
台灣精品
2018

# Apacer Technology Inc.

## 2017 Annual Report

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Apacer Technology Inc.
2017 Annual Report

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6. Company website: http://www.apacer.com/

# Contents

# I. Letter to Shareholders

Dear Shareholders:

In 2017, Apacer's consolidated revenue again surpassed TWD 10 billion, and a solid growth in profits was maintained. On behalf of the Board of Directors, we would like to thank all our employees for their tireless work. We also want to thank you, our shareholders, for your continued support and trust. We hereby express our most sincere gratitude.

Industry 4.0, the Internet of Things (IoT) and cloud are applied more and more widely. We also see a gradual increase in the flow, storage and computation of all types of big data. With advancements in the DRAM and flash industries, significant annual growth in the demand for memories is expected as emerging end-use applications accelerate. With the development of these trends, Apacer continues to design innovative and leading products with excellent quality and effectiveness and firmly maintains its leading advantage in the field of digital storage.

The consolidated operating revenue in FY 2017 was TWD 10.04 billion and the consolidated gross operating profit was TWD 1.3 billion. The consolidated net profit after tax was TWD 0.4 billion and the earnings per share after tax were TWD 4.02. We briefly present the operating performance in FY 2017 and the operational plan for FY 2018 as follows:

1. Consolidated operating performance in FY 2017:

Unit: TWD 1,000

| Item | FY 2017 | FY 2016 | Increase (decrease) | Increase (decrease) rate |
|---|---|---|---|---|
| Operating revenue | 10,043,476 | 6,822,226 | 3,221,250 | 47% |
| Gross operating profit | 1,298,790 | 1,156,300 | 142,490 | 12% |
| Net operating profit | 474,842 | 406,303 | 68,539 | 17% |
| Net non-operating income (expense) | (1,802) | 18,906 | (20,708) | (110%) |
| Net profit (loss) after tax | 404,957 | 349,291 | 55,666 | 16% |
| Net profit attributable to shareholders of the parent company | 405,418 | 349,467 | 55,951 | 16% |
| Non-controlling interests | (461) | (176) | (285) | (162%) |
| Earnings (Losses) per share after tax (in TWD) | 4.02 | 2.74 | 1.28 | |

2. R&D:

With outstanding capabilities in innovation and R&D, we offer comprehensive and optimized user experience and actively invest in the industrial IoT technology. As a result, our market share of solid state drives (SSDs) in the world has been the largest for five consecutive years, and our product designs have been honored with Taiwan Excellence Awards for nine consecutive years. These records constitute a great affirmation of our core capabilities in the industrial control, eSport, mobile app, cloud and IoT fields.

We continue to upgrade our R&D capabilities regarding the embedded SSD storage module ,for example, the application of technologies including secure data storage with Opal and accelerated access with HyperCache. By integrating the innovative RGB LED synchronized display control and the patented light guiding technology, we demonstrate the highly effective application of our DRAM modules in eSports. Meanwhile, as the trend of industrial IoT and Internet of Vehicles (IoV) moves forward, we further strengthen local area networks and transmission to speed up development of our products. In addition, we continue to invest in optical equipment for industrial inspection and dedicate ourselves to the application of other optical inspection fields with our pioneering optical technologies

3. Operational plan for FY 2018:

(1) Operational guidelines

We focus on developing our core business technology of digital storage, pursue the realization of our core values of trust and innovation, and proactively seek to develop a service ecosystem integrating the storage, reception, analysis, control and sharing of information, to take the lead in the deployment and development of the growing cloud and IoT areas.

(2) Operational objectives

Relying on the advantage of our core technologies in storage, we aim to extend the application service of software, hardware and cyber-physical integration, and to create a framework for green, automated and smart production and service. With the digital storage as the core of our business, we focus on eSports, consumer applications, cloud computing, industrial automation, defense & aerospace engineering, and optical applications. We will continue to work toward our business vision and goal of integrating IT-enabled information services.

(3) Core policies on production and sale

Industry 4.0 is coming, and demand for big data storage and access in cloud computing, industrial automation, and other fields have greatly increased. By building a differentiation advantage and through in-time management indicators, we aim to enhance the efficiency of sales and distribution services with lean process management and optimized service systems.

(4) Development strategies

Talents are vital business resources and key to sustainable management, and critical talents can help create business value. We remain committed to the philosophy of "happy business". Through comprehensive employee benefits and talent supply chains, we are laying a firm foundation for the development of our company.

In 2017, Apacer celebrated its 20th anniversary. To further implement the goal of sustainable management, we actively engage communities and schools to listen to local needs. Following the motto "Give Back to Society", we make contribution to communities and schools through volunteer activities and business sponsorship. Also in 2017, Apacer received the Taiwan Corporate Sustainability Award. This honor was a further affirmation of the impressive performance Apacer has achieved in storage applications and the policy commitment Apacer has maintained to sustainable development for 20 years.

Looking forward, by staying lean, innovative and forward-looking, Apacer continues to stand firmly on a leading place in a market environment with information flowing rapidly in vast amounts. Apacer will keep working toward its business vision of becoming the top manufacturer in the integration of IT-enabled information services with digital storage as the core technology.

Chairman

General manager

Accounting manager

# II. Company Profile

I. Founding date

April 16, 1997

II. History

| | | |
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| 1997 | April | We were founded in Taipei City as BizAnchor Service Network Inc., an enterprise invested by Acer Group and with TWD 10 million as initial capital. We were a professional manufacturer of memory modules. |
| | July | We moved to Xizhi Township, Taipei County, and we renamed ourselves Apacer Technology Inc. |
| | October | For the development of global logistics, we founded Apacer Memory America Inc. as our US subsidiary. |
| 1998 | January | The Longtan Factory was established. |
| | February | With the European market booming, we founded Apacer Technology B.V. as our European subsidiary. |
| 1999 | August | We received the ISO 9002 certification. |
| 2000 | July | We conducted an initial public offering. |
| | August | To expand business in the Japanese market, we founded Apacer Technology Corp. as our Japanese subsidiary. |
| 2001 | March | We invested in AQR Technology Inc. and acquired 100% of its shares. |
| | August | With approval from the Ministry of Economic Affairs (MOEA) through Letter (90) No. 90030399 of Investment Commission, we acquired Grand Scope Ltd. as our Hong Kong subsidiary. |
| | October | With approval from MOEA through Letter II(90) No. 90036342 of Investment Commission of MOEA, we acquired Apacer Technology (BVI) Inc. as our subsidiary in the British Virgin Islands. |
| | October | To expand our business in the Chinese market, and with approval from the Ministry of Economic Affairs through Letter II(90) No. 90036342 of Investment Commission of MOEA, Apacer Electronic (Shanghai) Co., Ltd was founded with investment from Apacer Technology (BVI) Inc. |
| 2002 | August | To expand our business into multimedia and digital storage sector, we acquired 100% of the shares of Pronology Services Inc. |
| 2003 | April | We released the Disc Steno CP100, the world's first Disc Steno portable CD recorder. Disc Steno CP100 operates on the basis of "stand-alone", a state-of-the-art concept. Through integration of the card-reading function and recording technology, it transfers digital images from memory cards to CDs and enables more diverse usage of such images. |
| | August | We received the ISO 9001:2000 certification. |

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| 2004 | January | The Disc Steno CP200 portable CD recorder and the Audio Steno MS400 USB flash drive won the Taiwan Excellence Award. |
| | January | Our shares began to be traded as emerging stocks in the over-the-counter (OTC) market. |
| 2005 | April | The Longtan Factory received the ISO 14001:2004 certification. |
| | May | We passed the test of Sony's SS-00259 standards for environmental protection, and our memory modules for notebooks and desktops passed the test of the "Restriction of Hazardous Substances" (RoHS) directive. |
| | June | We took the lead in the industry to release FB-DIMM products that meet the demands of servers and workstations for high bandwidth, speed and capacity. |
| | June | Our embedded flash memory modules received RoHS certification. |
| | June | Share Steno, the world's first OTG USB device for storage of digital images, won the National Award of Excellence. |
| | November | We established the e-Flash Business Development Center to actively develop industrial flash products for the storage solutions of OS and AP platforms. |
| 2006 | April | Our FB-DIMM passed the test of the Intel Platform Memory Organization, making us the first DRAM manufacturer in Asia to receive the certificate. |
| | April | FB-DIMMs compatible with Intel server platforms were released, and we became Intel's enabling partner. |
| | May | We unveiled world's first 2.5 inch SATA RAID flash drive (SRFD) that greatly enhance the reliability and security of data saving. |
| | September | Our FB-DIMM became the first product of its kind worldwide to pass the CMTL compatibility test. |
| | October | Our AH520, AA220, FB-DIMM, and DDR400 VLP ECC RDIMM 2GB won the Taiwan Excellence Award. |
| | October | Our AH520 won the G-Mark international design award in Japan. |
| | November | We became an official supplier of memory modules for the 2006 World Cyber Games (WCG) in Italy. |
| | | Our Handy Steno became compatible with the latest ReadyBoost technology for Windows Vista. |
| 2007 | January | We became the only official manufacturer of memory modules for Microsoft Windows Vista. |
| | March | To expand business in the Indian market, we founded Apacer Technologies Pvt Ltd. as our Indian subsidiary. |
| | May | Our "A+ Project for Enhancing Global Logistics Values" was selected as a pilot project sponsored by MOEA. |
| | June | The Company became an official supplier of memory modules for the Taiwan Regional Qualifier of the 2007 WCG. |
| | September | The objective of our 10th anniversary was to make us one of the three largest brands of memory storage in the world. |

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| | November | The Company's AU860 MP4 player and AH225 USB flash drive won the G-Mark international design award in Japan. |
| 2008 | February | We unveiled the ADM III SSD, with a speed three times faster than its predecessors to meet the application demand on storage speed. |
| | March | We unveiled the Aeolus DDR3-1800MHz/1600MHz memory modules, which adopt the world's first active fan/dual-layer heat sink designed for overclocking. |
| | April | We were selected for the "Coaching Project for International Brand Management" of the Bureau of Foreign Trade, MOEA. |
| | April | Our AH421 won the 2008 iF Product Design Award. |
| | May | Our Aeolus active overclocking memory modules won the Taiwan Excellence Award, Innovation Award from the PC World magazine in Greece, and the Editor's Choice award from PC Magazine in Russia. |
| | May | In cooperation with Diskeeper, the leading manufacturer of disk defragmentation tools, we introduced the SSD *Optimizer*, the world's first SSD solution with disk defragmentation software. |
| | June | In cooperation with RTD, the founder of PC/104 Consortium, we developed the micro SATA Disk Chip (SDC) SSD designed for PC/104 platforms. |
| | September | Our memory module products won the NOVA Channel Award as the first choice of retailers. |
| | October | Our AH225 and AH421 USB flash drives won the Best Iinnovation Award from Tweak in Germany. |
| | November | Our HT203 USB flash drive won the Rexware Golden Award in France. |
| 2009 | March | By exclusively adopting the innovative stacking technology, we unveiled SAFD 254, the only high-capacity industrial SSD which supports a wide range of operating temperature. |
| | April | We established an office in Shenzhen, China. |
| | November | We became an official supplier of memory modules for the 2009 WCG Finals in Chengdu, China. |
| | November | We established the VA-Consumer Product Department which covers four product lines: digital storage, multimedia entertainment, digital sharing, digital peripherals. |
| 2010 | January | The design of the power supplies of the proprietary port of our SDM 7P/180D LP industrial SSD won the 18th Taiwan Excellence Award. |
| | March | Our SmartBadge, which integrates demands for business security and data storage, won the iF Product Design Award. |
| | September | Our SmartBadge won the G-Mark international design award in Japan. |
| | December | We became a listed company on the Taiwan Stock Exchange. |
| 2011 | January | Our SUFD industrial SSD, AS602 consumer SSD, and AH128/AH129 USB flash drives won the Taiwan Excellence Award. |
| | February | We unveiled ultra-high speed industrial CFast cards, with a groundbreaking transmission speed three times faster than those of conventional IDE interfaces. |

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| | November | We unveiled the world's fastest UHS microSDXC 64GB memory card with high capacity. |
| | December | Our AC232 external hard drive won the 20th Taiwan Excellence Award. |
| 2012 | January | We unveiled the 8GB DDR3 1600 UDIMM with ECC memory module for servers. With high capacity and processor speed, the product module enables servers to run flawlessly at high speed (12800MB/s). |
| | April | We unveiled the mPDM (mini PCIe Disk Module) modular SSD, which has higher transmission speed and provides higher storage capacity for high-end applications including web storage and business servers. |
| | May | The Comapny unveiled the DDR3-1600 ECC RDIMM memory module designed for storage servers. |
| | July | We unveiled the AC232 USB 3.0 high-speed portable hard drive with a stylish ocean pattern. The product features an exclusive anti-slip/anti-shock design and a flowery pattern, and it protects valuable data. |
| | September | We unveiled more ultra-high speed industrial CFast cards with a further enhanced speed to expand our share in the market of high-performance computing. |
| | December | Our SDM4 7P/180D ultra-slim SSD and WiFun AF750 portable wireless storage device won the 21st Taiwan Excellence Award. |
| 2013 | January | We unveiled three models of the latest SATA 3.0 SSDs with high-speed transmission interfaces, able to meet the demands for cloud applications, huge data volumes and mobility. |
| | March | As the trend of mobility has kept moving forward, we adopted three strategies for market planning: organizational innovation, model innovation, management innovation. |
| | June | We became the world’s no. 1 supplier of industrial SSDs. |
| | July | We established our operational headquarters in Tucheng to realize the plan of bringing the factory and head office together. The establishment successfully set a milestone for us in the process of fulfilling the objective of sustainable development. |
| | August | We took the lead in the industry to unveil the 22 Pin SATA 6Gb/s high-speed modular SSD, along with mobile peripherals to meet the demands for mobile applications. |
| | November | We released the SSDWidget real-time monitoring software using cloud technology. |
| | December | We were the only industrial SSD manufacturer to win the 22nd Taiwan Excellence Award. The award-winning products: SSDWidget (the world’s first cloud monitoring software), SFD 25A-M (the first ultra-slim SSD which is only 5mm-thin), CSD (a dual-drive SSD with groundbreaking and unique design). |

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| 2014 | March | We unveiled our vision for business operations in 2014. We adopted H.O.R.S.E., the five operational strategies designed to provide more comprehensive user experience for business clients and end users, explore potential business opportunities in all aspects, and plan for the development of the global market. |
| | May | With rapid global growth of cloud applications and big data, we unveiled the SATA 3 high-capacity SFD 25H-M SSD, a whole new product with highly enhanced features. |
| | June | We continued to be ranked by Gartner as the world's no. 1 supplier of industrial SSDs in 2013. |
| | September | We participated in the Green Power Purchase Program launched by the government as we made commitments to green energy policies and the promotion of energy conservation and CO2 emission reduction. |
| | November | Chang Chia-Kun, our President, was among the "Top 100 MVP Managers" selected by the magazine Manager Today. He also received the Outstanding IT Elite Award. These honors are highly respected in the IT industry. |
| | December | For the sixth consecutive year, we were honored with Taiwan Excellence Awards. Five products won awards at the 23rd edition of these Awards: UrKey Technology SSD (provides comprehensive data security and protection), Combo SDIMM (a hybrid SSD-DRAM memory module featuring innovative storage design), WP210 (a power speaker which breaks technological limits), AH450 USB3.0 (a USB flash drive with appearance of silver), AH175 (dual-functional OTG flash drive) + FileBridge mobile app (this combination provides integration of software and hardware). |
| 2015 | January | We and Phison Electronics Corp. jointly announced our entering into strategic cooperation through private placement. The aim is to reinforce our robust experiences and R&D capabilities in the fields of industrial SSDs and controllers through this mutual investment. |
| | January | We unveiled our vision for business operations in 2015. We launched the 3.0 Upgrade Plan, aiming to expand business operations and develop the global market by focusing on breakthroughs in four aspects: forming strategic niche alliances in the field of industrial control, following the trend of mobile devices, expanding business operations in eSports, and development of cloud integration. |
| | February | We entered into a co-branding partnership with Jimmy Liao, a famous picture book illustrator in Taiwan, in unveiling the Jimmy Limited Edition of the WP210 power speaker with wireless charging and the compact and adorable WS211 Bluetooth speaker. |
| | April | We unveiled the flagship Blade DDR4 overclocking memory module, a cross-generational, top-class DDR4 product which is compatible with the Intel Haswell-E processor and X99 chipset and boasts a clock rate of up to 3300 MHz, bringing unprecedented computing performance and energy-saving efficiency. |
| | May | We unveiled wholly new upgraded SSD solutions for industrial control, and offered high-speed, high-capacity SSD products of the PCIe and SATA 3 series. |

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| | June | For the third consecutive year, we were ranked by the market research ageny Gartner as the world's no. 1 supplier of industrial SSDs. |
| | July | Using the technologies of proprietary micro optics and spectrum measuring system integration, we developed lightweight and portable spectral luminance and color meters. |
| | October | We unveiled the high-capacity 16GB DDR3L 1600 SODIMM, which passed the test of CMTL certification. Operating at a voltage of just 1.35V, the product shows impressive efficiency on a low-power and high-performance basis, becoming the world's only high-capacity memory product that has passed the compatibility test of Intel NUC 5i5MYBE/5i3MYBE/5i3RYH platforms. |
| | December | For the seventh consecutive year, we were honored by the Taiwan Excellence Award. Five products won at these 24th Awards: NFC SSD (upgrades data security and protection with wireless communication technologies), CoreAnalyzer software (with unique and innovative SSD analyzing technology), NOX DDR4 SO-DIMM (a memory module with high stability and performance), AH650 (a USB fingerprint flash drive that secures the user's private data), AH157/AH116 (lightweight, portable mini-sized USB flash drives). |
| 2016 | January | We unveiled the USB 3.0 fingerprint flash drives which use exclusive biometric identification technology and are capable of 360º all-angle sensing and discrete management of public and private data. Soon after release, the product won the 2016 Taiwan Excellence Award and was listed as one of the Top 100 Innovative Products of the 2015 IT Month. |
| | March | We unveiled our vision for business operations in 2016. Through developing core storage technologies, we focused on vertical applications for industries. Following trends in the consumer market, we seek to develop an IT-enabled service ecosystem integrating the storage, reception, analysis, control and sharing of information. The aim is to take the lead in the development of the growing areas of cloud application and IoT. |
| | May | We unveiled the first ALLONE controller, featuring the AvataRAM innovative storage solution with low latency and long lifespan. |
| | June | For the fourth consecutive year, we were ranked by the market research ageny Gartner as the world's no. 1 supplier of industrial SSDs. In addition, we ranked 9th on DRAMeXchange's survey of revenues of memory module manufacturers worldwide in 2015. |
| | June | We unveiled the AH190 dual-interface USB flash drive exclusively designed for Apple devices. The product passed the most stringent test of Apple MFi certification. |
| | August | We unveiled the UDM USB 3.0 1U modular SSD exclusively designed for 1U servers and with a height of just 22.4 mm. |
| | August | We unveiled the Z280 M.2 SSD which conformsed to the newest NVMe 1.2 standards and was the world's first product of its kind to adopt the native PCIe Gen3 x4 interface specifications. |

