granted this year | <u>\$ 6.46</u> | |

The remuneration cost recognized based on the employee stock options due to transfer of treasury stock in 2016 was NT\$6,227 thousand. The treasury stock was transferred to employees in April 2016.

(1) Capital surplus

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| <u>To cover loss, distribute cash dividend or allocate capital stock (1)</u> | | |
| Stock issued in excess of par value | \$37,304 | \$37,304 |
| Treasury stock | 7,675 | 7,675 |
| Price difference between the proceeds from acquisition of subsidiaries' equity and book value of the equity. | 1 | 1 |
| <u>Not used for any other purposes</u> | | |
| Employee stock options | <u>1,722</u> | <u>1,722</u> |
| | <u>\$46,702</u> | <u>\$46,702</u> |

1. Such capital surplus may be used to cover losses or allocate cash dividend or be transferred to capital stock when the Company suffers no loss, provided that such capital surplus transferred to capital stock shall be within a certain ratio of the paid-in capital stock per year.

(3) Retained earnings and dividend policy

According to the amendments to Company Law in May 2015, the stock dividend and bonus shall be allocated to shareholders, while employees are excluded from the subjects to whom earnings should be allocated. The Company has resolved to pass the earnings allocation policy under the amended Articles of Incorporation at the general shareholders' meeting on June 7, 2016, and also defined the policy for allocation of remuneration to employees and directors/supervisors in the Articles of Incorporation.

According to the earnings allocation policy under the amended Articles of Incorporation, if the Company has a profit at the year's final accounting, it shall be allocated in the following order:

1. To pay tax;

2. To offset against loss;
3. To allocate 10% as the legal reserve, unless the accumulated legal reserve amounts to the Company's paid-in capital;
4. To set aside or reverse the special reserve pursuant to the Securities and Exchange Act;
5. The balance refers to the shareholders' bonus, which will be allocated on a pro rata basis subject to the total shareholdings or retained upon resolution of the shareholders' meeting.

For the policies for allocation of remuneration to employees and directors/supervisors defined in the Articles of Incorporation before and after the amendments, please see Note 21(6) Remuneration to employees and directors/supervisors.

According to the Company's Articles of Incorporation, under the environment in which the competition becomes intensive increasingly, the Company adopts the dividend equalization policy in order to pursue sustainable operation, by taking the long-term financial planning and funding need into consideration. Notwithstanding, the shareholders' meeting may adjust the policy subject to the earnings gained in the year. The payment ratio of cash dividend shall be no less than 10% of the total stock dividend allocated from earnings for then year.

The Company shall contribute the legal reserve until it is equivalent to the paid-in capital. The legal reserve may be used to cover loss. When the Company suffers no loss, cash may be allocated from the legal reserve, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

The Company provided and reversed special reserve pursuant to the FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010012865, FSC's official letter under Ching-Kuan-Cheng-Fa-Tzu No. 1010047490 and "Q&A for Provision of Special Reserve upon Adoption of IFRSs".

When unallocated earnings are allocated, any shareholders other than those residing within the territories of the R.O.C. may receive the shareholders' deductible tax at the tax credit rate prevailing on the date of allocation of stock dividend.

The Company held the general shareholders' meeting on May 23, 2017 and June 7, 2016, resolving to pass the motions for allocation of earnings 2016 and 2015:

| | Motion for allocation of earnings | | EPS (NT\$) | |
|-----------------|-----------------------------------|----------|------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| Legal reserve | \$ 2,598 | \$ 3,981 | \$ - | \$ - |
| Special reserve | 177 | - | - | - |
| Cash dividend | 19,650 | 30,669 | 0.513 | 0.80 |

Before the reporting date, the Company's board of directors has not yet resolved the motion for allocation of earnings 2017.

The motion for allocation of earnings 2017 is still pending resolution by the general shareholders' meeting to be called on May 23, 2018.

(4) Special reserve

| | 2017 | 2016 |
|--------------------------------------|---------------|-------------|
| Balance, beginning | \$ - | \$ - |
| Provision of special reserve | | |
| Provision of other equity deductions | 177 | - |
| Balance, ending | <u>\$ 177</u> | <u>\$ -</u> |

(5) Treasury stock

| Cause of collection | Transfer shares to employees (Thousand shares) |
|---------------------------------------|--|
| Quantity of shares, January 1, 2016 | 964 |
| Decrease this year | (964) |
| Quantity of shares, December 31, 2016 | <u>-</u> |
| Quantity of shares, January 1, 2017 | - |
| Increase in current year | <u>1,000</u> |
| Quantity of shares, December 31, 2017 | <u>1,000</u> |

According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged, or entitled to the right to allocate stock dividends and vote.