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| | October | We and Clevo Co. cooperated in developing the NOX DDR4 SO-DIMM heat-resistant memory with a clock rate of up to 3000 MHz. Performance was pushed to the limit with the aim to develop the world's best gaming laptops. |
| | November | In cooperation with the illustrator Crystal who is well-known in Taiwan, we unveiled several co-branded products including the AH333 USB flash drive and the AC233 portable hard drive. |
| | November | Our NOX DDR4 SO-DIMM was tested in combination with Gigabyte's BRIX ultra compact gaming computer. The test showed NOX DDR4 SO-DIMM, a product validated by real records, was the only laptop memory that could maintain stable operation when running at a clock rate of 3200 MHz. |
| | December | Victor Lin, our Vice President and CFO, won the 34th National Manager Excellence Award - Financial Manager. |
| | December | For the eighth consecutive year, we were honored with Taiwan Excellence Awards. Six products won in these 25th Awards: AS720 (an exclusive, proprietary dual-interface SSD), AS330 SSD in combination with the high-performance PANTHER DDR4 gaming PC memory module, AH180 (a USB 3.1 Type-C dual flash drive for mobile applications), AH159/AH118 (lightweight and super-mini USB 3.1 Gen 1.0/2.0 flash drives), AC830 (a military-grade shockproof portable hard drive), SDM7 7P/180D DP (an ultra compactindustrial SSD). |
| 2017 | January | BLADE,COMMANDO,and PANTHER DDR4 Gaming PC Memory passed the QVL verification of leading companies to provide total support of the latest Intel® 200 series motherboards. |
| | February | NVMe PCIe SSD was launched. It provides a transmission rate up to PCIe Gen3 x4 and supports the industry-leading NVMe (Non-Volatile Memory Express) technology to substantially improve IOPS low latency performance, and also break through the bottleneck of the AHCI standard to demonstrate the full capability of SSD. |
| | March | The first drop-resistant mobile hard disk AC730 of military specifications was launched. The armor made of aluminum alloy can bear a load of 1500kg with anti-drop capability of military specifications as well as IP68 waterproof and dust-resistance features. The internal suspension and shockproof functions with five defending capabilities are available. |
| | April | The integrated CAN bus communication module and GPS-based EFC-G/EFC-R series products with dual-board modules. With the support of the integrated software kit (SDK) for selectable car-borne information and communication network cloud to provide control centers with intelligent and complete vehicle solutions such as fleet management, vehicle safety monitoring, and unmanned vehicle monitoring. |

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| | April | The durable microSDHC/XC memory cards were introduced to provide the best solution with an all-weather safety surveillance system. The first anti-vulcanization series memory in the world was launched for the environment exposed to sulfur. The product has been highly recognized and is patented in many countries. The brand-new anti-vulcanization memory can effectively solve the problem of vulcanized corrosion from polluted environments, improve the overall service life of the system, and meet the requirements for stable operation for a long period of time in a harsh environment. |
| | April | The first anti-vulcanization series memory in the world was launched for the environment exposed to sulfur. The product has been highly recognized and is patented in many countries. The brand-new anti-vulcanization memory can effectively solve the problem of vulcanized corrosion from polluted environments, improve the overall service life of the system, and meet the requirements for stable operation for a long period of time in a harsh environment. |
| | May | A celebration was held for our 20th anniversary. We have been rated by Gartner as the best SSD supplier in the world for five consecutive years since 2012 , and set a solid foundation for our leading position in the industrial control market. |
| | August | We participated in the (Australasian Gaming Expo) in Sydney, Australia, and displayed a full range of storage solutions that we developed for gaming applications, including CF Card, CFast Card, SDM (SATA Disk Module), M.2 SSD, DRAM and other memory modules. |
| | September | The super gaming SSD - Apacer COMMANDO Series PT920 - was introduced to the market. The product uses the PCIe Gen 3 x4 high speed interface to ensure a reading/writing rate of 2500/1350 MB every second. The random write speed demonstrates excellent performance of 175,000 IOPs. |
| | October | The dedicated portable storage solution AH790 Rotary Disk for iPhone and iPad were launched. The product passes the Apple MFi certification to a maximum capacity of 64GB, and features rotary switching between Lightning and USB 3.1 Gen1 Type-A ports. |
| | October | We won the great honor of Taiwan Excellence Award for nine consecutive years. Six products of "innovative value" won in the 26th Taiwan Excellence Awards, including the PM110-25 SSD, with a PCIe interface, of military specifications, the SV250-7 Series of the new generation supported with the innovative Multi-PowerPath power supply technology, the DDR3 Memory Series for gaming competition and the PCIe SSD, the ASMini Pocket SSD as the first choice for businessmen, and the AC630, AC631 and AC632 portable HDs that passed the anti-drop certification of US military specifications. |
| | November | We worked with 714 Planet, an original illustration brand name in Taiwan, to introduce three Apacer X P714 joint models - Up in the Air, Escort, and Support - of AH336 USBs and AC233 USB 3.1 Gen 1 1TB portable HDs with the "Dream Planet" as the concept of the creation. |

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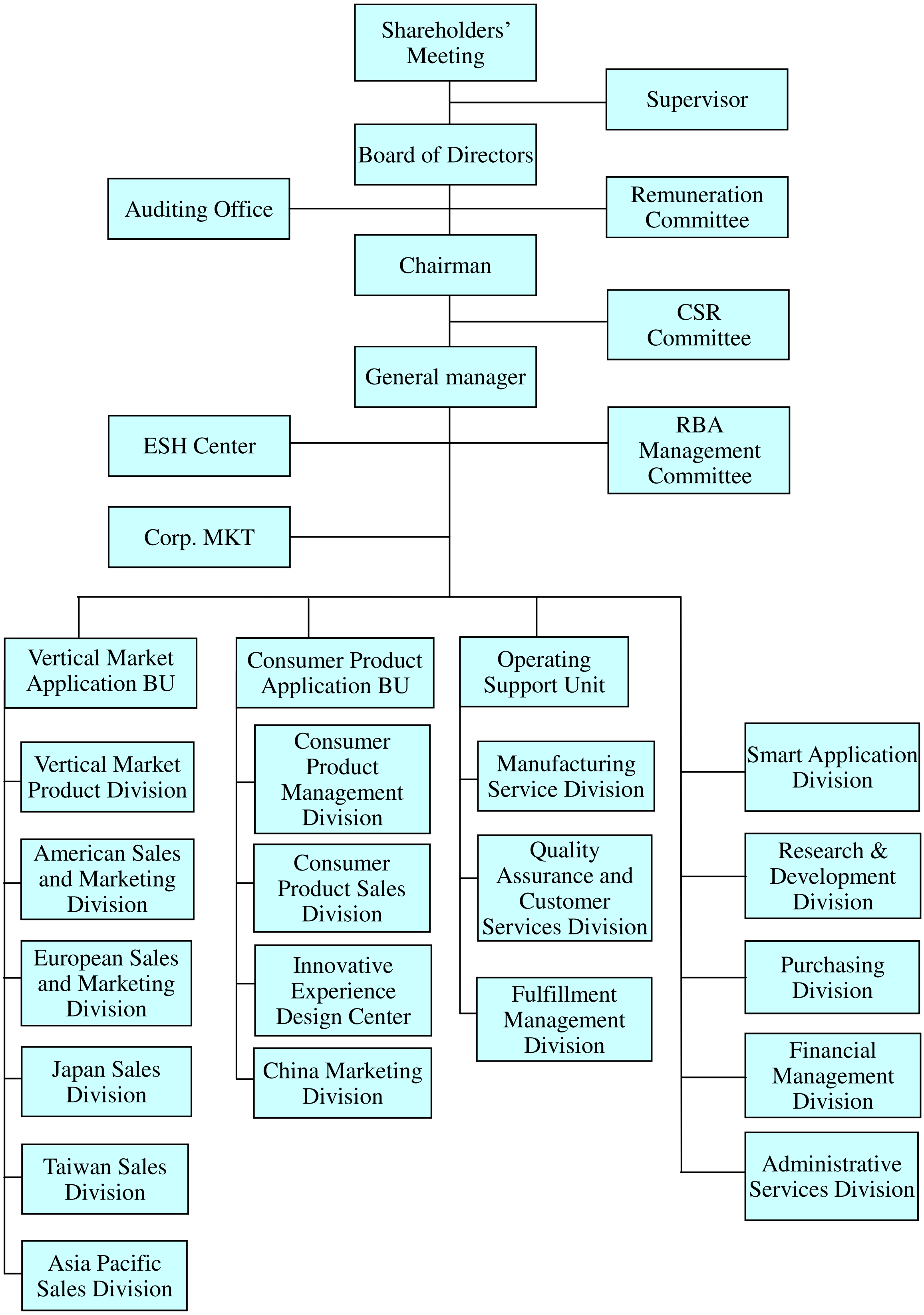
| | November | We won the "Silver Award" for the electronic information manufacturing industry in the Corporate Sustainability Report Category of the 2017 Taiwan Corporate Sustainability Awards (TCSA). |
| 2018 | February | We participated as an exhibitor in Embedded World 2018, the largest international trade fair for industrial computers held every year in Nuremberg, Germany. We demonstrated our rugged SSD technology with the release of the PANTHER DDR4 memory and SSD, whose excellent performance and tough appearance quickly drew the interest of modders and eSport players from countries around the world. |
| | March | We became the first manufacturer in the industry to begin mass production of the DDR4 2666 industrial memory module for servers of all series. The memory module can be supported by the latest Intel Purley and AMD EPYC processors, riding on a wave of demands for new servers in the global market. |

# III. Corporate Governance

I. Organizational system

(1) Organizational structure



(2) Tasks of the main divisions

| Division | Tasks |
|---|---|
| Auditing Office | (1) Assess the defects of the internal control system and the efficiency of operations.<br>(2) Provide advices for improvement to ensure the internal control system continues to be implemented effectively.<br>(3) Assist the BoD and the management in fulfilling their responsibilities. |
| ESH Center | (1) Education regarding environmental protection and occupational safety/health.<br>(2) Impact analysis, supervision and advising regarding the work environment.<br>(3) Prevention, monitoring and control of pollution in the work environment.<br>(4) Planning, advising and supervision regarding work environment quality improvement programs.<br>(5) Prevention and control of occupational accidents, and the planning, advising and supervision regarding the protection of employee health, safety and well-being. |
| Corp. MKT | (1) Design and informative promotion of corporate image.<br>(2) Planning and implementation regarding the promotion of CSR activities. |
| Vertical Market Application BU<br>-Vertical Market Product Division | (1) Market research, collection and analysis of market intelligence, and formulation of strategies for the planning of B2B product marketing and sales.<br>(2) Formulation of strategies for the direction of the design, planning and R&D of new products.<br>(3) Coordination with business units over inter-division resource integration to increase output.<br>(4) Integration of all B2B business resources and determination of sales and marketing strategies.<br>(5) Handling of major customer complaints and exploration of special channels for products.<br>(6) Planning and implementation regarding the design and informative promotion of B2B products. |
| Vertical Market Application BU<br>-Regional Sales and Marketing Divisions | (1) Market research, information gathering, and formulation of strategies regarding the planning of market business in line with the annual operational objectives.<br>(2) Development of B2B business and explore new customers.<br>(3) Integration of all B2B business resources and determination of sales and marketing strategies.<br>(4) Handling of major customer complaints and exploration of special channels for products.<br>(5) Planning of distribution, production and priorities regarding domestic/foreign orders.<br>(6) Collection of customer demands. |
| Consumer Product Application BU<br>-Consumer Product Management Division | (1) Market research, compilation and analysis of market intelligence, and formulation of strategies for the planning of B2C product marketing and sales.<br>(2) Formulate strategies regarding the direction of the design, planning and R&D of new products for the PC series.<br>(3) Coordination with business units over inter-division resource integration to increase output.<br>(4) Integration of all B2C business resources and determine sales and marketing strategies.<br>(5) Handling of major customer complaints and explore special channels for products. |

| Division | Tasks |
|---|---|
| Consumer Product Application BU -Consumer Product Sales Division | (1) Market research, information gathering, and formulation of strategies regarding the planning of market business in line with the annual operational objectives.<br>(2) Formulation of strategies regarding the direction of the design, planning and R&D of new products for the Mobility series.<br>(3) Develop B2B business globally and explore new customers.<br>(4) Integration of all B2C business resources and determine sales and marketing strategies.<br>(5) Handling of major customer complaints and exploration of special channels for products. |
| Consumer Product Application BU -Innovative Experience Design Center | (1) Design and planning of new products.<br>(2) Innovation and development of new products.<br>(3) Observation and analysis of relevant market trends, color planning, and analysis of material usage.<br>(4) Planning and implementation regarding the design and informative promotion of B2C products. |
| Consumer Product Application BU -China Marketing Division | (1) Formulation of strategies regarding the direction of the design, planning and R&D of products for China.<br>(2) Planning and implementation regarding the design and informative promotion of B2C products for China. |
| Operating Support Unit -Manufacturing Service Division | (1) Manufacturing of our products.<br>(2) Management of self-manufactured/outsourced products and outsourcing contractors.<br>(3) Research and improvement regarding production engineering and technologies.<br>(4) Planning of distribution, production and priorities regarding domestic/foreign orders.<br>(5) Management, warehousing and transportation of raw materials. |
| Operating Support Unit -QA and CS Division | (1) Analysis of new products and their defect rates.<br>(2) Providing technical consultation and service to customers.<br>(3) Inspection and test of the quality of new products.<br>(4) Major customer services and handling customer complaints.<br>(5) Verification regarding tests on product technologies.<br>(6) Document control.<br>(7) Verification and troubleshooting regarding tests on product technologies.<br>(8) Inspection, improvement and control of product quality and hazardous substances.<br>(9) Inventory control/management, warehousing and transportation of products.<br>(10) Overall management of global imports/exports. |
| Operating Support Unit -Fulfillment Management Division | (1) Fulfillment of domestic/foreign orders and delivery of products.<br>(2) Providing support and service to sales business in regions worldwide. |
| Engineering Application Division | (1) Market research, information gathering, and formulation of strategies regarding the planning of market business in line with the annual operational objectives.<br>(2) Develop business of smart application products and explore new customers.<br>(3) Integration of all B2B business resources and determination of sales and marketing strategies.<br>(4) Handling of major customer complaints and exploration of special channels for products.<br>(5) Planning of distribution, production and priorities regarding domestic/foreign orders.<br>(6) Collection of customer demands. |

| | |
|---|---|
| Research & Development Division | (1) Formulate strategies regarding the direction of R&D of new products.<br>(2) Submission of research plans, and R&D of the hardware technologies of new products.<br>(3) R&D of our core technologies, and submission of patent application.<br>(4) Inter-division coordination and integration, and technical improvement of our products. |
| Purchasing Division | (1) Planning and management of the procurement of raw materials and components for products.<br>(2) Bargaining and management regarding the contractors of externally procured products. |
| Financial Management Division | (1) Establishment of procedures for accounting and tax matters and financial statements of the Company.<br>(2) Control of the accounting and tax matters of subsidiaries.<br>(3) Matters related to convening BoD meetings.<br>(4) Control of our cash flow, and movement of funds<br>(5) Announcement and disclosure of material information, and maintenance of investor relations<br>(6) Reinvestment and risk control/management. |
| Administration Service Division | (1) Management and establishment of our information systems.<br>(2) Establishment of database and system planning for data security/protection.<br>(3) Assistance in consultation regarding the information technologies of the Company.<br>(4) Matters related to legal affairs, patents and trademarks of the Company.<br>(5) Matters related to the management of contracts and seals of the Company.<br>(6) Planning and formulation of HR strategies and management systems for general and factory affairs of the Company.<br>(7) Establishment of welfare resource systems.<br>(8) Planning and implementation of shareholders' meetings, and shareholder services.<br>(9) Establishment and implementation of management regulations.<br>(10) Promotion of business interity. |

II. Information about directors, supervisors, president, vice president, assistant managers, and supervisors of the departments and branches

(1) Directors and supervisors

April 20, 1998

| Title | Nationality or country of registration | Name | Appointment date | Gender | Term | First appointment date | Shares held at time of appointment | | Current shares held | | Current shares held by spouse or minor children | | Shares held in the name of others | | Educational background and experience | Concurrent posts in Apacer or other companies | Other supervisors, directors or supervisors in a spousal relationship or within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | | | Title | Name | Relation |
| Chairman | REPUBLIC OF CHINA | Austin Chen | 104.6.15 | Male | 3 years | 90.04.30 | 2,000,946 | 1.32% | 1,525,633 | 1.51% | 450,268 | 0.45% | - | 0.00% | M.B.A., Department of Management Science, National Chiao Tung University<br>Acer Inc., Vice General Manager<br>CINCHY Corp., Assistant Manager | Apacer Technology Inc., Chairman<br>Apacer Technology (BVI) Inc. Director<br>Darwin Precisions Corp., Independent Director<br>JoiiUp Technology Inc., Director’s Representative | None | None | None |
| Director | REPUBLIC OF CHINA | Teddy Lu | 104.6.15 | Male | 3 years | 97.09.02 | 8,527,323 | 5.63% | 5,699,906 | 5.65% | - | 0.00% | - | 0.00% | M.S. of Electrical Engineering and M.B.A., University of California<br>B.S., Department of Electrophysics, National Chiao Tung University<br>Acer Inc., Operation and Investment Management Division, General Manager | iD SoftCapital Brand Consulting Inc., Chairman<br>YODN Lighting Corp., Chairman<br>Dragon Investment Fund I Co., Ltd., Director<br>Global Strategic Investment Inc., Director<br>Apacer Technology Inc., Director<br>Cyber Power Systems, Inc., Director<br>iD SoftCapital Inc., Director<br>RDC Semiconductor Co., Ltd., Director<br>Formosa21, Inc., Director<br>Stans Foundation, Director<br>OtO Photonics Inc., Director’s Representative<br>JoiiUp Technology Inc., Director<br>EcoLumina Technologies, Inc., Director’s Representative | None | None | None |

| Title | Nationality or country of registration | Name | Appointment date | Gender | Term | First appointment date | Shares held at time of appointment | | Current shares held | | Current shares held by spouse or minor children | | Shares held in the name of others | | Educational background and experience | Concurrent posts in Apacer or other companies | Other supervisors, directors or supervisors in a spousal relationship or within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | | | Title | Name | Relation |
| Director | REPUBLIC OF CHINA | Yang Jun-Yong | 104.6.15 | Male | 3 years | 101.06.13 | 866,716 | 0.57% | 580,699 | 0.58% | - | 0.00% | - | 0.00% | The Institute of Electrical and Control Engineering, National Chiao Tung University Postdoctoral Fellow<br>Doctor of the Institute of Electrical and Control Engineering, National Chiao Tung University<br>M.S., Institute of Electrical and Control Engineering, National Chiao Tung University | Phison Electronics Corp.,Supervisor<br>Apacer Technology Inc., Director | None | None | None |
| Director and General Manager | REPUBLIC OF CHINA | Chang Chia-Kun | 104.6.15 | Male | 3 years | 101.06.13 | 437,142 | 0.29% | 196,825 | 0.20% | 81,740 | 0.08% | - | 0.00% | M.B.A., Baruch College, City University of New York<br>M.S. of Electrical Engineering, Polytechnic School of Engineering, New York University<br>Apacer Memory America Inc., General Manager | Apacer Technology Inc., Director/General Manager<br>Apacer Technology B.V., Director<br>Apacer Technology Japan Corp., Director<br>Apacer Electronic (Shanghai) Co., Ltd, Director’s Representative | None | None | None |