20. Revenue

| | | | |
|-----|--|------------------|-------------------|
| | | 2017 | 2016 |
| | Revenue from sale of goods | <u>\$436,688</u> | <u>\$600,775</u> |
| 21. | <u>Net profit of continued operations</u> | | |
| | Net profit of continued operations consists of the following elements: | | |
| (1) | Other income | | |
| | | 2017 | 2016 |
| | Interest income | \$ 1,506 | \$ 2,228 |
| | Others | <u>6,746</u> | <u>2,264</u> |
| | | <u>\$ 8,252</u> | <u>\$ 4,492</u> |
| (2) | Other gains and losses | | |
| | | 2017 | 2016 |
| | Net foreign currency exchange income | (\$ 4,205) | (\$ 5,372) |
| | Gain (loss) from financial liabilities held for trading | 461 | (239) |
| | Gain on disposal of investment | 2,700 | 1,000 |
| | Impairment loss on financial assets | - | (1,046) |
| | Loss on disposal of property, plant and equipment | (2) | - |
| | Others | <u>250</u> | <u>319</u> |
| | | <u>(\$ 796)</u> | <u>(\$ 5,338)</u> |
| (3) | Interest expenses | | |
| | | 2017 | 2016 |
| | Interest on bank loans | <u>\$ 1</u> | <u>\$ 6</u> |
| (4) | Depreciation and amortization | | |
| | | 2017 | 2016 |
| | Property, plant and equipment | \$ 6,590 | \$ 7,330 |
| | Intangible Assets | <u>3,354</u> | <u>3,271</u> |
| | Total | <u>\$ 9,944</u> | <u>\$10,601</u> |
| | Depreciation expenses summarized by function | | |
| | Operating cost | \$ 356 | \$ 629 |
| | Operating expenses | <u>6,234</u> | <u>6,701</u> |
| | | <u>\$ 6,590</u> | <u>\$ 7,330</u> |

(Continued)

(Brought forward)

| | | |
|---|-----------------|------------------|
| Amortization expenses summarized by function | | |
| Marketing | \$ 22 | \$ - |
| General and administrative | 824 | 898 |
| R&D expenditures | <u>2,508</u> | <u>2,373</u> |
| | <u>\$ 3,354</u> | <u>\$ 3,271</u> |
| (5) Employee benefit expenses | | |
| | <u>2017</u> | <u>2016</u> |
| Short-term employee benefits | <u>\$92,107</u> | <u>\$98,483</u> |
| Termination benefit | | |
| Defined contribution plan | 4,314 | 4,226 |
| Defined benefit plan (Note 18) | <u>-</u> | <u>-</u> |
| | <u>4,314</u> | <u>4,226</u> |
| Share-based payment (Note 19) | | |
| Settlement of equity | <u>-</u> | <u>6,227</u> |
| Total employee benefit expenses | <u>\$96,421</u> | <u>\$108,936</u> |
| Summarized by function | | |
| Operating cost | \$ - | \$ - |
| Operating expenses | <u>96,421</u> | <u>108,936</u> |
| | <u>\$96,421</u> | <u>\$108,936</u> |

(6) Remuneration to directors/supervisors

The Company allocated 12%~15% and 3%~5% of the income before tax before deduction of remuneration to employees and directors/supervisors as the remuneration to employees and directors/supervisors. Because the Company suffered loss in 2017, no remuneration to employees and directors/supervisors were stated. The remuneration to employees and directors/supervisors in 2016 was allocated subject to the following resolution made by the directors' meetings on February 14, 2017:

Estimated percentage

| | |
|---------------------------------------|-------------|
| | <u>2016</u> |
| Remuneration to employees | 12.5% |
| Remuneration to directors/supervisors | 4.2% |

Amount

| | | |
|---------------------------------------|-------------|-----------------------|
| | <u>2016</u> | |
| | <u>Cash</u> | <u>Stock dividend</u> |
| Remuneration to employees | \$ 4,542 | \$ - |
| Remuneration to directors/supervisors | 1,514 | - |

In the case of variation in the amount on the date of approval and release of the individual financial statements, the variation shall be treated as the change in accounting estimation and stated in next year.

There was no variance between the remuneration to employees and directors/supervisors allocated actually in 2016 and that stated in the individual financial statements 2016.

The remuneration to employees and directors/supervisors allocated upon resolution of the directors' meeting on March 15, 2016, and that recognized in the individual financial statements are stated as following:

| | | |
|--|----------------------------------|--|
| | <u>2015</u> | |
| | <u>Remuneration to employees</u> | <u>Remuneration to directors/supervisors</u> |
| Amount to be allocated upon resolution by the directors' meeting | <u>\$ 7,568</u> | <u>\$ 2,523</u> |
| Amounts recognized in the annual financial statements | <u>\$ 9,460</u> | <u>\$ 3,153</u> |

Said variance was adjusted as income 2016.