| Title | Nationality or country of registration | Name | Appointment date | Gender | Term | First appointment date | Shares held at time of appointment | | Current shares held | | Current shares held by spouse or minor children | | Shares held in the name of others | | Educational background and experience | Concurrent posts in Apacer or other companies | Other supervisors, directors or supervisors in a spousal relationship or within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | | | Title | Name | Relation |
| Director | REPUBLIC OF CHINA | Haydn Hsieh | 104.6.15 | Male | 3 years | 104.6.15 | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | Wistron Corporation, Senior Vice General Manager<br>Acer Inc., Portable Computer Business Group, General Manager, Senior Vice General Manager<br>Entrepreneur Class, National Chengchi University<br>Department of Electrical Engineering, Tatung University | Wistron NeWeb Corporation, Chairman and CEO<br>Wistron Corporation, Director<br>AEnrich Technology Corporation, Director<br>Raydium Semiconductor Corporation, Independent Director<br>Apacer Technology Inc., Director | None | None | None |
| Independent Director | REPUBLIC OF CHINA | Hong Xing-Cheng | 104.6.15 | Male | 3 years | 92.06.23 | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | B.S., Department of Economics, National Taiwan University<br>Hotung International Co., Ltd., General Manager<br>Hotung Venture Capital Corporation, General Manager<br>Hotung Investment Holdings Limited, General Manager<br>Far Eastern Textile Ltd., Vice General Manager<br>Oriental Rayon Co., Ltd., General Manager | Signax Technology Capital Inc., CEO<br>Chengda Venture Capital Corporation, CEO<br>Wonderful Hi-Tech Co., Ltd., Supervisor<br>Saga Unitek Ventures, Ltd., Director<br>Kangqun Venture Capital Corporation, Director<br>Saijia Investment Corporation, Director<br>Shun Cheng Development Corporation, Director<br>Apacer Technology Inc., Independent Director | None | None | None |

| Title | Nationality or country of registration | Name | Appointment date | Gender | Term | First appointment date | Shares held at time of appointment | | Current shares held | | Current shares held by spouse or minor children | | Shares held in the name of others | | Educational background and experience | Concurrent posts in Apacer or other companies | Other supervisors, directors or supervisors in a spousal relationship or within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | | | Title | Name | Relation |
| Independent Director | REPUBLIC OF CHINA | Max Wu | 104.6.15 | Male | 3 years | 92.06.23 | 101,979 | 0.07% | 68,325 | 0.07% | - | 0.00% | - | 0.00% | B.S., Department of Electronics Engineering, National Chiao Tung University<br>ISSC Technologies Corp., Chairman<br>Hua Nan Management Consulting Co., Chairman<br>InveStar Capital, Inc., Partner<br>Acer America Corp., President | Birch Venture Capital, Inc., Chairman<br>Spring Foundation of NCTU, Chairman<br>Novatek Microelectronics Corp., Director<br>YODN Lighting Corp., Director<br>Wistron NeWeb Corp., Director<br>Antec, Inc., Supervisor<br>Gigastone Corp., Independent Director<br>Apacer Technology Inc., Independent Director | None | None | None |
| Supervisor | REPUBLIC OF CHINA | George Huang | 104.6.15 | Male | 3 years | 93.05.24 | 1,801,554 | 1.19% | 1,207,041 | 1.20% | - | 0.00% | - | 0.00% | B.S., Department of Communications Engineering, National Chiao Tung University<br>Acer Inc., Chairman<br>Acer Inc., CFO<br>Acer Inc., Co-founder | Acer Inc., Director<br>Apacer Technology Inc., Supervisor<br>Les enphants Co. Ltd., Director<br>Motech Industries Inc., Director<br>PChome Online Inc., Independent Director<br>BIONET Corp., Independent Director | None | None | None |
| Supervisor | REPUBLIC OF CHINA | Zheng Zhong-Ren | 104.6.15 | Male | 3 years | 92.06.23 | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | J.S.D. of Stanford University<br>Professor of the Graduate Institute of Patent, National Taiwan University of Science and Technology | Wistron Corporation, Independent Director<br>Kinsus Interconnect Technology Corp., Director<br>ThroughTek Co., Ltd., Independent Director<br>Apacer Technology Inc., Supervisor<br>Apex Material Technology Corp.,Supervisor<br>Oto Photonics Inc.,Supervisor | None | None | None |

| Title | Nationality or country of registration | Name | Appointment date | Gender | Term | First appointment date | Shares held at time of appointment | | Current shares held | | Current shares held by spouse or minor children | | Shares held in the name of others | | Educational background and experience | Concurrent posts in Apacer or other companies | Other supervisors, directors or supervisors in a spousal relationship or within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | | | Title | Name | Relation |
| Supervisor | REPUBLIC OF CHINA | Huang Ren-Hong | 104.6.15 | Male | 3 years | 92.06.23 | - | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | Florida State University, Ph.D. Marketing<br>Professor of the Department of Management Science, National Chiao Tung University | Apacer Technology Inc., Supervisor | None | None | None |

(2) Major shareholders of the corporate shareholders: None.

(3) Major shareholders of the corporate shareholders as the representative thereof: None.

(4) Information on supervisors and directors

| Condition<br>Name | Experience of more than 5 years and following professional qualification | | | Independence (Note) | | | | | | | | | | Number of other public companies where the member also serves as an independent director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Lecturer or higher position at a public or private university/college in the department of commerce, law, finance, accounting or any other fields related to our business | Judge, public prosecutor, attorney, certified public accountant, or any other professional or technical specialists who have passed a national examination and received a certificate in a profession necessary for our business | Work experience in commerce, law, finance, accounting or any other field necessary for our business | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Austin Chen | | | ✓ | | | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | 1 |
| Teddy Lu | | | ✓ | ✓ | | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | 0 |
| Yang Jun-Yong | | | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | ✓ | 0 |
| Chang Chia-Kun | | | ✓ | | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | 0 |
| Haydn Hsieh | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | 1 |
| Hong Sing-Cheng | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Max Wu | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |
| George Huang | | | ✓ | ✓ | ✓ | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | 3 |
| Zheng Zhong-ren | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |
| Huang Ren-hong | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |

Note: Directors and supervisors are requested to mark "✓" in the space beside the number if any of the following requirements are satisfied during the two years before being elected or during the term of office .

(1) The director or supervisor was/is not an employee of the company or any of its affiliates.

(2) The director or supervisor was/is not a director or supervisor of the company or any of its affiliates (except for independent director of the company, its parent, or any subsidiary appointed pursuant to the Act or any local laws and regulations).

(3) The director or supervisor was/is not a natural-person shareholder who held/holds shares, together with those held by his/her spouse, minor children, or held by the director or supervisor in the name of another person, in an aggregate amount of one percent or more of the total issued shares of the company or was or is ranked as one of the top-ten shareholders.

(4) The director or supervisor was/is not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) The director or supervisor was or is not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total issued shares of the company or of a corporate shareholder that ranks among the top-five in shareholdings.

(6) The director or supervisor was/is not a director, supervisor, managerial officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company.

(7) The director or supervisor was/is not a professional individual who, or an owner, partner, director, supervisor, or managerial officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting affairs or consultation to the company or to any affiliate of the company, or a spouse thereof; This does not apply to any member of the remuneration committee who performs his/her duties pursuant to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8) The director or supervisor was/is not in a spousal relationship nor a relative within the second degree of kinship.

(9) The director or supervisor did/does not meet any of the requirements specified in Article 30 of the Company Act.

(10) The director or supervisor was not, as a government agency or a juristic person or a representative of any of them, elected pursuant to Article 27 of the Company Act.

(5) Information of the President, Vice President, Assistant Manager, and supervisors of departments and branches

April 20, 1998

<table>
<tr><th rowspan="2">Title</th><th rowspan="2">Nationality</th><th rowspan="2">Name</th><th rowspan="2">Gender</th><th rowspan="2">Inauguration date</th><th colspan="2">No. of shares held</th><th colspan="2">Shares held by spouse or minor children</th><th colspan="2">Shares held in the name of others</th><th rowspan="2">Educational background and experience</th><th rowspan="2">Concurrent posts in other companies</th><th colspan="3">Managerial officers in a spousal relationship or within the second degree of kinship</th></tr>
<tr><th>Shares</th><th>Shareholding ratio</th><th>Shares</th><th>Shareholding ratio</th><th>Shares</th><th>Shareholding ratio</th><th>Title</th><th>Name</th><th>Relation</th></tr>
<tr><td>Chairman</td><td>REPUBLIC OF CHINA</td><td>Austin Chen</td><td>Male</td><td>101.06.13</td><td>1,525,633</td><td>1.51%</td><td>450,268</td><td>0.45%</td><td>-</td><td>0.00%</td><td>M.B.A., Department of Management Science, National Chiao Tung University<br>Acer Inc., Vice General Manager<br>CINCHY Corp., Assistant Manager</td><td>Apacer Technology (BVI) Inc. Director<br>Darwin Precisions Corp., Independent Director<br>JoiiUp Technology Inc., Director’s Representative</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td>General manager</td><td>REPUBLIC OF CHINA</td><td>Chang Chia-Kun</td><td>Male</td><td>103.04.01</td><td>196,825</td><td>0.20%</td><td>81,740</td><td>0.08%</td><td>-</td><td>0.00%</td><td>M.B.A., Baruch College, City University of New York<br>M.S. of Electrical Engineering, Polytechnic School of Engineering, New York University<br>Apacer Memory America Inc., General Manager</td><td>Apacer Technology B.V., Director<br>Apacer Technology Japan Corp., Director<br>Apacer Electronic (Shanghai) Co., Ltd, Director’s Representative</td><td>None</td><td>None</td><td>None</td></tr>
<tr><td>Vice President</td><td>REPUBLIC OF CHINA</td><td>Victor Lin</td><td>Male</td><td>95.04.03</td><td>102,599</td><td>0.10%</td><td>61,908</td><td>0.06%</td><td>-</td><td>0.00%</td><td>Teapo Electronic Co., Ltd. , Head of the Central Infrastructure<br>ACERTWP Information Co., Ltd., CFO<br>Department of Accounting, National Cheng Kung University</td><td>Apacer Technologies Pvt. Ltd., Director</td><td>None</td><td>None</td><td>None</td></tr>
</table>

| Title | Nationality | Name | Gender | Inauguration date | No. of shares held | | Shares held by spouse or minor children | | Shares held in the name of others | | Educational background and experience | Concurrent posts in other companies | Managerial officers in a spousal relationship or within the second degree of kinship | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | | | Title | Name | Relation |
| Chief Financial Officer | REPUBLIC OF CHINA | Connie Lai | Female | 102.07.14 | - | 0.00% | - | 0.00% | - | 0.00% | Edison Opto Corp., Managerial Officer<br>Taiwan Cement Co., Ltd., Project Leader<br>Teapo Electronic Co., Ltd. , Assistant Manager<br>MBA, National Cheng Kung University | — | None | None | None |

## (6) Remuneration for directors, supervisors, President and Vice President in the most recent year

### 1. Remuneration for directors (including independent directors)

Unit: New Taiwan Dollar

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="8">Remuneration</th><th colspan="2" rowspan="2">Percentage of total amount of A, B, C and D in net income after tax</th><th colspan="8">Remuneration for part-time employees</th><th colspan="2" rowspan="2">Percentage of total amount of A, B, C, D, E, F and G in net income after tax (%)</th><th rowspan="3">Remuneration from invested businesses other than subsidiaries (Y/N)</th></tr>
<tr><th colspan="2">Remuneration (A)</th><th colspan="2">Retirement pension (B)</th><th colspan="2">Director remuneration (C)</th><th colspan="2">Business execution fee (D)</th><th colspan="2">Salary, bonus and special allowance (E)</th><th colspan="2">Retirement pension (F)</th><th colspan="4">Employee remuneration (G)</th></tr>
<tr><th>Apacer</th><th>All companies in financial report</th><th>Apacer</th><th>All companies in financial report</th><th>Apacer</th><th>All companies in financial report</th><th>Apacer</th><th>All companies in financial report</th><th>Apacer</th><th>All companies in financial report</th><th>Apacer</th><th>All companies in financial report</th><th>Apacer</th><th>All companies in financial report</th><th>Apacer<br>Cash dividend</th><th>Apacer<br>Share dividend</th><th>All companies in financial report<br>Cash dividend</th><th>All companies in financial report<br>Share dividend</th><th>Apacer</th><th>All companies in financial report</th></tr>
<tr><td>Chairman</td><td>Austin Chen</td><td rowspan="7">1,200,000</td><td rowspan="7">1,200,000</td><td rowspan="7">-</td><td rowspan="7">-</td><td rowspan="7">4,858,253</td><td rowspan="7">4,858,253</td><td rowspan="7">176,800</td><td rowspan="7">176,800</td><td rowspan="7">1.54%</td><td rowspan="7">1.54%</td><td rowspan="7">11,300,000</td><td rowspan="7">11,300,000</td><td rowspan="7">108,000</td><td rowspan="7">108,000</td><td rowspan="7">2,700,000</td><td rowspan="7">-</td><td rowspan="7">2,700,000</td><td rowspan="7">-</td><td rowspan="7">5.02%</td><td rowspan="7">5.02%</td><td rowspan="7">-</td></tr>
<tr><td>Director</td><td>Teddy Lu</td></tr>
<tr><td>Director</td><td>Yang Jun-Yong</td></tr>
<tr><td>Director</td><td>Chang Chia-Kun</td></tr>
<tr><td>Director</td><td>Haydn Hsieh</td></tr>
<tr><td>Independent director</td><td>Hong Sing-Cheng</td></tr>
<tr><td>Independent director</td><td>Max Wu</td></tr>
</table>

Salary Range Table

| Salary range for directors of Apacer | Director name | | | |
|---|---|---|---|---|
| | The total amount of the first four remuneration items (A+B+C+D) | | The total amount of the first seven remuneration items (A+B+C+D+E+F+G) | |
| | Apacer | All companies in financial report | Apacer | All companies in financial report |
| Less than 2,000,000 dollars | Austin Chen, Teddy Lu, Max Wu, Hong Sing-Cheng, Yang Jun-Yong, Chang Chia-Kun, Haydn Hsieh | Austin Chen, Teddy Lu, Max Wu, Hong Sing-Cheng, Yang Jun-Yong, Chang Chia-Kun, Haydn Hsieh | Teddy Lu, Max Wu, Hong Sing-Cheng, Yang Jun-Yong, Haydn Hsieh | Teddy Lu, Max Wu, Hong Sing-Cheng, Yang Jun-Yong, Haydn Hsieh |
| 2,000,000 dollars (incl.) ~ 5,000,000 dollars (not incl.) | - | - | - | - |
| 5,000,000 dollars (incl.) ~ 10,000,000 dollars (not incl.) | - | - | Austin Chen | Austin Chen |
| 10,000,000 dollars (incl.) ~ 15,000,000 dollars (not incl.) | - | - | Chang Chia-Kun | Chang Chia-Kun |
| 15,000,000 dollars (incl.) ~ 30,000,000 dollars (not incl.) | - | - | - | - |
| 30,000,000 dollars (incl.) ~ 50,000,000 dollars (not incl.) | - | - | - | - |
| 50,000,000 dollars (incl.) ~ 100,000,000 dollars (not incl.) | - | - | - | - |
| More than 100,000,000 dollars | - | - | - | - |
| Total | 7 | 7 | 7 | 7 |

2. Remuneration for supervisors

Unit: New Taiwan Dollar

| Title | Name | Supervisor remuneration | | | | | | Percentage of total amount of A, B and C in net income after tax (%) | | Remuneration from invested businesses other than subsidiaries (Y/N) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Remuneration (A) | | Remuneration (B) | | Business execution fee (C) | | | | |
| | | Apacer | All companies in financial report | Apacer | All companies in financial report | Apacer | All companies in financial report | Apacer | All companies in financial report | |
| Supervisor | George Huang | - | - | 2,271,843 | 2,271,843 | 62,400 | 62,400 | 0.58% | 0.58% | - |
| Supervisor | Huang Ren-Hong | | | | | | | | | |
| Supervisor | Zheng Zhong-Ren | | | | | | | | | |

Note: The percentage of each remuneration mentioned above in the net income after tax is determined based on the actually paid remuneration.

Salary Range Table

| Salary range for supervisors of Apacer | Supervisor name | |
|---|---|---|
| | Total amount of the first three remuneration items (A+B+C) | |
| | Apacer | All companies in financial report |
| Less than 2,000,000 dollars | George Huang, Huang Ren-Hong, Zheng Zhong-Ren | George Huang, Huang Ren-Hong, Zheng Zhong-Ren |
| 2,000,000 dollars (incl.) ~ 5,000,000 dollars (not incl.) | - | - |
| 5,000,000 dollars (incl.) ~ 10,000,000 dollars (not incl.) | - | - |
| 10,000,000 dollars (incl.) ~ 15,000,000 dollars (not incl.) | - | - |
| 15,000,000 dollars (incl.) ~ 30,000,000 dollars (not incl.) | - | - |
| 30,000,000 dollars (incl.) ~ 50,000,000 dollars (not incl.) | - | - |
| 50,000,000 dollars (incl.) ~ 100,000,000 dollars (not incl.) | - | - |
| More than 100,000,000 dollars | - | - |
| Total | 3 | 3 |

## 3. Remuneration for General Manager and Deputy General Manager

Unit: New Taiwan Dollar

| Title | Name | Salary (A) | | Retirement pension (B) | | Bonus and special allowance (C) | | Employee remuneration (D) | | | | The total amount of A, B, C and D in net income after tax (%) | | Remuneration from invested businesses other than subsidiaries (Y/N) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Apacer | All companies in financial report | Apacer | All companies in financial report | Apacer | All companies in financial report | Apacer | | All companies in financial report | | Apacer | All companies in financial report | |
| | | | | | | | | Cash amount | Share amount | Cash amount | Share amount | | | |
| General manager | Chang Chia-Kun | 6,756,000 | 6,756,000 | 216,000 | 216,000 | 4,612,000 | 4,612,000 | 3,900,000 | - | 3,900,000 | - | 3.82% | 3.82% | - |
| Deputy General Manager | Victor Lin | | | | | | | | | | | | | |

Note: The percentage of each remuneration mentioned above in the net income after tax is determined based on the actually paid remuneration.

### Salary Range Table

| Salary range for the General Manager and Deputy General Manager of Apacer | General Manager and Deputy General Manager name | |
|---|---|---|
| | Apacer | All companies in financial report |
| Less than 2,000,000 dollars | - | - |
| 2,000,000 dollars (incl.) ~ 5,000,000 dollars (not incl.) | - | - |
| 5,000,000 dollars (incl.) ~ 10,000,000 dollars (not incl.) | Victor Lin | Victor Lin |
| 10,000,000 dollars (incl.) ~ 15,000,000 dollars (not incl.) | Chang Chia-Kun | Chang Chia-Kun |
| 15,000,000 dollars (incl.) ~ 30,000,000 dollars (not incl.) | - | - |
| 30,000,000 dollars (incl.) ~ 50,000,000 dollars (not incl.) | - | - |
| 50,000,000 dollars (incl.) ~ 100,000,000 dollars (not incl.) | - | - |
| More than 100,000,000 dollars | - | - |
| Total | 2 | 2 |

4. Names of the managers distributing employee remunerations and the distributing status

Unit: New Taiwan Dollar

| | Title | Name | Share amount | Cash amount | Total | The total amount in net income after tax (%) |
|---|---|---|---|---|---|---|
| Managerial officerr | General manager | Chang Chia-Kun | 0 | 4,250,000 | 4,250,000 | 1.05% |
| | Deputy General Manager | Victor Lin | | | | |
| | Chief Financial Officer | Connie Lai | | | | |

Note: The percentage of the remuneration mentioned above in the net income after tax is determined based on the actually paid remuneration.