For the information about remuneration to employees and directors/supervisors resolved by the Company's directors' meetings in 2018 and 2017, please visit the "MOPS" website of the TWSE.

22. Income tax of continued operations

(1) The income tax expenses stated in income consist of the following elements:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|---------------------|-----------------|
| Current income tax | | |
| Generated this year | \$ - | \$ 4,328 |
| Levied on | | |
| Unappropriated | | |
| earnings | 355 | 516 |
| Adjustment in previous | | |
| years | (<u>2,266</u>) | (<u>543</u>) |
| | (<u>1,911</u>) | 4,301 |
| Deferred income tax | | |
| Generated this year | <u>-</u> | <u>-</u> |
| Income tax (gain) expenses | | |
| stated in income | (<u>\$ 1,911</u>) | <u>\$ 4,301</u> |

The accounting income and income tax expenses are adjusted as following:

| | <u>2017</u> | <u>2016</u> |
|------------------------------|----------------------|------------------|
| Net profit before tax of | | |
| continued operations | (<u>\$ 17,205</u>) | <u>\$ 30,280</u> |
| Income tax for which the net | | |
| profit before tax is | | |
| calculated at statutory tax | | |
| rate | \$ - | \$ 5,148 |
| Levied on Unappropriated | | |
| earnings | 355 | 516 |
| Unrecognized deductible | | |
| temporary difference | - | (820) |
| Current adjustment of | | |
| current income tax | | |
| expenses of previous | | |
| years | (<u>2,266</u>) | (<u>543</u>) |
| Income tax (gain) expenses | | |
| stated in income | (<u>\$ 1,911</u>) | <u>\$ 4,301</u> |

The Company applies the tax rate of 17%.

According to the R.O.C. Income Tax Law amended and promulgated by the Presidential Order in February 2018, the profit-making business income tax rate shall be adjusted from 17% to 20% as of 2018. Meanwhile, the tax rate applicable to unallocated earnings 2018 shall be adjusted from 10% to 5%.

(2) Current income tax liabilities

| | December 31, 2017 | December 31, 2016 |
|--------------------------------|----------------------|----------------------|
| Current income tax liabilities | | |
| Payable income tax | <u>\$ 1,234</u> | <u>\$ 3,715</u> |

(3) Items not recognized as deferred income tax assets

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Deductible temporary difference | | |
| Loss credit | \$ 2,600 | \$ - |
| Loss from inventory price decline and obsolete and slow-moving inventories | 2,531 | 2,107 |
| Income of subsidiary under equity method | 2,196 | 2,162 |
| Others | <u>2,015</u> | <u>2,632</u> |
| | <u>\$ 9,342</u> | <u>\$ 6,901</u> |

(4) Information about two-in-one tax policy:

| | December 31, 2017 | December 31, 2016 |
|---|-------------------------|----------------------|
| Unappropriated earnings After 1998 | <u>\$19,731</u> | <u>\$54,813</u> |
| Balance of shareholders' deductible tax account | <u>\$ 5,118</u> | <u>\$ 9,372</u> |
| | <u>2016 (Projected)</u> | <u>2016</u> |
| Tax credit ratio applicable to allocation of earnings | Note: | 15.80% |

Note: Considering that the amended Income Tax Law promulgated in February 2018 abolished the two-in-one tax policy, the Company expects that said tax credit ratio is not applicable to the allocation of earnings 2018.

(5) Authorization of income tax

The income tax returns of the Company until 2015 have been authorized by the tax collection authority.

23. EPS

The earnings and number of the weighted average shares of outstanding common stock used to calculate the EPS are stated as following:

Net profit (loss) for the period

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|------------------|
| Net profit (loss) for the period | (<u>\$ 15,294</u>) | <u>\$ 25,979</u> |
| Net profit (loss) used to calculate basic EPS | (<u>15,294</u>) | <u>25,979</u> |
| Net profit (loss) used to calculate diluted EPS | (<u>\$ 15,294</u>) | <u>\$ 25,979</u> |

Quantity of shares

Unit: Thousand shares

| | <u>2017</u> | <u>2016</u> |
|---|---------------|---------------|
| Quantity of the weighted average shares of common stock used to calculate the EPS | 38,543 | 39,059 |
| Effect of dilutive potential common stock: | | |
| Remuneration to employees | - | <u>436</u> |
| Quantity of the weighted average shares of common stock used to calculate the EPS | <u>38,543</u> | <u>39,495</u> |

If the Company may choose to grant remuneration to employees in the form of stock or in cash, when calculating the diluted EPS, it shall hypothesize that remuneration to employees will be granted in the form of stock, and include the weighted average quantity of outstanding shares when the potential common stock is dilutive, so as to calculate the EPS. When calculating diluted EPS before resolving the quantity of shares granted as remuneration to employees in next year, the Company should also continue to consider the dilutive effect of the potential common stock.

24. Capital risk management

The Company proceeded with capital management to ensure that it may maximize shareholders' return by optimizing the balance of debt and equity, on the premises that its operation may be continued.

The Company's capital structure consists of its net obligation (i.e. the loan less cash and cash equivalents) and equity attributable to the owners of parent (namely, capital stock, capital surplus, retained earnings and other equities).

The Company's management would check the Group's capital structure from time to time, by taking into consideration various capital costs and related risks. The Company balanced its entire capital structure by payment of stock dividend, issuance of new shares, repurchase of shares, issuance of new obligation or repayment of old obligation according to the management's suggestion.

The Company did not need to comply with the other external capital requirements.

25. Financial instruments

(1) Information about fair value - Financial instruments not measured at fair value

There was no material difference between the book value of financial assets and liabilities not measured at fair value, and the fair value thereof.

(2) Information about fair value - Financial instruments measured at fair value on a repeated basis

1. Tiers of fair value

December 31, 2016

| | <u>Tier 1</u> | <u>Tier 2</u> | <u>Tier 3</u> | <u>Total</u> |
|------------------------------|---------------|---------------|---------------|---------------|
| <u>Financial liabilities</u> | | | | |
| <u>at fair value</u> | | | | |
| <u>through profit or</u> | | | | |
| <u>loss</u> | | | | |
| Derivative | | | | |
| instruments | <u>\$ -</u> | <u>\$ 461</u> | <u>\$ -</u> | <u>\$ 461</u> |

In 2017 and 2016, no transfer between Tier 1 and Tier 2 of fair value took place.

2. Adjustment of financial instruments measured at fair value of Tier 3

| | Investment in equity instruments in available-for-sale | |
|--------------------|---|-------------|
| | Investment in equity instruments | |
| | 2017 | 2016 |
| Financial assets | | |
| Balance, beginning | \$ - | \$ 1,046 |
| Stated into income | | |
| — Realized | - | (1,046) |
| Balance, ending | <u>\$ -</u> | <u>\$ -</u> |

In the total earnings or loss 2016, the loss on assets measured at fair value of Tier 3 held at the end of the year was NT\$1,046 thousand.

3. Valuation technology and input value for measurement at fair value of Tier 2

| Types of financial instruments | Valuation technology and input value |
|---|--|
| Derivative instrument— Forward Foreign Exchange Contracts | Discounted cash flow method: To estimate the future cash flow based on the observable forward foreign exchange rate at the end of year and foreign exchange rate defined in the contract, and to discount the same based on the discount rate which may reflect various trading counterparts' credit risk. |

4. Valuation technology and input value for measurement at fair value of Tier 3

Domestic/overseas unlisted (non-OTC) equity investment applies the market-based approaches. Namely, the value of evaluated object is estimated by appropriate multiples based on the trading price of comparable object and by taking into consideration of the difference between the evaluated object and comparable object. The common valuation under the market-based approach is based on the price of stock with active market of the stock of the enterprise engaged in the same or similar business lines to decide the relevant multiples and evaluate.

(2) Types of financial instruments

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| <u>Financial assets</u> | | |
| Loans and receivable accounts (Note 1) | \$295,069 | \$363,839 |
| <u>Financial liabilities</u> | | |
| at fair value through profit or loss | | |
| Held for trading | - | 461 |
| Measured at amortized cost (Note 2) | 72,193 | 116,850 |

Note 1: The balance includes the loans and accounts receivable measured at cost after amortization including cash and cash equivalent, Investments in Purchase of debt investments with no active market, receivable notes, receivable accounts and refundable deposits.

Note 2: The balance includes the financial liabilities measured at cost after amortization including short-term borrowing, payable accounts, other payable accounts, and guarantee deposit received.

(4) Purpose and policy of financial risk management

The Company' main financial instruments include equity investment, receivable accounts and payable accounts . The Company's financial management department is dedicated to providing various business units with services, coordinating the operation in domestic and international financial markets, and analyzing risk per the degree and extension of risk and managing the financial risk over the Company's operation. The risks include market risk (including foreign exchange rate risk and the interest risks), credit risk and liquidity risk.