5. Comparison and analysis of the total remuneration as a percentage of net income stated in the financial report of Apacer or individual financial reports and paid by Apacer and all the companies in the consolidated report to each of Apacer's directors, supervisors, general manager and deputy general manager in the most recent 2 fiscal years, and description of the policies, standards, and portfolios for payment of the remuneration, the procedures for determining the remuneration, and the association with the operation performance and future risk exposure.

| Title | The total amount of 2016 remuneration in net income after tax (%) | The total amount of remuneration of all the companies in 2016 consolidated report in net income after tax (%) | The total amount of 2015 remuneration in net income after tax (%) | The total amount of remuneration of all the companies in 2015 consolidated report in net income after tax (%) |
|---|---|---|---|---|
| Director | 5.94% | 5.94% | 5.79% | 5.79% |
| Supervisor | | | | |
| General Manager and Deputy General Manager | | | | |

Remuneration for the directors and supervisors is appropriated pursuant to our "Articles of Incorporation" and is paid according to such Articles of Incorporation when there are profits in our final account; the salary structure for the General Manager and Deputy General Manager comprises a base salary, meal allowance, and transportation allowance. The salary is determined pursuant to the internal regulations based on the educational background, work experience, and performance.

## III. Corporate governance

(1) Operation status of the Board of Directors

The Board of Directors held five meetings in 2017. The presence and attendance of the directors and supervisors are described below:

| **Title** | **Name** | **Actual number of persons present (attended)** | **Number of meetings attended by proxy** | **Actual Presence (attendance) rate (%)** | **Remarks** |
|---|---|---|---|---|---|
| Chairman | Austin Chen | 5 | 0 | 100 | |
| Director | Teddy Lu | 5 | 0 | 100 | |
| Director | Yang Jun-Yong | 4 | 1 | 80 | |
| Director | Chang Chia-Kun | 5 | 0 | 100 | |
| Director | Haydn Hsieh | 5 | 0 | 100 | |
| Independent director | Hong Sing-Cheng | 5 | 0 | 100 | |
| Independent director | Max Wu | 5 | 0 | 100 | |
| Supervisor | George Huang | 4 | 0 | 80 | |
| Supervisor | Huang Ren-Hong | 4 | 0 | 80 | |
| Supervisor | Zheng Zhong-Ren | 4 | 0 | 80 | |

Other matters to be recorded:

1. Where any of the following circumstances occurs to the meeting of the Board of Directors, the date, term and proposal of the meeting as well as the opinions of all the independent directors and Apacer's action on these opinions shall be described:

(一) The matters referred to in Article 14-3 of the Securities and Exchange Act.

| Date | Term | Proposal | Independent director opinions | Apacer's action on these opinions |
|---|---|---|---|---|
| 21 February 2017 | 1st meeting in 2017 | Philip Tang and Grace Chen, certified public accountants of KPMG Taiwan, were commissioned to act as the CPAs of the company's financial statements | None | None |
| 21 February 2017 | 1st meeting in 2017 | Proposal for amendment of the "Procedures for Acquisition or Disposal of Assets" was adopted | None | None |
| 9 November 2017 | 4th meeting in 2017 | Proposal for transfer of the CFT and spokesperson was adopted | None | None |
| 14 December 2017 | 5th meeting in 2017 | Proposal for distribution of the 2017 remuneration for managerial officers was adopted | None | None |
| 14 December 2017 | 5th meeting in 2017 | Proposal for amendment of the "Procedures for Acquisition or Disposal of Assets" was adopted | None | None |
| 14 December 2017 | 5th meeting in 2017 | Proposal for amendment of the "Regulations on Engaging in Commercial Foreign Exchange Risk Management Related Financial Products" was adopted | None | None |
| 14 December 2017 | 5th meeting in 2017 | Proposal for amendment of the "Procedures for Loaning Funds to Others". | None | None |
| 14 December 2017 | 5th meeting in 2017 | Proposal for amendment of the "Procedures for Endorsements/Guarantees" was adopted | None | None |

(2) In addition to the matters mentioned above, any independent director expresses dissent or reservation with respect to a resolution of the Board of Directors, and such dissent or reservation is recorded in the minutes or a written statement: None.

2. Where the implementation status of recusal bearing on the interest of a director is involved, the name of the director, proposal, reasons for the recusal, and participation in the voting shall be described:

| Date | Term | Proposal | Resolution |
|---|---|---|---|
| 4 December 2017 | 5th meeting in 2017 | Proposal for distribution of the 2017 remuneration for managerial officers was adopted | The proposal was approved by a resolution of the directors, excluding Chang Chia-Kun, who did not participate in the discussion and voting due to personal interests, present at the meeting of the Board of Directors after consultation with the independent directors. |

3. Evaluation of the goal and implementation status with respect to enhancement of the function of the Board of Directors in the current and most recent years:

We have established our "Rules of Procedures for Board of Directors Meeting" for compliance pursuant to the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies", entered the presence of the directors at the meeting in the Market Observation Post System, and disclosed important resolution of the meeting on our webswite.

Our Remuneration Committee is composed of independent directors and external members to regularly (at lease once a year) review the policies, systems, standards and structures of the performance evaluation of remuneration for directors, supervisors and managers, and evaluation of the management team's performance and employee bonus policies.

Our financial and non-financial information have been disclosed in the Market Observation Post System according to relevant regulations and set up special web pages for investors on our website to disclose information on our financial status and corporate governance in a timely manner.

(2) Operation status of the Audit Committee or participation of supervisors in the meeting of the Board of Directors

The Board of Directors held five meetings in 2017. The attendance of is described below:

| Title | Name | Actual number of persons attended | Actual attendance rate (%) | Remarks |
|---|---|---|---|---|
| Supervisor | George Huang | 4 | 80 | |
| Supervisor | Huang Ren-Hong | 4 | 80 | |
| Supervisor | Zheng Zhong-Ren | 4 | 80 | |

Other matters to be recorded:

1. Responsibilities of supervisors and their formation
   (1) Communication between supervisors and employees of the company:
   Supervisors may have direct contact and conversation with an employee and shareholder if necessary.
   (2) Communication of supervisors with the chief internal auditor and CPA:
   a. The chief auditor submitted an audit report to superiors in the following month which audit of items was completed, and no supervisor expressed dissent.
   b. The chief auditor attended the regular meeting of the Board of Directors and reported the audit affairs, and no supervisor expressed dissent.
   c. Supervisors regularly communicated face-to-face with the CPAs to discuss the financial status.
2. Where supervisors attend the meeting of the Board of Directors and state opinions, the date, term and proposal of the meeting as well as the resolution at the meeting and Apacer's action on these opinions shall be described: None.

(3) Corporate governance and differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons:

| Item | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 1. Does Apacer establish and disclose corporate governance best practice principles pursuant to the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies"? | V | | We have established the "Corporate Governance Best Practice Principles" pursuant to the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" and disclosed these on our website. | No difference |
| 2. Shareholding structure and shareholder's equity | | | | |
| (1) Does Apacer have an internal procedure and does it act accordingly for handling suggestions, doubts, disputes, and lawsuits? | V | | (1) To protect the interests of the shareholders, we have designated personnel to deal with suggestions, doubts and disputes of the shareholders. We may accept suggestions and we deal with disputes depending on the type of the problem, and act according to the procedure. | No difference |
| (2) Does Apacer have lists of the major shareholders who actually control the Company and the persons who control the major shareholders? | V | | (2) We have lists of the major shareholders who actually control the Company and the persons who ultimately control the major shareholders to ensure the stability of the business management rights. | |
| (3) Does Apacer establish and implement a firewall mechanism for control the risks between Apacer and affiliates? | V | | (3) We have established the internal "Regulations Governing the Transactions among Related Parties, Specific Companies, and Group Enterprises", "Subsidiary Management Regulations", "Procedures for Endorsements/Guarantees", "Procedures for Loaning Funds to Others", and "Procedures for Acquisition or Disposal of Assets" to establish appropriate risk control mechanism and firewall. The auditors supervise the implementation on a regular basis. | |
| (4) Does Apacer have internal regulations to prohibit insiders of the Company from using information undisclosed to trade securities? | V | | (4) We have established the internal control regulations of "Management Procedures for Handling Material Inside Information and Prevention of Insider Trading" and "Procedures for Ethical Management and Guidelines for Conduct" to prohibit insiders of the Company from using undisclosed information not open to the market to trade securities. Promotions are executed to the insiders and employees of the Company. | |

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Description</th><th rowspan="2">Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>3. Responsibilities of the Board of Directors and its formation<br>(1) Does Apacer have a policy of diversity for the formation of the Board of Directors and implement it thoroughly?</td><td>V</td><td></td><td>(1) The policy of diversity for the formation of our Board of Directors is disclosed on our website. The directors of the Company have professional background of technology, business management and venture investment and practical experience in different industries. Their professional knowledge, educational background, and work experience meet the requirements of the Company.
<table>
<tr><th>Title</th><th>Name</th><th>Leadership and decision</th><th>Professional knowledge and skill</th><th>Professional legal knowledge and skill</th></tr>
<tr><td>Chairman</td><td>Austin Chen</td><td>V</td><td>V</td><td></td></tr>
<tr><td>Director</td><td>Teddy Lu</td><td>V</td><td>V</td><td></td></tr>
<tr><td>Director</td><td>Yang Jun-Yong</td><td></td><td>V</td><td></td></tr>
<tr><td>Director</td><td>Chang Chia-Kun</td><td>V</td><td>V</td><td></td></tr>
<tr><td>Director</td><td>Haydn Hsieh</td><td>V</td><td>V</td><td></td></tr>
<tr><td>Independent director</td><td>Hong Sing-Cheng</td><td></td><td>V</td><td></td></tr>
<tr><td>Independent director</td><td>Max Wu</td><td></td><td>V</td><td></td></tr>
<tr><td>Supervisor</td><td>George Huang</td><td>V</td><td>V</td><td></td></tr>
<tr><td>Supervisor</td><td>Zheng Zhong-Ren</td><td></td><td>V</td><td>V</td></tr>
<tr><td>Supervisor</td><td>Huang Ren-Hong</td><td></td><td>V</td><td></td></tr>
</table></td><td>(1) No difference</td></tr>
<tr><td>(2) Does Apacer voluntarily form other functional committees similar to the Remuneration Committee and Audit Committee set up pursuant to relevant laws and regulations?</td><td></td><td>V</td><td>(2) We have formed the Remuneration Committee and established the "Articles of Association of Special Committee on Mergers and Acquisitions" as a basis for the establishment of a special merger and acquisition committee in the future. We have also formed the Corporate Social Responsibility Committee, which reports its implementation status and outcomes to the Board of Directors and President on a regular basis.</td><td>(2) Assessment of the necessity for additional functional committees with reference to the business operation status and scale in the future.</td></tr>
</table>

| Item | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (3) Does Apacer have guidelines for evaluating the performance of the Board of Directors and conduct regular performance evaluation every year? | | V | (3) The guidelines are not established yet. | (3) To be established. |
| (4) Does Apacer assess the CPAs for their independence on a regular basis? | V | | (4) We assess CPAs for their independence every year pursuant to the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and with reference to the The Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10. Improvement assessment items are listed below:<br>1. There is no direct or material indirect financial interest or significant close business relationship<br>2. No member of the audit team is currently, or was within the recent two years, a director, supervisor, or managerial office of the Company, or in a position to exert significant influence on audit engagement<br>3. Non-audit service does not have direct influence on any important audit items<br>4. No promotion or brokerage of the stocks or other securities issued by the Company exists<br>5. No kinship exists between a member of the audit team and any director, supervisor, or managerial office of the Company, or any person of the Company who is in a position to exert significant influence on audit engagement`<br>6. No former partner acts as a director, supervisor, or managerial office of the Company or is in a position to exert significant influence on audit engagement within one year after he/she left his/her office.<br>We regularly assess the independence statements of the CPAs and report the results and statements to the Board of Directors. Replacement of our CPAs is conducted pursuant to relevant regulations. | (4) No difference |

| Item | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 4. Do TWSE/TPEx Listed Companies set up designated (concurrent) corporate governance units or personnel responsible for related matters (including but not limited to providing information required for directors and supervisors to perform their duties, handling matters related to Board of Directors' and shareholders' meetings, dealing with company and change registration, and making minutes of Board of Directors' and shareholders' meetings)? | V | | We established the "Corporate Social Responsibility Committee" in 2015. It has a "Corporate Governance" task force formed by personnel who have work experience in the professional fields of legal, financial, and stock affairs to plan and execute corporate governance matters including:<br>1. Company and change registration<br>2. Regular arrangement of further education for directors and provision of information required for directors to perform their duties and related to the latest legal development relevant to operation of the Company to help directors observe laws and regulations<br>3. Planning the meeting of the Board of Directors and executing the resolutions<br>4. Other matters referred to in the Articles of Incorporateion or contracts | No difference |
| 5. Does Apacer establish channels for communication with stakeholders (including but not limited to shareholders, employees, customers, and suppliers), design special web pages for the stakeholders on the website, and appropriately respond to important CSR issues concerned about by the stakeholders? | V | | We have set up appropriate channels for communication with upstream and downstream vendors, banks, investors, and other stakeholders. For investors, we set up a special shareholder service and investor relationship mailbox and designated personnel for dealing with related matters. We also disclose related information on our website; management-labor meetings, complaint systems, and internal information networks are set up for the employees; regular production and sales activities are held for vendors on a regular basis. The "Contact Us" page is available on our website for such information as customer relations, public relation/investor relations, supplier relations, and product development. This provides channels for stakeholders to communicate with us in different circumstances. Special web pages for stakeholders are available on our website. | No difference. |
| 6. Does Apacer commission a professional registrar to deal with the affairs of shareholders' meeting? | V | | We have commissioned KGI Securities Co. Ltd., Stock Administration, to handle these affairs. | No difference |
| 7. Disclosure of information<br>(1) Does Apacer have a website to disclose the financial and corporate governance information of the Company? | V | | (1) Apacer website: (http://www.apacer.com/).<br>We disclose information about our business, financial status, and implementation of corporate governance on our website. | No difference |

| Item | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (2) Does Apacer adopt other information disclosing methods (such as building an English website, designating a person for collection and disclosure of information, implementing a spokesperson system, and publishing the process of investor conferences on the website)? | V | | (2) We build a website to provide relevant information in Chinese and English as a reference for shareholders and stakeholders, and designate our CFO, Ms. Lai Tzu-Min, to act as the spokesperson and our President, Mr. Chang Chia-Kun, to act as the deputy of the spokesperson. A marketing department is set up to maintain communication with the media. At least one investor conference is held every year and the process is published on our website. All the important information that may affect the shareholders and stakeholders is disclosed appropriately in a timely manner. | |
| 8. Does Apacer have additional important information that is helpful to understand the operation of the corporate governance (including but not limited to the interests and care of employees, investor relationship, supplier relationship, rights of stakeholders, further education of directors and supervisors, and implementation of risk management policies and measurement criteria)? | V<br><br><br><br><br><br><br><br>V<br><br><br><br><br><br>V<br><br><br>V | | (1) Interests and care of employees:<br>In addition to formation of the Supervisory Committee of Labor Retirement Reserve and arrangement of labor insurance, national health insurance and group insurance, we have an Employee Welfare Committee to complete employee welfare measurements and ensure the retirement system. Existing welfare measures include marriage allowance, maternity allowance, funeral allowance, consolatory hospitalization bonus, birthday bonus, and subvention for the clubs and recreational activities of the employees.<br>(2) Investor relationship:<br>We have a spokesperson, a deputy spokesperson, and a designated unit for investor relations. The contact information of the unit is made public and investors can give feedback at any time. The communication between us and our investors is enhanced and the transparency of our financial status and cooperate governance is improved to create a better image of the Company.<br>(3) Supplier relationship:<br>We always maintain good relations with our suppliers and protect the interests of both parties on a basis of mutual benefit and trust.<br>(4) Rights of stakeholders:<br>Stakeholders can communicate with us and give us advices. | No difference |

| Item | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| | V | | (5) Further education of directors and supervisors<br>To enhance the knowledge of corporate governance, we have arranged our directors and supervisors (including independent directors and supervisors) to take relevant courses in the continuing education systems or professional institutions recognized in the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies". They have received a certificate of further education. | |

| Title | Name | Organizer | Course | Education hours | Does the course meet requirements? |
|---|---|---|---|---|---|
| Chairman | Austin Chen | Securities and Futures Institute | Analysis of enterprise financial crisis early-warning and types | 3 | Yes |
| | | | Regulations of competition on the rights of business management and practical case studies | 3 | Yes |
| Director | Chang Chia-Kun | Securities and Futures Institute | Analysis of enterprise financial crisis early-warning and types | 3 | Yes |
| | | | Regulations of competition on the rights of business management and practical case studies | 3 | Yes |
| Director | Teddy Lu | Taiwan Corporate Governance Association | The board of directors and business succession: cases of ABC business succession planning | 3 | Yes |
| | | Accounting Research and Development Foundation | Corporate governance and regulations on securities and exchange: evaluation of corporate governance | 3 | Yes |
| Director | Yang Jun-Yong | Taiwan Corporate Governance Association | Analysis of regulations and cases regarding the transactional aspects of business merger and acquisition | 3 | Yes |
| | | | Responsibilities of directors and supervisors regarding business mergers and acquisitions | 3 | Yes |
| Director | Haydn Hsieh | Taiwan Corporate Governance Association | Information security governance and technological development | 3 | Yes |
| | | | Responsibilities and duties of the directors and management of a company | 3 | Yes |
| | | | Legal risks for the directors and management of a company | 3 | Yes |
| Supervisor | Huang Ren-Hong | Accounting Research and Development Foundation | Legal responsibilities of enterprises for (illegal deposit taking) and practical case studies | 3 | Yes |
| | | | Corporate governance: establishment of functional committees and operational practices | 3 | Yes |
| Supervisor | George Huang | Taiwan Corporate Governance Association | Trends in information security and personal data protection in the age of IoB (Internet of Beings): responsibilities of directors and supervisors | 3 | Yes |
| | | | Major changes of IFRS in 2018~2019 | 3 | Yes |
| Supervisor | Zheng Zhong-Ren | Taiwan Corporate Governance Association | Responsibilities and duties of the directors and management of a company | 3 | Yes |
| | | | Legal risks for the directors and management of a company | 3 | Yes |
| Independent Director | Max Wu | Securities and Futures Institute | "A share for a dollar": securities fraud and illegal issuance of stocks and corporate debt | 3 | Yes |
| | | | International and domestic development of the fight against tax avoidance: how enterprises should respond | 3 | Yes |
| Independent Director | Hong Sing-Cheng | Taiwan Corporate Governance Association | Functions of independent directors and operation practices of audit committees | 3 | Yes |
| | | Securities and Futures Institute | Analysis of business financial information and decision making | 3 | Yes |

| Item | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |

(6) Managers and their participation in continuing education and training related to corporate governance:

| Title | Name | Date | Organizer | Course | Education hours |
|---|---|---|---|---|---|
| General manager | Chang Chia-Kun | 8/24/2017 | Securities and Futures Institute | Analysis of enterprise financial crisis early-warning and types | 3 |
| | | | | Regulations of competition on the rights of business management and practical case studies | 3 |
| Deputy General Manager | Victor Lin | 9/5/2017 | Institute for Information Industry | Prospect for the trend of IT industry innovation | 3 |
| | | | | The future of IT talents | 3 |
| CFO | Connie Lai | 7/13/2017~ 7/14/2017 | Accounting Research and Development Foundation | Continuing education program for accounting managers of issuers, securities firms, and securities exchanges | 12 |
| | | 8/29/2017 | Accounting Research and Development Foundation | Corporate governance: Establishment of "functional committees" and operational practices | 3 |

(7) Implementation of risk management policies and risk assessment standards:

In accordance with relevant regulations and operational needs, internal management systems have been established. We provide education and training to employees for the development of appropriate concepts. We also actively promote and implement all kinds of risk management standards to decrease financial and business risks. On the other hand, internal auditors regularly conduct reviews on the implementation of our risk management regulations, and defects are corrected or improved to ensure effective oversight of the risk management systems.

| Item | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| | | | (8) Implementation of customer policies:<br>We and our subsidiaries greatly value the opinions of customers. Business review meetings are held with the customers to understand their opinions and questions regarding products so that stable and good relations can be maintained with the aim to generate profits for the Company.<br>(9) Liability insurance coverage for directors and supervisors & social responsibility:<br>All our directors and supervisors are covered by liability insurance. | |
| 9. On the basis of the result of corporate governance evaluation released by TWSE's Corporate Governance Center in the most recent year, please describe the matters to which improvements have been made. Regarding the matters to which improvements have yet to be made, please list those which have been selected as priorities and the measures to be taken. | V | | According to the results of the corporate governance evaluation released in 2017, the matters to which improvements have been made are listed as follows:<br>1. The shareholder's meeting was held before the end of May.<br>2. Election voting was adopted.<br>3. Candidates nomination system was adopted for election of directors and supervisors.<br>4. Proposals were voted by case on the shareholders' meeting.<br>5. The CSR report was prepared in accordance to international guidelindes and acquired certification from third party.<br>Regarding the matters for which improvements have yet to be made, the selected priorities are listed as follows:<br>1. To voluntary establish an audit committee that meets the requirements.<br>2. A higher number of independent directors than that specified in relevant regulations.<br>3. To convene six BoD meetings.<br>4. Material information to be announced and reported simultaneously in both Chinese and English.<br>5. To convene a second investor conference.<br>6. Disclosure of annual and financial reports in English. | We continued to conduct assessments and make improvements in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies. |

(4) If the company has a remuneration committee, the composition, responsibilities and operation of the committee shall be disclosed:

Our Remuneration Committee is composed of independent directors and external members. The Committee's responsibilities include formulation and regular review of the policies, systems, standards and structures of the performance evaluation of remuneration for directors, supervisors and managers, and evaluation of the management team's performance and employee bonus policies.