The Company hedged exposure via the financial derivatives to mitigate the effect produced by the risk. The utilization of financial derivatives is governed by the policy approved by the Company's Board. The policy refers to the written principles for the utilization of foreign exchange risk, interest rate risk, credit risk, financial derivatives and non-financial derivatives and investment of residual working capital. Internal auditors shall re-audit compliance with the policy and exposure limit. The Company never engaged

in transactions of financial instruments (including financial derivatives) for the purpose of speculation.

1. Market risk

The main market risk borne by the Company's operating activities means the risk over changes in foreign exchange rate of foreign currency (see the following (1)) and risk over changes in interest rate (see the following (2)). The foreign currency exchange rate risk borne by the Company to manage forward contract.

The Company's exposure related to financial instrument market risk and the management and evaluation of such exposure remain unchanged.

(1) Foreign exchange rate risk

The Company primarily engaged in sale and purchase denominated in foreign currency and thereby exposed it to the risk over changes of foreign exchange rate. About 90% of the Company's turnover were denominated in the currency other than functional currency, and about 74% of the cost were denominated were denominated in the currency other than functional currency. The Company's exposure to the risk over foreign exchange rate was managed in the form of forward contract, insofar as it was permitted by the relevant policy. Meanwhile, the Company also had some bank deposits denominated in foreign currency to collect the interest income. Until December 31, 2017, about 7% of the cash and cash equivalents have been denominated in the currency other than functional currency.

For the book value of the Company's monetary assets and monetary liabilities denominated in the currency other than functional currency on the balance sheet date, please refer to Note 29.

Sensitivity analysis

The Company was primarily affected by the fluctuation in USD and RMB.

The following table states the Company's sensitivity analysis in the case of increase/decrease in foreign exchange rate of NTD

(functional currency) vs. USD/RMB by 1%. 1% means the sensitivity ratio which is applied when reporting to the management the foreign interest rate risk within the Company, also representing the management's evaluation about reasonable potential changes in foreign exchange rate of foreign currency. The sensitivity analysis only included the outstanding monetary items denominated in the foreign currency, and adjusted the conversion at the end of year by changes in the foreign exchange rate by 1%. The following table states that the revaluation of NTD against USD/RMB by 1% will result in decrease or increase in net income before tax. Notwithstanding, the devaluation of NTD against USD/RMB by 1%, the effect on net income before tax will be the equivalent amount positively.

| | Effect of USD | | Effect of RMB | |
|--------|---------------|----------|---------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Income | (\$ 228) | (\$ 606) | (\$ 277) | (\$ 541) |
| Equity | (228) | (606) | (277) | (541) |

(2) Interest rate risk

The Company would evaluate the hedging activities periodically to keep them consistent with the view about interest rate and existing risk preference and to ensure the adoption of hedging strategies which met the cost benefit best.

The book value of the Company's monetary assets and monetary liabilities exposed to the interest rate risk on the balance sheet date is stated as following:

| | December 31, 2017 | December 31, 2016 |
|-------------------------------|----------------------|----------------------|
| Fair value interest rate risk | | |
| - Financial assets | \$214,621 | \$234,059 |
| Cash flow interest rate risk | | |
| - Financial assets | 13,154 | 26,087 |
| - Financial liabilities | - | - |

2. Credit risk

The credit risk refers to the financial loss risk derived from the failure of any trading counterpart to perform the contractual obligation. Until the balance sheet date, the maximum credit risk which the Company might be exposed to because of the trading counterpart's failure to perform the contractual obligation has primarily resulted from the book value of financial assets stated in the individual balance sheet.

In order to mitigate the credit risk, the Company's management designated the dedicated team to decide the facility to be granted, approve facility and handle other controlling procedures, in order to ensure that appropriate measures have been taken to collect overdue receivables. Meanwhile, the Company would check the collectible amount of receivable accounts one by one on the balance sheet date to ensure that appropriate impairment loss has been provided for the receivable accounts which could not be collected. Given this, the Company's management considered that its credit risk should have been mitigated significantly.

Meanwhile, the trading counterpart of working capital and financial derivatives was the bank which was granted high credit rating by the international credit rating organization. Therefore, the credit risk should be considered minor.

The Company's credit risk by territory was primarily centralized in Hong Kong and Mainland China, which has accounted for 37% and 44%, and 48% and 46% of the total receivable accounts until December 31, 2017 and 2016.

The Company's risk credit was primarily centralized in its top 5 customers. The receivable accounts from said customers have been accounted for 81% and 86% of the total receivable accounts until December 31, 2017 and 2016.

3. Liquidity risk

The Company managed and maintained sufficient cash and cash equivalents to cover the Company's operation and mitigate the effect produced by fluctuation in cash flows. The Company's management

supervised the status of bank facility to ensure compliance with the terms and conditions in the loan contract.