1. Information of the members of the Remuneration Committee

| Member type | Qualification / Name | Experience of more than 5 years and following professional qualification | | | Independence (Note) | | | | | | | | Number of other public companies where the member also serves in a remuneration committee | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Lecturer or higher position at a public or private university/college in the department of commerce, law, finance, accounting or any other fields related to our business | Judge, public prosecutor, attorney, certified public accountant, or any other professional or technical specialists who have passed a national examination and received a certificate in a profession necessary for our business | Work experience in commerce, law, finance, accounting or any other fields necessary for our business | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Independent director | Max Wu | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 | |
| Independent director | Hong Sing-Cheng | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |
| External member | Michael Lee | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |

Note: Members are requested to mark "✓" in the space beside the number if any of the following requirements are satisfied during the two years before being elected or during the term of office.

(1) The member was/is not an employee of the company or any of its affiliates.

(2) The member was/is not a director or supervisor of the company or any of its affiliates (except for the independent director of the company, its parent, or any subsidiary appointed pursuant to the Act or any local laws and regulations)

(3) The member was/is not a natural-person shareholder who held or holds shares, together with those held by his/her spouse, minor children, or held by the director or supervisor in the name of another person, in an aggregate amount of one percent or more of the total issued shares of the company or was or is ranked as one of the top-ten shareholders.

(4) The member was/is not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) The member was/is not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total issued shares of the company or of a corporate shareholder that ranks among the top-five in shareholdings.

(6) The member was/is not a director, supervisor, managerial officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company.

(7) The member was/is not a professional individual who, or an owner, partner, director, supervisor, or managerial officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting affairs or consultation to the company or to any affiliate of the company, or a spouse thereof;

(8) The member did/does not meet any of the requirements specified in Article 30 of the Company Act.

2. Information of the operation of the Remuneration Committee

(1) Our Remuneration Committee is composed of three members.

(2) The term of the current members: June 15, 2015 - June 14, 2018. Four (A) meetings of the Committee have been convened in the most recent year, and the titles of the members and their attendance records are as follows:

| Title | Name | Number of meetings attended (B) | Number of meetings attended by proxy | Attendance rate (B/A) | Remarks |
|---|---|---|---|---|---|
| Convener | Max Wu | 4 | 0 | 100 | |
| Member | Hong Sing-Cheng | 4 | 0 | 100 | |
| Member | Michael Lee | 4 | 0 | 100 | |
| Other matters to be recorded:<br>1. If the BoD does not adopt or revise the suggestions of the Remuneration Committee, the decision must indicate the date of BoD meeting, term, contents of the proposal, BoD resolution and how we handle the Committee's opinions (if the amount of remuneration adopted by the BoD is higher than that suggested by the Committee, the differences and reasons must be indicated): None.<br>2. In the event that any member of the Remuneration Committee has expressed dissent or reservation over the Committee's decisions, and that the dissent or reservation has been recorded or delivered in writing, the decision shall indicate the date of the Committee's meeting, term, contents of the proposal, opinions of all the members, and how the opinions of a member is handled: None. | | | | | |

(5) Fulfillment of social responsibility:

| Item for evaluation | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 1. Implementation of corporate governance | | | | |
| (1) Does Apacer develop CSR policies or systems, and review their implementation? | V | | (1) Since 2012, we have published the "Apacer CSR Report" annually to show that we attach importance to CSR and our implementation in the work environment. | No Difference |
| (2) Does Apacer regularly hold education and training sessions regarding CSR? | V | | (2) We have promoted and conducted training courses on CSR. We also established the CSR Committee, which consists of five task groups for the purpose of promoting CSR in the economic, environmental and social aspects. | |
| (3) Does Apacer have a special unit or designate an existing unit for the task of CSR promotion? Does Apacer's BoD authorize the management to handle relevant matters and report to the BoD? | V | | (3) Our Chairman and President act respectively as the head and executive secretary of the CSR Committee., and the business marketing division is designated as the Committee's secretariat. To promote CSR, we communicate and coordinate with all divisions, regularly follow up on the conditions of the task groups and report them to the management and the BoD. | |
| (4) Does Apacer develop reasonable remuneration policies? Does Apacer integrate CSR policies into the employee performance assessment systems, and establish clear and effective systems of reward and punishment? | V | | (4) Our remuneration policies are implemented after the Remuneration Committee submits relevant decisions to the BoD. The Committee is composed of independent directors and external professionals, who are able to offer suggestions at a level in line with the market and industry average. In addition, we rely on the directions of performance assessment for strict implementation of our policies and the review of employee KPIs, which are the basis of reward and punishment. | |

| Item for evaluation | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 2. Development of environmental sustainability | | | | |
| (1) Does Apacer put effort into enhancing the efficiency of resource usage? Does Apacer use recycled materials which have a low impact on the environmental load? | V | | (1) We have put effort into improving the sources and enhancing the efficiency of resource usage, in order to achieve the objectives of waste reduction and lower the environmental impact. | No Difference |
| (2) Does Apacer have environmental management systems which fit the industrial characteristics of the company? | V | | (2) We have established an environmental management system which has received ISO 14001 certification. We regularly conduct internal audits and management reviews to ensure the operations are conforming to relevant environmental regulations and international standards. The aim is to achieve environmental sustainability. | |
| (3) Does Apacer pay attention to the effects of climate change on its operations? Does Apacer maintain a greenhouse gas inventory and develop policies regarding energy saving and carbon/greenhouse gas reduction? | V | | (3) We regularly maintain the greenhouse gas inventory and strictly implement measures for energy conservation and CO2 emission reduction. We use power-saving lights with high efficiency, replace energy-consuming office automation equipment in the production line, introduce compact computers which are low energy-consuming, promote a paperless office through digitization, and set air conditioners to automatically shut down during non-office hours. With these measures, we seek to reduce energy waste and usage. We also have formulated short-term, medium-term and long-term strategies for energy conservation and CO2 emission reduction, with having a "green factory" as the ultimate goal. | |

| Item for evaluation | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 3. Protection of public interests<br>(1) Does Apacer have management policies and procedures in accordance with relevant regulations and international human rights conventions? | V | | (1) According to the Labor Standards Act, an employer must not employ any person under the age of 16, and any such person will be prohibited from performing heavy and dangerous work. We are in continuous compliance with government regulations and have never illegally employed any worker under 16. Also, the Company prohibits forced labor and does not allow any minor to perform dangerous work. In our supply chain management, every contractor has been asked to prohibit child labor in accordance with the Electronic Industry Code of Conduct (EICC), and follow the labor laws and worker safety regulations of different regions. Due to wide-scale changes of labor law in recent years, the Company has since 2011 conducted a review of all internal systems and regulations and revised relevant provisions in accordance with the latest laws. With approval from the Labor Affairs Department, we revised its work rules and published them on the internal website for employees to read at any time. | No Difference |
| (2) Does Apacer have mechanisms and channels for employee complaints, and does it properly handle any such complaints? | V | | (2) In accordance with the Act of Gender Equality in Employment, we have established mechanisms for employee complaints. The human resources (HR) manager has been designated as the person in charge of receiving complaints from employees through e-mail, by telephone, in writing or in person. | |
| (3) Does Apacer provide a safe and healthy work environment to its employees? Does Apacer regularly provide its employees with safety and health education? | V | | (3) We regularly conduct employee health examinations every year, clean the work environment and hold disaster prevention exercises. We promote education and training on worker safety and health, and relevant materials are provided from tiem to time through the internal website to employees for reference. Since 2015, We have developed the "Plan for Prevention of Diseases Induced by Exceptional Workload" in accordance with the Occupational Safety and Health Act to comprehensively expand the employee health promotion program. | |

| Item for evaluation | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (4) Does Apacer have mechanisms for regular employee communication? Does Apacer, through appropriate ways, notify its employees of any changes in operations that may have major impact on them? | V | | (4) We regularly send the "Apacer Newsletter" to all employees, and any major event is simultaneously communicated to them upon occurrence. The aim is to ensure every employee understands the operational policies clearly.<br>We regularly hold management-labormeetings, attended by representatives of the employees and the management, to facilitate two-way communication regarding our systems and employees' questions about the policies, work environment, safety and health. Through adequate communication and exchange of opinions, such meetings aim to achieve consensus and enhance trust between the employees and the management. By accepting suggestions and making improvements in multiple aspects, we seek to build a dynamic, safe and comfortable work environment.<br>We respect the rights of employees and encourage the voluntary formation of all kinds of employee associations in order to strengthen coherence among the employees. An employee benefits committee composed of employee representatives is formed to handle matters related to employee benefits, establish regulations governing the management of employee associations, and organize large events. The purpose is to make employees identify with the Company's values more through the influence of "soft" events and interaction between the employees. | |
| (5) Does Apacer have effective programs for development and training regarding employees' career skills? | V | | (5) In 2014, we began to comprehensively implement HR operations with position and competency as the core concerns. Education and training courses have been designed for employees in different positions to enhance their competencies. Since 2015, the Company has implemented the "Directions on Talent Supply Chain Management for Essential Positions" in all aspects with the expectation that the potential of employees can be effectively increased. | |

| Item for evaluation | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (6) Does Apacer have policies for consumer rights protection regarding the R&D, procurement, production, operation and service processes? Does Apacer have transparent and effective procedures for consumer complaints regarding its products and services? | V | | (6) We have operational standards in place for customer complaints and procedures for customer feedback. A customer-oriented quality system has been developed to conduct objective and comprehensive assessment of customer satisfaction regarding the Company's products or services. The purpose is to understand the difference between a customer's need and expectation, and use it as the basis of quality system improvements with the aim to achieve sustainable business management. For the purpose of protecting the global environment and lowering damage to the ecosystem, each of the Company's suppliers of raw materials has signed a declaration on the non-use of hazardous substances to ensure the Company's products meet the requirements of RoHS and other EU directives related to the environment. In the declaration, suppliers agree that the design and manufacturing of products must be in strict compliance with regulations and standards of environmental protection. Suppliers have also agreed to work with the Company to reach the world standards for environmental protection policies, through effective control of raw materials and processes and ensuring that the products meet the RoHS standards. Regarding the procurement of raw materials, the Company does not use "conflict minerals". To ensure that metals like gold (Au), tantalum (Ta), tin (Sn) and tungsten (W) do not originate from mines in the conflict areas of the Democratic Republic of the Congo, the Company and its suppliers work together to check the sources and prohibit the use of conflict minerals, as part of the Company's CSR for the environment. | |
| (7) Do the marketing and labeling of the company's products and services conform to relevant regulations and international | V | | (7) The Company ensures the quality of its products and services are in accordance with government regulations and industrial standards. Regarding the marketing and labeling of products and services, the Company follows relevant regulations and international standards and strictly prohibits deceit, misguidance, fraud or any other act that damages the trust or rights of customers. | |

| Item for evaluation | Description | | | Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (8) Does Apacer assess the past records of a supplier regarding its environmental and social impacts before conducting business with such supplier? | V | | (8) Before conducting business with a supplier, the Company collects relevant information and inspects the supplier's factory. The company conducts an assessment and acquires relevant documents regarding the quality, process, warehousing and environmental management of any products in order to learn whether there are any records of hazards. The Company takes this into account when considering cooperation with the supplier. To further assess a supplier's capability for the management of hazardous substances, the Company established the "System for Rating of Supplier "Greenness"" on the basis of existing supplier management processes. The score is calculated using the "review success rate" and "overdue update completion time" from the supplier's RoHS test report. The procurement staffm ay use the criteria to assess the supplier's capability for hazardous substance free (HSF) management and demand improvements. Or the procurement staff may use the rating of suppliers to calculate the scores during annual audits to find suppliers that meet the latest requirements and standards of the world and customers. | |
| (9) Does the contract between the company and any of its main suppliers include any clause stipulating that if the supplier violates its CSR policies and the violation has a significant impact on the environment and society, the company may terminate or cancel the contract? | V | | (9) In accordance with the EICC, all component specifications and procurement procedures of Apacer comply with standard written or fair contracts so that suppliers can focus on ethical management and offer the best quality and reasonable prices. Through influence on suppliers and cooperative relationships, Apacer promotes certain issues in its upstream supply chain, including RoHS, process and quality control, workers' rights, health and safety, and prohibition of child labor. Apacer also has communication channels in place with suppliers to ensure they also follow the EICC to reduce risks of non-conformity with relevant regulations. This shows that Apacer does put emphasis on CSR. | |

<table>
<tr><th rowspan="2">Item for evaluation</th><th colspan="3">Description</th><th rowspan="2">Differences from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>4. Increasing disclosure of information<br>Does Apacer disclose relevant and reliable CSR information on its website and the Market Observation Post System?</td><td>V</td><td></td><td>Apacer discloses relevant and reliable CSR information on its website and annual reports.<br>For relevant information, please visit Apacer’s website: (http://www.apacer.com/)</td><td>No Difference</td></tr>
<tr><td colspan="5">5. In the event the company has established its own CSR principles in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, please describe the differences between the actual implementation of CSR and the company’s own CSR principles: The actual implementation of CSR in Apacer has been completely in line with its "CSR Best Practice Principles", and there have been no differences.</td></tr>
<tr><td colspan="5">6. Other important information helpful for understanding the actual implementation of CSR: For detailed information, please see Apacer’s annual CSR reports which have been published on its website: (http://www.apacer.com/)</td></tr>
<tr><td colspan="5">7. If the company’s CSR reports have been verified by relevant validating agencies, please describe: Apacer’s 2016 CSR report has been certified by BSI. As of the date of this annual report printed, Apacer’s 2017 CSR report is still reviewed by BSI. At the same time, Apacer has implemented an ISO 14001 environmental management system and introduced an ISO 50001 energy management system in order to reduce the consumption of energy and resources. Apacer has also received validation under the OHSAS 18001 occupational safety and health system, and provides a healthy and safe workplace environment. Regarding quality control, Apacer has established an ISO 9001 quality management system and a QC080000 hazardous substances process management (HSPM) system for electronic and electrical products. Apacer has not only committed to product quality assurance but also implemented green production processes and followed the international RoHS standards.</td></tr>
</table>

(6) Implementation of corporate ethical management and measures taken:

| Item for evaluation | Description | | | Differences with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 1. Development of ethical management policies and programs<br>(1) Does Apacer clearly specify, in its regulations and external documents, the ethical management policies and practice and the commitment of the BoD and the management to rigorous and thorough implementation of those policies? | V | | (1) Apacer has a "Code of Ethical Conduct", "Ethical Corporate Management Best Practice Principles" and "Procedures for Ethical Management and Guidelines for Conduct". The HR unit is responsible for the supervision and implementation of ethical management policies and preventive programs, which are included in routine audit reports submitted to the BoD and published on Apacer's internal website for employees to read. So far, Apacer has not found any material violation. | No Difference |
| (2) Does Apacer have programs in place for the prevention of unethical conduct, and specify in such programs the operational procedures, code of conduct, punishment for violations and complaint systems? Have such programs been implemented? | V | | (2) Apacer has a "Code of Ethical Conduct", "Ethical Corporate Management Best Practice Principles", "Ethical Management Procedures and Conduct Guidelines" and "Rules Governing the Whistleblowing System" to regulate unethical conduct and preventive measures. It is stipulated in Apacer's work rules that in the event of conclusive evidence shows an employee has "engaged in jobbery, embezzlement of public funds, or acceptance of bribes/commissions" or "concurrently conducted any external business that is in conflict with Apacer's operations and affects its interests, with the circumstances deemed grave", the employee must be dismissed. Apacer promotes these rules during education and training sessions to ensure its employees understand the regulations they are required to follow during work. | |

| Item for evaluation | Description | | | Differences with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (3) Does Apacer take preventive measures against all types of unethical conduct specified in Article 7, Paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, or against any business activity within the company's business scope with a higher risk of involving unethical conduct? | V | | (3) To ensure implementation of ethical management, Apacer has established effective systems for accounting and internal control. Auditors regularly examine the extent of compliance with these systems. | |
| 2. Implementation of ethical management<br>(1) Does Apacer assess the past records of the counterparties regarding ethics? Do contracts between the company and the counterparties include clear clauses governing ethical conduct? | V | | (1) All contracts between Apacer and its suppliers include clauses on ethical management. | No Difference<br>. |

| Item for evaluation | Description | | | Differences with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (2) Does Apacer has a special unit or has it designated an existing unit as subordinate to the BoD for the implementation of corporate ethical management? Does the unit regularly report to the BoD regarding the implementation? | V | | (2) Apacer has the "Procedures for Ethical Management and Guidelines for Conduct". The HR unit has been designated as responsible for the implementation of corporate ethical management. The unit coordinates with each division on implementing ethical management within the scope of the division's functions and carrying out related matters in accordance with the "Procedures for Ethical Management and Guidelines for Conduct". | |
| (3) Does Apacer have policies against conflicts of interest and provide proper channels through which explanations may be given? Has the company implemented them? | V | | (3) In the case of a conflict of interest in business, the relevant person notifies his/her manager and recuses himself/herself in accordance with the employment contract to prevent any conflict of interest. The circumstances and standards of conflicts of interest are clearly specified in Apacer's Code of Ethical Conduct. People are required to recuse themselves and, in the event that they have learned or are facing similar circumstances, to report to their immediate superiors, managers of the HR unit and Administrative Service Division, or the BoD in an adequate manner. So far, Apacer has not found any material violation. | |
| (4) Does Apacer have effective systems for accounting and internal control to ensure the implementation of ethical management? Have audits been regularly conducted by internal auditing units or entrusted CPAs? | V | | (4) In accordance with the competent authority's regulatory updates, letters and directives, Apacer revises its internal control and accounting systems on a regular or if needed ad hoc basis to meet operational requirements, and audits are conducted by auditors accordingly to check the implementation of the systems. | |

| Item for evaluation | Description | | | Differences with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| (5) Does Apacer regularly hold internal and external education and training regarding ethical management? | V | | (5) Apacer's regulations governing ethical management have been included as part of the internal education and training for employees. | |
| 3. Functioning of whistleblowing systems<br>(1) Does Apacer have concrete systems for whistleblowing and rewards? Does Apacer have convenient channels in place for whistleblowing and has it appointed appropriate personnel to deal with the persons who are the subject of whistleblowing?<br>(2) Does Apacer have standard operating procedures (SOPs) for investigation of matters reported by whistleblowers and relevant mechanisms for confidentiality?<br>(3) Does Apacer take any measures to protect whistleblowers from improper treatment as a result of their whistleblowing? | V<br>V<br>V | | (1) Apacer has the "Rules Governing the Whistleblowing System", which clearly include whistleblowing and reward systems and stipulate that the managers of the auditing and HR units are designated as the persons responsible for these matters.<br>(2) The "Rules Governing the Whistleblowing System" include relevant operating procedures and mechanisms for confidentiality.<br>(3) The "Rules Governing the Whistleblowing System" include a clear list of whistleblower protection measures to prevent whistleblowers from being treated improperly as a result of whistleblowing. Any whistleblowing report is handled in accordance with the rules governing the system. | No Difference |

| Item for evaluation | Description | | | Differences with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies and reasons |
|---|---|---|---|---|
| | Yes | No | Summary | |
| 4. Increasing disclosure of information<br>Does Apacer disclose the contents of its ethical management principles and outcome of implementation on its website and the Market Observation Post System? | V | | Apacer has disclosed the "Ethical Corporate Management Best Practice Principles" and "Procedures for Ethical Management and Guidelines for Conduct" on its website, and monitors the development of domestic and international regulations concerning ethical management. Apacer encourages its directors, supervisors, managers, and employees to make suggestions, which inform the review and improvement of the Ethical Management Best Practice Principles with the aim to achieve better outcomes of ethical management. | No Difference. |
| 5. In the event the company has established its own ethical management best practice principles in accordance with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe the differences between the implementation of ethical management and the company's own ethical management best practice principles: None. | | | | |
| 6. Other important information helpful for understanding the implementation of the company's ethical management: (such as review and amendment of the company's own ethical management best practice principles)<br>For the purpose of developing Apacer's audit committee, proposals have been submitted to the BoD for amendment of clauses concerning the audit committee in the "Corporate Governance Best Practice Principles", "Ethical Management Best Practice Principles" and "Ethical Management Procedures and Conduct Guidelines" in order to meet the requirements of corporate governance and ethical management. | | | | |

(7) If the company has established corporate governance best practice principles and relevant regulations, the ways through which they can be searched for must be disclosed:

For Apacer's Corporate Governance Best Practice Principles and relevant regulations, please visit Apacer's website (http://www.apacer.com).

(8) Other important information helpful for increasing understanding of the company's corporate governance may be disclosed along with the above information:

1. As Apacer's business scale grows and the need for control and management of foreign subsidiaries arises, we have continued to review and establish relevant regulations, procedures and internal implementation rules to enhance operational performance and strengthen risk control, with the aim to achieve better implementation of corporate governance. In recent years, following the establishment or amendment of relevant laws and standards by the competent authority in charge of securities, and taking into account practical business needs, Apacer has established the following regulations:
   - "Articles of Incorporation",
   - "Rules of Procedure for Shareholders' Meetings",
   - "Director Election Regulations",
   - "Rules of Procedure for Board of Directors",
   - "Procedures for Acquisition or Disposal of Assets",
   - "Procedures for Endorsements/Guarantees",
   - "Procedures for Loaning Funds to Others",
   - "Regulations on Engaging in Commercial Foreign Exchange Risk Management Related Financial Products",
   - "Regulations Governing the Transactions among Related Parties, Specific Companies, and Group Enterprises".

   The following implementation rules have also been established as basis of all internal operations:
   - "Rules Governing the Scope of Responsibilities of Independent Directors",
   - "Regulations Governing the Management of Financial and Non-financial Information",
   - "Regulations Governing the Management of Liabilities, Commitments and Contingencies",
   - "Code of Ethical Conduct",
   - "Ethical Corporate Management Best Practice Principles",
   - "Procedures for Ethical Management and Guidelines for Conduct",
   - "Management Procedures for Handling Material Insider Information and Prevention of Insider Trading",
   - "Subsidiary Management Regulations",

- "Corporate Governance Best Practice Principles",
- "CSR Best Practice Principles",
- "Rules Governing the Whistleblowing System",
- "Regulations Governing the Management of Seals".

Internally, Apacer notifies all employees of the latest regulations and rules through announcement and publishes them on the internal website. They are simultaneously posted on Apacer's official website and can be searched for. The training of new employees also includes courses for the promotion of these regulations and rules.

2. Apacer's personnel responsible for financial information transparency have received certificates designated by the competent authority, as follows:

| **Certificate** | **No. of person(s)** | |
|---|---|---|
| | **Internal audit** | **Finance** |
| Certified Public Accountant (CPA) of the Republic of China (Taiwan) | 1 | 0 |
| Certified Internal Auditor (CIA) | 2 | 0 |

(9) The status of the implementation of internal control systems shall include the disclosure of the following matter(s):

i. Declaration on the Internal Control System

# Apacer Technology Inc.

Declaration on the Internal Control System

Date: 23 February 2018

Based on the result of self-inspection of Apacer's internal control system in 2017, we hereby declare the following:

1. We acknowledge that the BoD and managers are responsible for the establishment, implementation and maintenance of the internal control system. We have established such a system, with the aim to provide reasonable assurance concerning the effectiveness and efficiency of operations (including profits, performance and protection of asset safety), reliability of financial reporting, and compliance with relevant regulations.
2. Any internal control system has its inherent limitations. No matter how well an internal control system is designed, it can only provide reasonable assurance regarding the achievement of the above three objectives. Moreover, the effectiveness of an internal control system may be altered as a result of changes in the environment and circumstances. Our internal control system however includes a self-monitoring mechanism. Once a defect has been identified, corrective actions are immediately taken.
3. We determine the effectiveness of the design and implementation of our internal control system by using the items specified in the Regulations Governing Establishment of Internal Control Systems by Public Companies (hereinafter "the Regulations"). The aforementioned items in the Regulations divide an internal control system into five components based on the processes of management and control: a. control environment, b. risk assessment, c. control activities, d. information and communication, and e. monitoring. Each component includes several elements. Please see the Regulations for the aforementioned items.
4. We have used the aforementioned items to examine the effectiveness of the design and implementation of our internal control system.
5. Based on the result of the examination, we determined that until 31 Decem. ber, 2017, the design and implementation of our internal control system (including supervision and management of subsidiaries) have worked well regarding the effectiveness and efficiency of operations, reliability of financial reporting and compliance with relevant regulations, providing reasonable assurance that the above objectives have been achieved.
6. This Declaration is to be part of the main contents of our annual reports and prospectuses, and released to the public. In the event that the above public content includes false information or concealed certain information, the legal responsibilities under Articles 20, 32, 171 and 174 of the Securities and Exchange Act will be invoked.

7. This Declaration was adopted by the BoD meeting on 23Feb. ruary 2018. All seven Directors present approved the content of this Declaration, and none of them expressed dissent. This information is declared as an addition.

**Apacer Technology Inc.**

Chairman: Austin Chen (signature)

President: Chia-Kun Chang (signature)

ii. If review of the internal control system has been conducted by entrusted CPAs, the CPAs' review report must be disclosed: None.

(10) During the most recent FY and the FY to date on which the annual report was printed, did the company or its internal personnel receive punishment in accordance with the laws? Did the company's internal personnel receive punishment for violating the requirements of the internal control system? Please describe any defect found during the same period and its status of improvement: None.

(11) Important resolutions of the Shareholders' Meeting and BoD meetings during the most recent FY until the date on which the annual report was printed:

i. Important resolutions of the Shareholders' Meeting

| Date of meeting | Resolution(s) and status of implementation |
|---|---|
| 26 May 2017 | 1. Adoption of the proposal to ratify the business and financial reports of FY 2016<br>Status of implementation: Proposal was adopted without revision.<br><br>2. Adoption of the proposal to discuss the profit distribution for FY 2016<br>Status of implementation: Proposal was adopted without revision. Jul. 5, 2017 was set as the record date, and July28, 2017 was set as the pay date. (The distributed amount of cash dividend was TWD 2.4 per share).<br><br>3. Adoption of the proposal to amend the "Articles of Incorporation"<br>Status of implementation: Proposal was adopted without any revision. The amendments to the Articles of Incorporation were approved by the MOEA for registration.<br><br>4. Adoption of the proposal to amend the "Regulations Governing Election of Directors and Supervisors"<br>Status of implementation: Proposal was adopted without revision.<br><br>5. Adoption of the proposal to amend the "Procedures for Acquisition or Disposal of Assets"<br>Status of implementation: Proposal was adopted without revision. The amended "Procedures for Acquisition or Disposal of Assets" was reported to the Market Observation Post System on Jun. 7, 2017. |

ii. Important resolutions of the BoD meetings

| Term of BoD | Date of meeting | Important resolutions |
|---|---|---|
| 2016, first meeting | 2 Fevruary 2017 | (1) Adoption of the proposal for distribution of the remuneration for employees, directors and supervisors in FY 2016<br>(2) Adoption of the business report and self-prepared financial statements of FY 2016<br>(3) Adoption of the proposal for the profit distribution for FY 2016<br>(4) Adoption of the proposal to amend the "Articles of Incorporation"<br>(5) Adoption of the proposal to amend the “Director Election Regulations”<br>(6) Adoption of the proposal to adjust the salary(including managerial officer)<br>(7) Adoption of the proposal to declare the letter of the internal control for FY 2016.<br>(8) Adoption of the proposal to entrust Philip Tang and Grace Chen, certified public accountants of KPMG Taiwan as the Company's CPAs.<br>(9) Adoption of the proposal to hold the 2017 shareholdes' meeting on May 26,2017.<br>(10) Adoption of the proposal to the period and place that the shareholder can submit their propsal |
| 2016, second meeting | 13 April 2017 | (1) Proposal for amendment of the "Procedures for Acquisition or Disposal of Assets" was adopted<br>(2) Proposal for amendment of the "Rules of Procedure for Board of Directors Meetings" was adopted<br>(3) Proposal for additional motion to be reported and discussed on the 2017 shareholders' meeting |

| Term of BoD | Date of meeting | Important resolutions |
|---|---|---|
| 2017, third meeting | 8 August 2017 | Resolution was adopted to cancel the proposal to establish the "Regulations Governing the Management of Employee Stock Ownership Trust" and "Regulations Governing the Management of Appropriation for Talent Retention Fund" |
| 2017, 4th meeting | 9 November 2017 | (1) Adoption of the proposal to establish the "Employee Stock Ownership Trust"<br>(2) Proposal for transfer of the CFT and spokesperson was adopted<br>(3) Adoption of the internal audit plan for FY 2018<br>(4) Adoption of the proposal to amend the "Rules Governing the Scope of Responsibilities of Independent Directors" |
| 2017, fifth meeting | 14 December 2017 | (1) Adoption of the operational plan for 2018<br>(2) Proposal for distribution of the 2017 remuneration for managerial officers was adopted<br>(3) Adoption of the proposal to extend contracts with financial institutions concerning the credit line and transaction limit for financial products in FY 2018<br>(4) Proposal for amendment of the "Procedures for Acquisition or Disposal of Assets" was adopted<br>(5) Proposal for amendment of the "Regulations on Engaging in Commercial Foreign Exchange Risk Management Related Financial Products" was adopted<br>(6) Proposal for amendment of the "Procedures for Loaning Funds to Others".<br>(7) Proposal for amendment of the "Procedures for Endorsements/Guarantees" was adopted<br>(8) Adoption of the proposal to amend the "Code of Ethical Conduct"<br>(9) Adoption of the proposal to amend the "Ethical Corporate Management Best Practice Principles"<br>(10) Adoption of the proposal to amend the "Procedures for Ethical Management and Guidelines for Conduct"<br>(11) Adoption of the proposal to amend the "Corporate Governance Best Practice Principles"<br>(12) Adoption of the proposal to amend the "Management Procedures for Handling Material Insider Information and Prevention of Insider Trading"<br>(13) Adoption of the proposal to amend the "Procedures Governing Application for Suspension and Resumption of Trading" |
| 2018, first meeting | 23 February 2018 | (1) Adoption of the proposal for distribution of the remuneration for employees, directors and supervisors in FY 2017<br>(2) Adoption of the business report and self-prepared financial statements of FY 2017<br>(3) Adoption of the proposal for the profit distribution for FY 2017<br>(4) Adoption of the proposal on matters related to the application for listing of the common stocks issued through initial private placement in 2015<br>(5) Adoption of the proposal to amend the "Articles of Incorporation"<br>(6) Adoption of the proposal to submit the "Declaration on the Internal Control System" for FY 2017<br>(7) Adoption of the proposal for salary adjustment (including managers) in FY 2018<br>(8) Adoption of the proposal to amend the "Regulations Governing the Distribution of Remuneration for Directors"<br>(9) Adoption of the proposal to amend the "Regulations Governing the Payment of Remuneration to Members of the Remuneration Committee"<br>(10) Adoption of the proposal to amend the "Regulations Governing Performance Bonuses for Employees"<br>(11) Adoption of proposal to hold a new election of the directors due to expiration of the current term<br>(12) Adoption of the proposal for the nomination of candidates for directors and independent directors<br>(13) Adoption of the proposal to exempt newly elected directors and their representatives from non-compete restrictions<br>(14) Adoption of the proposal to convene the regular Shareholders' Meeting in 2018 |

| Term of BoD | Date of meeting | Important resolutions |
|---|---|---|
| 2018, second meeting | | (1) Adoption of the proposal to entrust Philip Tang and Grace Chen, certified public accountants of KPMG Taiwan as the Company's CPAs.<br>(2) Adoption of the audit of the list of nominated directors and independent director elected by the Company. |

(12) In the event that any director or supervisor expressed a dissenting opinion regarding any of the important resolutions adopted by the BoD during the most recent FY until the date on which the annual report was printed, and that the opinion was recorded or delivered in writing, please describe its main content: None.

(13) Summary of resignation or dismissal of the company's chairman, president, accounting manager(s), financial manager(s), internal audit manager(s) and R&D manager(s) during the most recent FY until the date on which the annual report was printed: None.

IV. Information on CPA's professional fees

Unit: TWD 1,000

<table>
<tr><th rowspan="2">Accounting firm</th><th rowspan="2">Type of service</th><th rowspan="2">CPA Name</th><th rowspan="2">Professional fee</th><th colspan="2">Does the audit period cover the whole FY?</th><th rowspan="2">Service contents</th></tr>
<tr><th>Yes</th><th>No</th></tr>
<tr><td rowspan="3">KPMG Taiwan</td><td rowspan="2">Audit service</td><td>Philip Tang</td><td rowspan="2">2,965</td><td rowspan="3">V</td><td rowspan="3"></td><td rowspan="2">Audit and review of financial reports; tax certification</td></tr>
<tr><td>Grace Chen</td></tr>
<tr><td>Non-audit service</td><td>Willis Yeh</td><td>1,050</td><td>Country-by-country reports, master file reports, and transfer pricing reports</td></tr>
</table>

(1) In the event the amount of non-audit professional fees paid to a CPA, the CPA's firm and any of its affiliates is at least 25% of that of audit professional fees, the amounts of audit and non-audit professional fees and the contents of non-audit service must be disclosed: As shown in the table above.

(2) In the event that the accounting firm has been changed and that the amount of audit professional fees paid during the FY when the change occurs is lower than that paid during the previous FY, the amounts before and after the change and the reasons must be disclosed: N/A

(3) In the event the amount of audit professional fees is reduced by at least 15% in comparison with the previous FY, the amount, percentage and reasons of reduction must be disclosed: N/A

V. Information on change of CPAs

(If the company changed the CPAs during the most recent two FYs and their subsequent periods, the following information must be disclosed)

(1) On the predecessor CPAs:

<table>
<tr><td>Date of change</td><td colspan="5">21 February 2017</td></tr>
<tr><td>Reasons and description of change</td><td colspan="5">In line with the needs for adjusting the positions of the CPAs at KPMG Taiwan, and starting from Q1 of FY 2017, the original CPA team consisting of Grace Chen and Wu Lin was replaced by the team consisting of Philip Tang and Grace Chen.</td></tr>
<tr><td rowspan="3">The commissioner or CPA terminates or declines the commission</td><td colspan="3">Person concerned<br>Circumstance</td><td>CPA</td><td>Commissioner</td></tr>
<tr><td colspan="3">Commission was terminated on his/her initiative</td><td>V</td><td></td></tr>
<tr><td colspan="3">(Extension of) Commission was declined</td><td></td><td></td></tr>
<tr><td>Opinions and reasons for audit reports issued during the most recent two years, containing an opinion other than unqualified opinion</td><td colspan="5">None</td></tr>
<tr><td rowspan="6">Any differences in opinions with the issuers?</td><td rowspan="4">Yes</td><td></td><td colspan="3">Accounting principles or practice</td></tr>
<tr><td></td><td colspan="3">Disclosure of financial reports</td></tr>
<tr><td></td><td colspan="3">Scope or steps of audits</td></tr>
<tr><td></td><td colspan="3">Other matters</td></tr>
<tr><td>None</td><td colspan="4">ˇ</td></tr>
<tr><td colspan="5">Description</td></tr>
<tr><td>Other matters for disclosure</td><td colspan="5">None</td></tr>
</table>

(2) On the successor CPAs:

| | |
|---|---|
| Accounting firm | KPMG Taiwan |
| Name of CPA | Philip Tang, Grace Chen |
| Date of commissioning | 21 February 2017 |
| Matters regarding which the successor CPAs were consulted, and which were related to the accounting treatment or accounting principles of specific transactions; matters regarding which the successor CPAs were consulted, and which were related to the opinions that might be issued on financial reports; results of these matters | None |
| Written opinions of the successor CPAs on matters regarding which the predecessor CPAs have expressed dissenting opinions | None |

(3) Letters of reply from the predecessor CPAs: N/A

VI. The company's chairman, president, or financial/accounting manager served in the CPAs' firm(s) or any affiliate during the most recent year: None.