For the Company, the bank loan was a very important source of liquidity. For the facility that has been drawn down by the Company before December 31, 2017 and 2016, please see the following Note (2), facility.

(1) Statement of liquidity and interest rate risk of non-derivative financial liabilities

The analysis on residual duration of contract for non-derivative financial liabilities was prepared in accordance with the earliest date of repayment which was requested from the Company and non-discounted cash flows for financial liabilities (including the principal and estimated interest). Therefore, the bank loans which the Company could be requested to repay immediately are listed in the earliest period identified in the following table, without needing to take the opportunity of the bank's immediate exercise of the right into consideration. The analysis on expiry of other non-derivative financial liabilities was prepared based on the agreed date of repayment.

December 31, 2017

| | Payable on demand or less than one months | 1~3 months | 3 months~ 1 year | 1~5 years | 5 years or more |
|---|--|-----------------|------------------------|--------------|--------------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Liabilities without interest | <u>\$24,908</u> | <u>\$17,572</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

(Continued)

(Brought forward)

December 31, 2016

| | Payable on demand or less than one months | 1~3 months | 3 months~ 1 year | 1~5 years | 5 years or more |
|---|--|-----------------|------------------------|-----------------|--------------------|
| <u>Non-derivative financial liabilities</u> | | | | | |
| Liabilities without interest | <u>\$37,677</u> | <u>\$33,533</u> | <u>\$ -</u> | <u>\$ 2,019</u> | <u>\$ -</u> |

(2) Facility

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-----------------------------------|------------------------------|------------------------------|
| Non-secured bank loan facility | | |
| - Amount drew down | \$ - | \$ - |
| - Amount not yet drawn down | <u>65,000</u> | <u>74,675</u> |
| | <u>\$ -</u> | <u>\$74,675</u> |
| Secured bank loan facility | | |
| - Amount drew down | \$ - | \$ - |
| - Amount not yet drawn down | <u>-</u> | <u>112,875</u> |
| | <u>\$ -</u> | <u>\$112,875</u> |

26. Transactions with related parties

In addition to the transactions disclosed in the other notes, the transactions between the Company and related parties are stated as following:

(1) Name of related party and relationship thereof

| <u>Name of related party</u> | <u>Relationship with the Company</u> |
|---|--------------------------------------|
| MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | Subsidiary held indirectly |

(2) Operating revenue

| Type of related party | 2017 | 2016 |
|----------------------------|-----------------|-----------------|
| Subsidiary held indirectly | <u>\$ 4,612</u> | <u>\$ 2,309</u> |

The trading price of the Company's transactions with related parties was agreed by both parties. Generally, the collection period was OA 30 days.

(3) Other operating revenue

| Type of related party | 2017 | 2016 |
|----------------------------|---------------|-------------|
| Subsidiary held indirectly | <u>\$ 105</u> | <u>\$ -</u> |

(4) Receivables from related parties

| Type of related party | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Subsidiary held indirectly MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | <u>\$ 3,024</u> | <u>\$ -</u> |

Outstanding accounts receivable-related parties were not secured.

(4) Other payable accounts - related party

| Title | Type of related party | December 31, 2017 | December 31, 2016 |
|----------------|----------------------------|----------------------|----------------------|
| Other payables | Subsidiary held indirectly | <u>\$ 1,039</u> | <u>\$ 1,144</u> |

(6) For the after-sale contract signed with subsidiaries, please see Note 28.

| Title | Type of related party | December 31, 2017 | December 31, 2016 |
|-----------|---|----------------------|----------------------|
| Marketing | Subsidiary held indirectly MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | <u>\$ 13,779</u> | <u>\$ 14,803</u> |

(7) Remuneration to the management

| | 2017 | 2016 |
|------------------------------|------------------|------------------|
| Short-term employee benefits | \$ 14,534 | \$ 16,013 |
| Termination benefit | <u>603</u> | <u>509</u> |
| | <u>\$ 15,137</u> | <u>\$ 16,522</u> |

The remuneration to directors and the other management was decided by the Remuneration Committee subject to personal performance and market trend.

27. Pledged assets

The following assets were furnished as the collateral to secure the facility:

| | <u>106 years</u> | <u>105 years</u> |
|-----------------------------|------------------|------------------|
| Own land and buildings, net | <u>\$161,553</u> | <u>\$164,076</u> |

28. Major contingent liabilities and unrecognized contract commitments

In addition to the liabilities and commitments referred to in the other notes, the Company's major commitments or contingent liabilities on the balance sheet date are stated as following:

The Company has signed the contract with the subsidiary indirectly held by the Company, MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED, to commission it to help the Company provide after-sale services to the customers in the territories of Shenzhen and Mainland China. The Company shall pay it the after-sale service fees at specific percentage, stated as marketing. The contract shall be effective for three (3) years from January 2014.