VII. Change of shares transferred and pledged for directors, supervisors, managers and any shareholder holding more than 10% of the company's shares during the most recent FY until the date on which the annual report was printed

i. Change of shares for directors, supervisors, managers and major shareholders

Unit: Share

| Title | Name | 2017 | | 2018, until April 1 | |
|---|---|---|---|---|---|
| | | **Number of increase (decrease) of shares held** | **Number of increase (decrease) of shares pledged** | **Number of increase (decrease) of shares held** | **Number of increase (decrease) of shares pledged** |
| Chairman | Austin Chen | 120,000 | - | - | - |
| Director | Teddy Lu | - | - | - | - |
| Director | Yang Jun-Yong | - | - | - | - |
| Director and General manager | Chang Chia-Kun | - | - | - | - |
| Director | Haydn Hsieh | - | - | - | - |
| Independent director | Hong Sing-Cheng | - | - | - | - |
| Independent director | Max Wu | - | - | - | - |
| Supervisor | George Huang | - | - | - | - |
| Supervisor | Zheng Zhong-Ren | - | - | - | - |
| Supervisor | Huang Ren-Hong | - | - | - | - |
| Vice President and CFO | Victor Lin | - | - | - | - |
| Accounting Manager and Concurrent Finance Manager | Lai Tzu-Min | - | - | - | - |

ii. Information on share transfer: None.

iii. Information on share pledge: None.

VIII. Information on the top-10 shareholders who are related parties to each other, in a spousal relationship or within the second degree of kinship:

April 1, 2018 Unit: Share; %

| SHAREHOLDER | SHARES HELD BY THE SHAREHOLDER | | SHARES HELD BY SPOUSE OR MINOR CHILDREN | | TOTAL SHARES HELD IN THE NAME OF OTHERS | | THE TITLE OR NAME AND RELATION IN CASE OF THE TOP-10 SHAREHOLDERS WHO ARE RELATED PARTIES TO EACH OTHER, IN A SPOUSAL RELATIONSHIP OR WITHIN THE SECOND DEGREE OF KINSHIP | | REMARKS |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Shareholding ratio | Shares | Shareholding ratio | Shares | Shareholding ratio | Title (or name) | Relation | |
| Phison Electronics Corp. | 10,050,000 | 9.96% | - | - | - | - | - | - | - |
| Teddy Lu | 5,699,906 | 5.65% | - | - | - | - | - | - | - |
| Austin Chen | 1,525,633 | 1.51% | 450,268 | 0.45% | - | - | - | - | - |
| George Huang | 1,207,041 | 1.20% | - | - | - | - | - | - | - |
| Masa Chang | 985,000 | 0.98% | | | - | - | - | - | - |
| Credit Suisse Securities Europe Limited commissioned to Standard Chartered Bank - Renaissance Long-Term Sale | 733,000 | 0.73% | - | - | - | - | - | - | - |
| Zhuang Zhong-Yu | 660,000 | 0.65% | - | - | - | - | - | - | - |
| DFA Emerging Market Core Securities Investment Accounts commissioned to Citibank | 652,005 | 0.65% | - | - | - | - | - | - | - |
| J.P. Morgan Securities LLC Investment Accounts commissioned to JPMorgan Chase Bank | 616,030 | 0.61% | - | - | - | - | - | - | - |
| Yang Jun-Yong | 580,699 | 0.58% | - | - | - | - | - | - | - |

IX. Shares held by the Company and the directors, supervisors, managerial officers, and business that the Company directly or indirectly controls in the same invested business and their shareholding ratio

April 20, 2018 Unit: Share; %

| **Invested business** | **Apacer's investment** | | **Investments of directors, supervisors, managers and directly or indirectly controlled business by Apacer** | | **Total investment** | |
|---|---|---|---|---|---|---|
| | **Shares** | **Shareholding ratio** | **Shares** | **Shareholding ratio** | **Shares** | **Shareholding ratio** |
| Apacer Memory America Inc. | 20,000 | 100% | - | - | 20,000 | 100% |
| Apacer Technology B.V. | 79,513 | 100% | - | - | 79,513 | 100% |
| Apacer Technology Japan Corp. | 200 | 100% | - | - | 200 | 100% |
| Apacer Technology (BVI) Inc. | 2,635,775 | 100% | - | - | 2,635,775 | 100% |
| HONG YU Technology Co., Ltd. | 5,000,000 | 100% | - | - | 5,000,000 | 100% |
| Apacer Technologics Private Limited. | 28,799 | 99.65% | 100 | 0.35% | 28,899 | 100% |
| Apacer Electronics (Shanghai) Co., Ltd. | Note1 | 100% | - | - | Note1 | 100% |
| Shenzhen Qinjing Technology Co., Ltd. | Note2 | 99% | - | - | Note2 | 99% |
| JoiiUp Technology Inc. | 1,500,000 | 17.78% | - | - | 1,500,000 | 17.78% |

Note 1: Amount of capital contribution USD 500,000
Note 2: Amount of capital contribution RMB 4,985,714

# IV. Financing

I. Capital and share

(1) Sources of capital stock

1. Capital formation process

As of 26 April 2018
Unit: Share/NTD thousand

| Month/ Year | Issue price (dollar) | Authorized capital stock | | Paid-in capital stock | | Remarks | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Capital sources | Property other than cash as substitute for share price | Approval date and document no. |
| July 2016 | 10 | 200,000,000 | 2,000,000 | 100,897,807 | 1,008,978 | Note | None | None |

Note: The capital of the Company was not changed in 2017 and as of the date on which the annual report was printed.

2. Type of shares

Unit: Share

| Type | Authorized capital | | | Remarks |
|---|---|---|---|---|
| | Outstanding shares | Unissued shares | Total | |
| Common stock | 100,897,807 (listed) | 99,102,193 | 200,000,000 | |

3. Information on shelf registration systems: None

(2) Structure of shareholders

1 April 2018

| Structure / Number | Government agency | Financial institution | Other corporate bodies | Individual | Foreign institutions and foreign persons | Total |
|---|---|---|---|---|---|---|
| Shareholders (unit) | - | 4 | 112 | 28,534 | 57 | 28,707 |
| Shares held (share) | - | 229,040 | 11,447,492 | 81,465,122 | 7,756,153 | 100,897,807 |
| Shareholding ratio (%) | - | 0.23% | 11.34% | 80.74% | 7.69% | 100% |

(3) Ownership distribution

1 April 2018

| Shareholdin Range | Number of shareholders | Shares held (share) | Shareholding ratio (%) |
|---|---|---|---|
| 1 to 999 | 17,846 | 1,411,935 | 1.40 |
| 1,000 to 5,000 | 8,217 | 17,072,734 | 16.92 |
| 5,001 to 10,000 | 1,377 | 10,729,517 | 10.63 |
| 10,001 to 15,000 | 417 | 5,268,474 | 5.22 |
| 15,001 to 20,000 | 248 | 4,595,273 | 4.55 |
| 20,001 to 30,000 | 209 | 5,227,315 | 5.18 |
| 30,001 to 40,000 | 110 | 3,875,343 | 3.84 |
| 40,001 to 50,000 | 76 | 3,456,223 | 3.43 |
| 50,001 to 100,000 | 116 | 8,265,199 | 8.19 |
| 100,001 to 200,000 | 47 | 6,358,818 | 6.30 |
| 200,001 to 400,000 | 25 | 7,650,656 | 7.58 |
| 400,001 to 600,000 | 10 | 4,857,705 | 4.81 |
| 600,001 to 800,000 | 4 | 2,661,035 | 2.64 |
| 800,001 to 1,000,000 | 1 | 985,000 | 0.98 |
| 1,000,001 or more | 4 | 18,482,580 | 18.33 |
| Total | 28,707 | 100,897,807 | 100.00 |

(4) List of major shareholders

1 April 2018

| Share / Major shareholder | Shares held (share) | Shareholding ratio (%) |
|---|---|---|
| Phison Electronics Corp. | 10,050,000 | 9.96 |
| Teddy Lu | 5,699,906 | 5.65 |
| Austin Chen | 1,525,633 | 1.51 |
| George Huang | 1,207,041 | 1.20 |
| Masa Chang | 985,000 | 0.98 |
| Credit Suisse Securities Europe Limited commissioned to Standard Chartered Bank - Renaissance Long-Term Sale | 733,000 | 0.73 |
| Zhuang Zhong-Yu | 660,000 | 0.65 |
| DFA Emerging Market Core Securities Investment Accounts commissioned to Citibank | 652,005 | 0.65 |
| J.P. Morgan Securities LLC Investment Accounts commissioned to JPMorgan Chase Bank | 616,030 | 0.61 |
| Yang Jun-Yong | 580,699 | 0.58 |

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

Unit: NT dollar/1,000 shares

| Item / Year | | | 2016 | 2017 | 2017 as of March 31 |
|---|---|---|---|---|---|
| Market price per share (Note 1) | Maximum | | 36.65 | 44.80 | 41.70 |
| | Minimum | | 15.25 | 32.25 | 35.05 |
| | Average | | 25.82 | 38.90 | 39.04 |
| Net value per share | Before distribution | | 24.03 | 25.45 | 26.46 |
| | After distribution | | 21.67 | (Note 2) | - |
| Earnings per share | Weighted average shares | | 127,510 | 100,898 | 100,898 |
| | EPS (before adjustment) | | 2.74 | 4.02 | 0.95 |
| | EPS (after adjustment) | | 2.74 | (Note 2) | - |
| Dividends per share | Cash dividend | | 2.40 | (Note 2) | - |
| | Stock grants | - | - | - | - |
| | | - | - | - | - |
| | Accumulated unpaid dividend | | - | - | - |
| ROI analysis | PE (Note 4) | | 9.42 | (Note 2) | - |
| | PD (Note 5) | | 10.76 | (Note 2) | - |
| | Cash dividend yield | | 9.30 | (Note 2) | - |

Note 1: Source: TWSE website
Note 2: To be approved at the 2018 regular shareholders’ meeting
Note 3: PE = Average closing price per share of the current year / EPS
Note 4: PD = Average closing price per share of the current year / cash dividend per share
Note 5: Cash dividend yield = Cash dividend per share / average closing price per share of the current year

(6) Dividend policy and implementation status

i. Apacer's dividend policy

Our earnings, if any, shown on the final annual account are distributed as follows:

(1) Pay taxes.

(2) Offset deficit of previous years.

(3) Appropriate 10% as legal reserve, except when the legal reserve of the Company has already reached the total capital.

(4) Appropriate or reserve as a special reserve pursuant to laws and regulations.

(5) If there is any surplus left, a provision of retained earnings is made depending on the long-term development plans and the stability of the financial structure of the Company. The Board of Directors then discusses the distribution of the surplus left in the current year in combination with the cumulated un distributed earnings of the previous years, and reports to the shareholders’ meeting for approval.

The dividend policy of the Company must be established in consideration of the overall environment of the industry, development phase, demand for funds and financial supports in the future, and relevant plans. Earnings to be distributed may be paid in cash or stocks. The payment ratio is about 60%~90% of the earnings after tax if there are no important investment plans or any special circumstances. The cash dividend must not be less than 10% of the total amount of the dividend.

ii. Dividend distribution proposed at the current shareholders' meeting:

The distribution of earnings in 2017 was approved by the Board of Directors on 23 February, 2018. A cash dividend of TWD 262,334,298 will be distributed to the shareholders.

(7) The influence of the stock grants proposed at the current shareholders' meeting on the operation performance and EPS of the Company:

Unit: New Taiwan Dollar

<table>
<tr><th colspan="3">Year<br>Item</th><th>2017<br>(Estimated)</th></tr>
<tr><td colspan="3">Initial paid-in capital</td><td>1,008,978,070</td></tr>
<tr><td rowspan="3">Dividend distribution</td><td colspan="2">Cash dividend per share (dollar) (Note 1)</td><td>2.60</td></tr>
<tr><td colspan="2">Allotment per share in surplus to capital increase (Note 1)</td><td>-</td></tr>
<tr><td colspan="2">Allotment per share in additional paid-in capital (Note 1)</td><td>-</td></tr>
<tr><td rowspan="6">Changes in operation performance</td><td colspan="2">Operating income</td><td rowspan="6">N/A (Note 2)</td></tr>
<tr><td colspan="2">Operating profit increase (decrease) compared to same period last year</td></tr>
<tr><td colspan="2">Net income after tax</td></tr>
<tr><td colspan="2">Net income after tax increase (decrease) compared to same period last year</td></tr>
<tr><td colspan="2">Earnings per share</td></tr>
<tr><td colspan="2">EPS increase (decrease) compared to same period last year</td></tr>
<tr><td rowspan="8">Pro forma EPS and PE</td><td rowspan="2">Annual average ROI (annual average PE ratio)</td><td>Pro forma EPS</td><td rowspan="8">N/A (Note 2)</td></tr>
<tr><td>Pro forma annual average ROI</td></tr>
<tr><td rowspan="2">All cash dividends in case of earnings to capital increase</td><td>Pro forma EPS</td></tr>
<tr><td>Pro forma annual average ROI</td></tr>
<tr><td rowspan="2">If no additional paid-in capital to capital increase</td><td>Pro forma EPS</td></tr>
<tr><td>Pro forma annual average ROI</td></tr>
<tr><td rowspan="2">If no additional paid-in capital and all cash dividends in case of earnings to capital increase</td><td>Pro forma EPS</td></tr>
<tr><td>Pro forma annual average ROI</td></tr>
</table>

Note 1: Allotment in 2018 is an estimate based on the resolution at the Board of Directors meeting on February 23, 2018. It will be handled pursuant to relevant regulations after approved at the 2018 regular shareholders' meeting.

Note 2: The Company is not required to make the 2018 financial forecast information public according to the Regulations Governing the Publication of Financial Forecasts of Public Companies.

(8) Remuneration for employees, directors and supervisors

i. Percentage or scope of the remuneration for employees, directors and supervisors according to the Articles of Incorporation:

Where there is profit in any fiscal year, four percent (4%) or more of the profit must be appropriated as remuneration for employees. Where the Company has any accumulated loss, the remuneration must be appropriated from the balance after such accumulated loss has been offset. The employees' remuneration abovementioned may be distributed in cash or stock. The employees eligible for the distribution may include the employees of the affiliated companies who meet the requirements specified by the Board of Directors.

For the remuneration for directors and supervisors, the Board of Directors is authorized to determine the compensation recommended by the Remuneration Committee for the director with reference to the extent of his/her involvement in and value of his/her contribution to the operation of the Company and the standards of the industry in Taiwan and overseas regardless of whether the Company has profits or losses. Where there is profit in any fiscal year, not more than forteen thousandths (14‰ ) of the profit must be appropriated as remuneration for directors and supervisors. Where the Company has any accumulated loss, the remuneration must be appropriated from the balance after such accumulated loss has been offset. The criteria for allocation of the remuneration must be recommended by the Remuneration Committee to the Board of Directors for approval.

ii. The current estimation base of remuneration for employees and directors, calculation base for distribution of dividends for the coming year, and accounting treatment for handling the difference between actually distributed and estimated amounts:

Remunerations for employees and directors are recognized as expenses of the current year. The difference, if any, between the actually distributed and estimated amounts is recognized as the loss/profit of the following year.

iii. Information on the proposed distribution of remuneration for employees, directors and supervisors approved at the Board of Directors meeting

Unit: New Taiwan Dollar

| Information | Amount |
|---|---|
| Remuration to be distributed to employees - Cash (Note) | $44,817,749 |
| Remuration to be distributed to employees - Stock | - |
| Remuneration to be distributed to directors and supervisors (Note) | $7,130,096 |
| Number of shares to be distributed to employees as dividends and the percentage it account for capital increase | None |
| Imputation after proposed distribution of dividends to employees and remunerations to directors and supervisors Earnings per share | 4.02 (basic)<br>3.97(diluted) |

Note: Distribution of profit in 2017 is to be approved at the shareholders' meeting. Relevant information can be accessed through the Market Observation Post System after the meeting. Distribution of the dividends for employees and remunerations for directors and supervisor is not different from the estimated amount of recognized expenses in the year concerned.

4. Actually distributed dividends for employees and remunerations for directors and superiors in the previous year:
Distribution of the dividends for employees and remunerations for directors and supervisor in 2016 was adopted at the shareholders' meeting on June 3, 2017. The approved distribution is not different from the estimated shares in 2016. Details are described below:

Unit: New Taiwan Dollar

| Profit Distribution for FY 2016 | Actual distribution | Book estimation | Difference |
|---|---|---|---|
| Dividends distributed to employees - Cash | 37,598,000 | 37,598,000 | - |
| Dividends distributed to employees - Stock | - | | |
| Remuneration distributed to directors and supervisors | 6,573,858 | 6,573,858 | - |

5. Names of the top-10 employees acquiring the highest remuneration from the earnings of last year and its distribution:

Unit: New Taiwan Dollar

| **Title** | **Name** | **Share amount** | **Cash amount** | **Total** | **The total amount in net income after tax (%)** |
|---|---|---|---|---|---|
| General manager | Chang Chia-Kun | - | 8,000,000 | 8,000,000 | 1.97% |
| Deputy General Manager | Victor Lin | | | | |
| Business unit head | Lo Hueshju | | | | |
| Business unit head | Huang Meihui | | | | |
| Business unit head | Xu Qinyi | | | | |
| Senior manager | Zheng Cuiwen | | | | |
| Senior manager | Guo Meidai | | | | |
| Senior manager | Li Junchang | | | | |
| Senior manager | Yin Huajun | | | | |
| Special assistant | Luo Rongfa | | | | |

(9) Status of stock repurchase: None.

II. Status of corporate bonds

N/A

III. Status of preferred stock

N/A

IV. Status of overseas depositary receipts

N/A

V. Status of employee stock option certificates

(1) Status of the employee stock option certificates that have not fallen due and their effect on shareholders' equity must be disclosed to the date on which the annual report was printed: None.

(2) Status of employee stock option certificates acquired by management team and top-10 employees, acquisition and subscription till the date on which the annual report was printed: None.

VI. Status of employee restricted stock

(1) Status of the employee restricted stock that has not met all the conditions and its effect on shareholders' equity must be disclosed to the date on which the annual report was printed: None.

(2) Status of the employee restricted stock acquired by management team and top-10 employees and the acquisition till the date on which the annual report was printed: None.