29. Information about foreign-currency-denominated assets and liabilities that have significant influence

The following is expressed by summarization of the foreign currencies other than functional currencies applied by the Company. The foreign exchange rate as disclosed refers to the foreign exchange rate applied to conversion of the foreign currency to the functional currency. Foreign-currency-denominated assets and liabilities that have significant influence:

December 31, 2017

| | <u>Foreign currency</u> | <u>Foreign exchange rate</u> | <u>Book value</u> |
|--------------------------------|-----------------------------|----------------------------------|-------------------|
| <u>Foreign currency assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 1,619 | 29.76 | \$ 48,174 |
| RMB | 6,087 | 4.57 | 27,789 |
| HKD | 38 | 3.76 | 143 |
| | | | <u>\$ 76,106</u> |

(Continued)

(Brought forward)

| | Foreign currency | Foreign exchange rate | Book value |
|-------------------------------------|---------------------|--------------------------|------------------|
| <u>Foreign currency liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 852 | 29.77 | \$ 25,364 |
| HKD | 440 | 4.20 | <u>1,850</u> |
| | | | <u>\$ 27,214</u> |

December 31, 2016

| | Foreign currency | Foreign exchange rate | Book value |
|--------------------------------|---------------------|--------------------------|-------------------|
| <u>Foreign currency assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 3,415 | 32.25 | \$ 110,127 |
| RMB | 11,717 | 4.62 | 54,097 |
| HKD | 994 | 4.16 | <u>4,135</u> |
| | | | <u>\$ 168,359</u> |

| | | | |
|-------------------------------------|-------|-------|------------------|
| <u>Foreign currency liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 1,540 | 32.14 | \$ 49,504 |
| HKD | 1,139 | 4.13 | <u>4,708</u> |
| | | | <u>\$ 54,212</u> |

Foreign-currency-denominated exchange income (unrealized) that has significant influence:

| | 2017 | | 2016 | |
|---------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| Foreign currency | Foreign exchange rate | Net exchange income | Foreign exchange rate | Net exchange income |
| USD | 30.43 (USD:NTD) | (\$ 193) | 32.26 (USD:NTD) | \$ 860 |
| RMB | 4.51 (RMB:NTD) | 269 | 4.83 (RMB:NTD) | (128) |
| HKD | 3.91 (HKD:NTD) | (1) | 4.16 (HKD:NTD) | <u>63</u> |
| | | <u>\$ 75</u> | | <u>\$ 795</u> |

30. Noted disclosure

(1) Important transactions and (2) Information about investees

1. Fund granted to others: N/A
2. Endorsement and guarantee made for others: N/A
3. Marketable securities-end (exclusive of those held by investment in subsidiaries): see Schedule 1.

4. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
5. Cumulative amount of the same marketable security purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
6. Amount on disposal of real estate reaching 300 million NTD or more than 20% of the paid-in capital: N/A.
7. Purchase/sale amount of transactions with related parties reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
8. Accounts receivable-related party reaching 100 million NTD or more than 20% of the paid-in capital: N/A.
9. Transactions of derivatives: N/A.
10. Information about investees: see Schedule 2.

(3) Information about investment in Mainland China:

1. Name of investee in Mainland China, principal business, paid-in capital, mode of investment, outward/inward remittance of fund, shareholding percentage, current income and recognized investment income, book value of investment, ending, investment income repatriated to Taiwan, and limit of investment in Mainland China: see Schedule 3.
2. Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof: see Schedule 4.
 - (1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - (3) The amount of property transactions and the amount of the resultant gains or losses.
 - (4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - (5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

- (6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

MEGAWIN Technology Co., Ltd.
Marketable securities-end
December 31, 2017

Schedule 1

Unit: Unless otherwise noted,
In thousands of NTD

| Holder of securities | Type and Name | Affiliation with issuer | Account title | Ending | | | | Remarks |
|----------------------|-----------------|-------------------------|---------------------------|------------------|------------|-----------------------|------------|----------------------------------|
| | | | | Number of shares | Book value | Ratio of Shareholding | Fair value | |
| The Company | Government bond | N/A | Cash and cash equivalents | - | \$ 81,000 | Not applicable | \$ 81,000 | No guarantee or pledge was made. |

Note: For the information about investment in a subsidiary, please see Schedule 2 and Schedule 3.

MEGAWIN Technology Co., Ltd.

Information related to the investees, such as names and locations, etc.

January 1~December 31, 2017

Schedule 2

Unit: NTD and foreign currency thousands dollars/thousand shares

| Investor | Investee | Address | Principle Business | Original investment cost | | End | | | Investee Income in the current period | Investment income recognized in the current period Investment income | Remarks |
|---|---|----------------|---|---------------------------|----------------------------|-----------------------|----------------|------------------------|---------------------------------------|--|---------------------------|
| | | | | End of the current period | End of the previous period | Shares (In thousands) | Percentage (%) | Book value | | | |
| The Company | Regent Pacific Management Ltd. | Mauritius | General investment | \$ 30,824 (US\$ 921) | \$ 30,824 (US\$ 921) | 921 | 100 | \$ 17,601 | \$ 246 | \$ 246 | Subsidiary |
| Regent Pacific Management Ltd. | MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | Hong Kong | IC design service, trading and general investment | 12,238 (US\$ 385) | 12,238 (US\$ 385) | 3,129 | 100 | 14,614 | 562 | 562 | Indirect subsidiary |
| MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED | MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | Mainland China | IC design service, trading and general investment | 9,459 (US\$ 300) | 9,459 (US\$ 300) | 300 | 100 | 10,880 (HK\$ 2,858) | 386 (HK\$ 99) | 386 (HK\$ 99) | Great-grandson subsidiary |

Note: For the information about investees in Mainland China, please see Schedule 3.

MEGAWIN Technology Co., Ltd.
Information about investment in Mainland China
January 1~December 31, 2017

Schedule 3

Unit: Unless otherwise noted,
In thousands of NTD

| Name of investee in Mainland China Company name | Principle Business | Paid-in Capital | Mode of investment | Cumulative investments outward remitted from Taiwan at beginning | Investment Remittance or Regain during the fiscal Year | | Cumulative investments outward remitted from Taiwan at ending | Investee Income in the current period | The Company' s Direct or Indirect Investment Holding Ratio | recognized in the current period Investment income | Investment, ending Book value | Investment income repatriated to Taiwan in the current period | Remar ks |
|--|--|-------------------------------------|-----------------------|--|--|-----------------|--|---|--|--|--|---|-------------|
| | | | | | Outward remitted | Repatriate d | | | | | | | |
| MEGAWIN TECHNOLOG Y SHENZHEN COMPANY LIMITED | IC design service, trading and general investment | \$ 9,459 (US\$ 300 thousands) | Note 1 | \$ 9,459 (US\$ 300 thousands) | \$ - | \$ - | \$ 9,459 (US\$ 300 thousands) | \$ 386 (HK\$ 99 thousands) | 100% | \$ 386 (HK\$ 99 thousands) (Note 2) | \$ 10,880 (HK\$ 2,858 thousands) | \$ - | — |

| Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term | Investment Amount Approved by Investment Commission of MOEAIC | Mainland China Investment Ceiling As Regulated by Investment Commission of MOEAIC |
|--|--|---|
| US\$300 thousands (equivalent to NT\$9,459 thousands) | US\$300 thousands (equivalent to NT\$9,459 thousands) | \$289,948 thousands |

Note 1: Invested through the company invested by Regent Pacific Management Limited in the third region, MEGAWIN TECHNOLOGY H.K. COMPANY LIMITED.

Note 2: The investment income recognized in the current period was recognized based on the financial statements audited by the parent company in Taiwan.

MEGAWIN Technology Co., Ltd.

Direct or indirect major transactions between the invested companies in the Mainland China and the Company, and the price, payment terms and unrealized income thereof, and related information.

January 1~December 31, 2017

Schedule 4

In thousands of NTD

| Name of investee in Mainland China | Type of transaction | Amount | Percentage | Price | Trading conditions | | Receivable (payable) notes/accounts | | Unrealized profit/loss | Remarks |
|---|-----------------------------|----------|------------|-----------|---|---------------------------------------|-------------------------------------|------------|------------------------|---------|
| | | | | | Payment term | the general suppliers Comparison with | Amount | Percentage | | |
| MEGAWIN TECHNOLOGY SHENZHEN COMPANY LIMITED | Sales revenue | \$ 4,612 | 1% | As agreed | Subject to the general terms and conditions | — | \$ 3,024 | 5% | \$ 127 | — |
| | Other non-operating revenue | 105 | 1% | As agreed | Subject to the general terms and conditions | — | - | - | - | — |
| | Marketing | 13,779 | 42% | As agreed | Subject to the general terms and conditions | — | (1,039) | 3% | - | — |

Company name: MEGAWIN Technology Co., Ltd.

Chairman of Board: Wen, Kow-Liang