VII. Status of new share issuance in connection with mergers and acquisitions: N/A.

VIII. Status of financing plans and implementation: N/A.

# V. Overview of business operation

I. Business activities

(1) Business scope

i. Major business

(i) DRAM module

(ii) NAND flash memory

(iii) Others

2. Operating proportion

Unit: TWD 1,000

| Product | 2017 | |
|---|---|---|
| | Sales amount | Sales percentage |
| NAND flash memory | 5,308,406 | 52.86% |
| DRAM module | 4,734,572 | 47.14% |
| Other | 498 | 0.00% |
| Total | 10,043,476 | 100.00% |

3. Current product categories

A. The DRAM module covers the desktop, laptop and overclocking memory modules.

B. Special memory modules for IPCs, servers, printers, network products, and routers.

C. USB Disk Module (UDM)

D. SATA/ATA Disk Module (SDM/ADM/mSATA/M.2)

E. SATA/ATA Disk Chip (SDC/ADC)

F. SATA3.0 2.5”/1.8” SSD

G. PCIe SSD

H. Combo SSD (Solid State Drive)

I. CorePower$^{TM}$ SSD: Abnormal power failure protection SSD

J. SLC-lite product line

K. SSDWidget real-time monitoring hardware

L. 5mm ultra-thin industrial SSD

M. IP57 waterproof and anti-dust SSD (Solid State Drive)

N. Industrial CF Card / Embedded SD Card

O. SD Card, SDHC Card, SDHC UHS-1, SDXC UHS-1 Card, High Speed 95/85 U3 SDHC/SDXC, High Speed 95/45 U3 SDHC/SDXC

P. micro SD Card, microSDHC Card, microSDHC UHS-1, High Speed 95/85 U3 microSDHC/SDXC, High Speed 95/45 U3 microSDHC/SDXC

Q. CompactFlash memory card

R. USB3.1 fingerprint protection USB

S. USB2.0 & USB3.1

T. SSD

U. USB2.0 & USB3.1 Card Reader

V. USB3.1 Portable HD

W. USB3.1 drop-resitant portable HD of military specifications

X. USB3.1 Type-C Portable HD

Y. USB 3.1 Type-C Multi-function Hub

Z. OTG USB

AA. OTG Portable Card Reader and Adaptor

BB. USB 2.0 & USB 3.1 Type-C charging cable

CC. Apple certificated Lightning charging cable

DD. Apple certificated Lightning dual-purpose USB

EE. Portable power source

FF. Military PCIe U.2 SSD

GG. Enterprise SATA3.0/PCIe 2.5” SSD

HH. CANbus Module/Dongle

II. CANbus + GPS Module/Dongle

JJ. CAN OPEN Module

KK. Spectral luminance meter

LL. USB3.0 SSD Module

4. New products to be developed

A. Anti-vulcanization DDR4 Module (ServerDIMM/UltraDIMM/Rugged SODIMM)

B. Bullet-Proof Mini SSD External

C. Super-charging portable power bank

D. All-in-one charging cable

E. SED (Self-Encrypting Drives) SSD: Encrypted SSD

F. Light meter

G. CUBE color meter

H. RF wireless transmission module(GNSS/WiFi/BT/3G/4G)

I. IoV Tracker

J. Solution for IIoT

(2) State of the industry

i.Status quo and development of the industry

Our major business includes manufacture and sale of DRAM modules, NAND flash products.

In the production process of the memory modules, DRAM (Dynamic Random Access Memory) is mounted to PCB via circuit design. The memory module is then embedded in a motherboard for connection with other compatible functions to increase the processing speed and memory capacity of the computer. The price of DRAM occupies 80%-90% of the module production cost on average (calculation based on 4GB). Hence, the fluctuation of the DRAM market is in close relationship with the prosperity and recession of the memory module industry. The development trend of the DRAM market is the first factor to be understood for analyzing the status quo and feature of the memory module industry.

The flash memory is used in digital products for storage of information. Thanks to the non-volatile semi-conductor technology, flash memory can be used as a storage media for the information that needs permanent retention and amendment. Applications for storage of mass data, such as mobile phones, PDAs, set-top-box products, EDRs, tablet PCs, SSDs, and USBs, are in close relation with the flash memory.

Hence, the development and market trends in the DRAM and flash memory industries have an interlocking relationship with our DRAM module and flash memory products. The DRAM and memory module markets as well as the status quo of the flash memory industry are described below.

(1) Overview of the DRAM market

A. Market scale

As international research and consultation company Gartner pointed out, the income of the semi-conductor industry in 2017 was USD 419.7 billion and the annual growth rate was 22.2% higher than 2016. The unbalanced demand and supply on the market led to an overall growth of 64% in the operating income of the memory industry, and the memory occupied 31% of the total income of the semi-conductor industry in 2017 as a result.

As Gartner's report pointed out, the memory represented more than two-thirds of the increase in the total amount of the semi-conductor industry in 2017 because the price of the memory products soared up due to insufficient supply on the market. This was a major factor that substantially brought about an income growth for the memory manufacturers. The statistics showed a growth of no more than 17% in the price of the NAND flash products in 2017, while the price of the DRAM memory products had a growth rate of 44%.

Thanks to this price-hike tendency, Samsung became the largest semi-conductor manufacturer in the world that Intel had maintained since 1992. However, as the leading companies increased their capacity and Chinese manufacturers joined the competition, the capacity of the memory products will increase significantly and the supply-demand of the DRAM and NAND flash products will be changed to a great extent. Gartner predicts that the total revenue of the semi-conductor market will drop by 1% in 2019.

The fluctuation of the global DRAM price had a great influence on the DRAM market. After several waves of technology competition, the DRAM market now shows a "tripod" situation. Korea goes far ahead. Taiwan and Japan select a closer relationship with America. China, a competitor that may join the next wave of competition, will be the greatest variable in the market. Samsung and SK Hynix from Korea and Micron from the US created a total market share of more than 90% in 2017. The DRAM market share of these companies was 45.8%m 28.7% and 21%, respectively. Nanya, Winbond, and Powerchip from Taiwan ranked the fourth to sixth with their own brand names in terms of the DRAM operating income. The joint market share of these companies was 3.7%. (Fig. 1)

Unit: USD 1 million

| Ranking | Company | Revenue | | | Market Share | |
|---|---|---|---|---|---|---|
| | | Q417 | Q317 | QoQ (%) | Q417 | Q317 |
| 1 | Samsung | 10,066 | 8,790 | 14.5% | 46.0% | 45.8% |
| 2 | SK Hynix | 6,291 | 5,514 | 14.1% | 28.7% | 28.7% |
| 3 | Micron Group | 4,562 | 4,023 | 13.4% | 20.8% | 21.0% |
| 4 | Nanya | 558 | 439 | 27.1% | 2.5% | 2.3% |
| 5 | Winbond | 173 | 177 | -2.3% | 0.8% | 0.9% |
| 6 | Powerchip | 104 | 103 | 1.0% | 0.5% | 0.5% |
| | Other | 144 | 135 | 6.7% | 0.7% | 0.8% |
| **Total** | | **21,898** | **19,181** | **14.2%** | **100.0%** | **100.0%** |

Note 1: Q317－USD 1 = KOW 1,131; USD 1 = TWD 30.25

Note 2: Q417－USD 1 = KOW 1,105; USD 1 = TWD 30.10

Source: TrendForce Corp., February 2018

**(Fig. 1: 2017 Q4 DRAM operating income ranking by brand)**

B. Development of products

DRAM is an assistant to the processor chip, and is as buffer storage while the processor is computing data. It is mainly used in electronic products. DRAM is classified into different categories including Commodity DRAM, Server DRAM, Specialty DRAM and Mobile DRAM. Commodity DRAM is the standard DRAM with PC related products as the major applications, such as DTs and NBs. Some low-end tablet PCs also use Commodity DRAM for price considerations.

Server DRAM is usually used in server products. Thanks to the Cloud and Big Data applications, the demand for sever DRAM is growing every year. The demand for Server DRAM is greater than the standard Commodity DRAM due to the growth of the sales quantities and device memory capacities.

Specialty DRAM is a niche product and has the widest application range especially in the electronic consumer goods including smart TVs, digital set-top boxes, game consoles, and digital cameras. In-vehicle and industrial DRAMs are included. The high-mix, low-volume production in the IoT era would drive the demand of Specialty DRAM. However, the overall scale of this category is relatively small.

Mobile DRAM is for portable products. In order to meet the low power (LP) requirements of mobile devices, the current mobile DRAM specifications are mostly LPDDR3 and LPDDR4. Smart phones and middle to high end tablets are the major applications of the Mobile DRAM. Some notebooks use this memory to meet their low power requirements. Most of the Apple MacBook series use Mobile DRAM instead of

Commodity DRAM.

Portable devices have played a role that drives the growth of the global semi-conductor market in recent years. In addition to the more diversified built-in functions, the low-power feature has become a trend of the end products. Hence, the demand for Mobile DRAM, with portable devices as the major application, has increased substantially and surpassed the demand of the Commodity DRAM used in the past PC era. Mobile DRAM has become the mainstream of the DRAM applications.

C. Overview of major DRAM suppliers

(A) International DRAM manufacturers seeking diversified production capacity configuration to lower operating risks

Looking back to 2016-2017, predicting the perspective in 2018, and considering that the demand for Cloud and Big Data applications is increasing, the requirements for more memory capacity in mobile phones, and the overall demand for PCs is decreasing, Samsung, SK Hynix, and Micron are transferring to the production of Server DRAM and Mobile DRAM, and reducing the proportion of the standard Commodity DRAM.

These three leading manufactures also adjust their production plans in consideration of the strong demand of the cloud customers such as Google, Facebook, Microsoft, and Amazon for Server DRAM and the higher profitability of Server DRAM when compared to Mobile DRAM. Samsung increased the proportion of Server DRAM to 30% and lowered the proportion of Mobile DRAM to 43%. Since servers need more memory capacity, the proportion of Samsung's Server DRAM would exceed 30% in 2018. SK Hynix continuously reduces the standard Commodity DRAM and may increase the proportion of Server DRAM to 31%; the output proportion of the Mobile DRAM may remain about 40%. As for the product portfolio of Micron, the proportion of Server DRAM and Mobile DRAM is 26% and 38%, respectively, while the proportion of the standard Commodity DRAM has decreased to 23%.

Niche products are the major product of all the manufacturers in Taiwan, except Nanya. In addition to continuous development of niche products, which has a proportion of 65%, Nanya produces Mobile DRAM (19.45%) and memory products for IT and autonomous vehicles (15%). The Winbond NOR Flash has a strong demand and is one of the major products of the company. The production proportion of the niche memory and Mobile DRAM is 40% and 13%, respectively. Thanks to the strong demand for the wafer subcontracting and the high profitability of the subcontracting business, part of Powerchip's DRAM production capacity is occupied with subcontracting business.

(B) DRAM process transition timeline

As for transition of the process, 2xnm is the major process of the international leading manufactures Samsung, SK Hynix, and Micron. They will take action to improve the yield rates and capacity of the 1xnm process in 2018. Nanya uses the 30nm shrinkage process for its production. Mass production using the 20nm process began in the second half of 2017. The 20nm capacity will be improved gradually in 2018. Powerchip transfers the process from 30nm to 25nm to improve the overall capacity and reduce the production cost. The new process is helpful for development of a memory chip with more unit capacity. (Fig. 2)

As for the specifications of products, since most of the Intel chip sets in servers, desktop computers, and notebooks support DDR4 architecture, the overall penetration of the DDR4 module that has more power-saving capability and higher speed is greater than the DDR3 module.

| Company | Current Generation | Under Transition | Next Generation | Ready Schedule |
|---|---|---|---|---|
| **Samsung** | 25/20nm | 1Xnm | 1Ynm | 1Q18 |
| **SK Hynix** | 25nm | 20nm | 1Xnm | 4Q17 |
| **Micron/Inotera** | 20nm | | 1Xnm | 2Q18 |
| **Micron/Hiroshima** | 25nm/20nm | 1Xnm | 1Ynm | 4Q18 |
| **Micron/Rexchip** | 25nm | 1Xnm | 1Ynm | TBD |
| **Nanya** | 30nm/30nm shrink | 20nm | | |
| **Powerchip** | 30nm | 25nm | 25nmS | TBD |

Source: inSpectrum, February 2018

**(Fig. 2: DRAM process transition table)**

(C) Supply-demand development of the industry

The capacity of the three leading DRAM manufacturers will not be much increased in 2018 according to their capital expenditure plans. Since the transition to the 1xnm process is increasingly difficult, the growth of the DRAM supply will be limited in 2018.

As for the market, Server DRAM has the most demand among all the products. In addition to the Intel conversion server platform to Purley, the demand of Google, Facebook, Microsoft and Amazon for cloud storage solutions never drops and drives a significant growth of the unit memory capacity that data centers need. This is the reason why the demand for DRAM is so strong. TrendForce Corp. expects that the DRAM capacity of a standalone server will have a yearly growth of more than 30% in 2018. In the field of Mobile DRAM, the DRAM capacity of smart phones keeps rising though they are entering in the mature period gradually with a shipping volume growing merely 5%. It is thus expected that the demand of the smart phone manufacturers for Mobile DRAM will grow continuously when the price drops to a reasonable level. While the DRAM manufacturers transfer their capacity to Server and Mobile DRAM products, the proportion of the standard DRAM drops and occupies only about 15% of the total output on the market. What is remarkable is the stronger demand for niche memory products. According to the Topology Research Institute, the niche memory, in terms of bits growth rate, become the second highest growing category following Server DRAM applications in 2018.

(2) Status quo of the NAND flash market

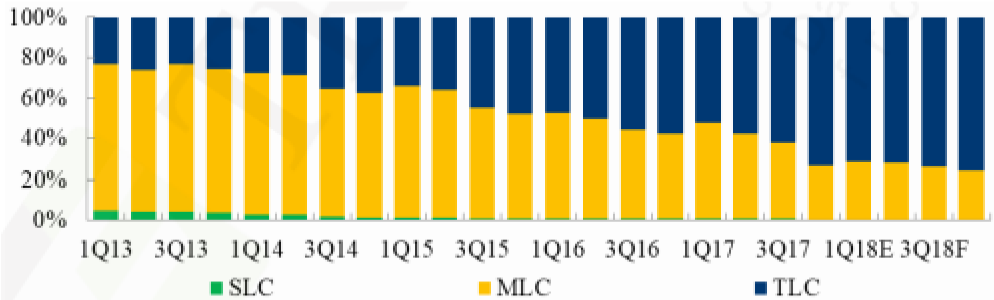
A. Market scale

Smart phones are the major products that use eMMC or eMCP and support the growth of the NAND flash. The demand for SSDs keeps growing as more servers and data centers are built According to IC Insights; the market scale of the NAND flash was about USD 46.7 billion in 2017 with a growth rate of 35% in comparison with 2016. The global market scale of the NAND flash is expected to USD 50.9 billion in 2018 with a growth rate of 9%.

The supply of 2D NAND flash will drop every quarter because the manufacturers are transferring to the 3D NAND flash process. The equivalent production of the 12" wafer in the first and second quarters of 2018 will grow by 2.8% and 1.3%, respectively, and all the additional capacity will be used for 3D NAND flash. The growth rate by bit will be 3.0% and 11.9%, respectively. The output proportion of the 3D NAND flash memory will be close to 70%, and an output proportion of more than 80% is expected at the end of 2018.

As for the development tren0s in the NAND flash market, the dropping output of 2D NAND flash and the increasing average installation of the eMMC, UFS, and SSD lead to an unbalanced supply-demand relation of the 2D NAND flash. Since the supply is in great shortage and unable to meet the demand, the price of the 2D NAND flash keeps rising or flat. However, each manufacturer is committed to improving the capacity and yield rates of 3D NAND flash products. The output by bit in 2017 was 81,233Mbits (16Gb equiv.) with a significant growth rate of 34% in comparison with 2016. A growth of about 43% that equals to 116,723Mbits (16Gb equiv.) is expected in 2018.

In the aspect of the product structure, SLC applications focus on the demandable embedded SSD of the server and industrial control and the MCP high-performance application of smart mobile devices, network communications products, set-top boxes, smart speakers and in-vehicle devices. The market demand is relatively stable. Samsung, Toshiba, and Micron are the providers of SLC. The proportion of the SLC in the NAND flash output is only 1% by bit due to increase of the 3D NAND flash production. The proportion of the TLC reached about 70% at the end of 2017 due to increase of the 3D NAND flash production. A slight increase is expected in 2018. (Fig. 3)




Source: TrendForce Corp., March 2018

**(Fig. 3: Global NAND flash production analysis by product structure)**

As the Q4 ranking of the operating income among different brands of the NAND flash memory in 2017 showed, Samsung created a new peak of operating income to the amount of USD 6.17 billion, and the demand for servers, data centers and smart phones was the major contributor to this achievement. The market share of Samsung increased to 38%, helping the company maintain its leading position in the market. Toshiba enjoyed an increased shipping amount of PCIe SSD and plus the demand of new Apple mobile phones that help them created operating income about USD 2.78 billion and occupied 17.1% market share,, making Toshiba the second in the market. Western Digital had good performance in the retail business and the sale of notebook with SSD. The operating income of USD 2.62 billion and market share of 16.1% made the company the third in the market. Micron had an operating income of USD 1.87 billion and ranked fourth due to substantial income growth from the server and data center fields. Thanks to the order from iPhone 8/X and other mobile phones of China brands, SK Hynix enjoyed an operating income of USD 1.8 billion in Q4 and occupied fifth place following Micron. The growth rate increased by 19.5% in comparison with Q3'17. The 64-layer 3D NAND flash helped Intel acquire cost advantages for the Enterprise SSD and maintain its leading position in the data center and server SSD field. The operating income was USD 900 million with a market share of 5.5%. (Fig. 4)

According to market survey and research institutions' estimates, the supply of the NAND flash will slightly exceed the demand in the first half of 2018, while the price of the SSD might be adjusted downward and enable the OEM manufacturers to increase the SSD capacity and installation. This may be helpful for the maintenance of the demand growth momentum. The overall market supply and demand may become balanced or the supply may be slightly unable to meet the demand in the second half of the year when the demand is expected to increase thanks to the traditional boom season. Therefore, the improvement of the 3D NAND yield rate, the optimization of the price due to this improvement, the multiplication of the memory capacity installed in smart phones, and the increase of the SSD installation will be the focus in 2018.

Unit: USD 1 million

| Company | Revenue | | Market Share (%) | |
|---|---|---|---|---|
| | Q417 | QoQ (%) | Q417 | Q317 |
| Samsung | 6,170 | 9.8% | 38.0% | 37.0% |
| Toshiba | 2,780 | 1.4% | 17.1% | 18.0% |
| WDC | 2,617 | 3.7% | 16.1% | 16.6% |
| Micron | 1,866 | 1.5% | 11.5% | 12.1% |
| SK Hynix | 1,797 | 19.5% | 11.1% | 9.9% |
| Intel | 889 | -0.2% | 5.5% | 5.9% |
| Others | 116 | 30.9% | 0.7% | 0.5% |

Note 1: Q317－USD 1 = KOW 1,105; USD 1 = JPY 112.9

Note 2: Q417－USD 1 = KOW 1,131; USD 1 = JPY 111.0

Note 3: SanDisk has changed its name to WDC. The reason for this are that total revenue calculation deducted outsourcing, license rights and license costs,

Source: TrendForce Corp., March 2018

**(Fig. 4: 2017 Q4 NAND flash ranking by operation income)**

B. Development of products

Applications of the NAND flash include embedded memory (e.g. portable device), SSD (e.g. notebook and data center), memory card, and USB. As the application of smart devices increases in the development of the IoT technology, the smart robots, smart appliances, smart speakers, vehicle-mounted recorders, vehicle navigation systems, intelligent wearable devices, drones, reality technologies (VR, AR, SR, MR), and future AI devices have been increasing the applications of data storage and its demands.

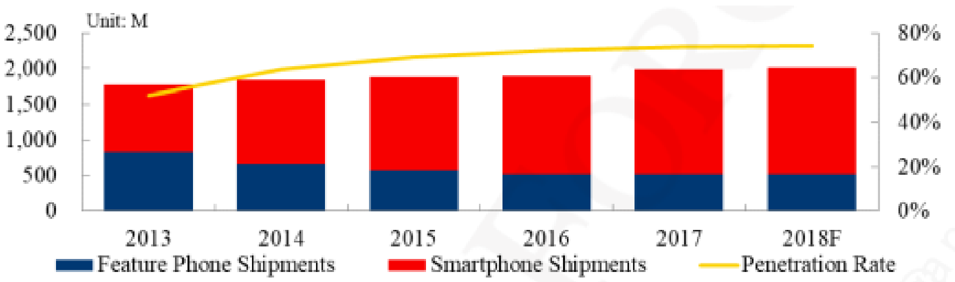
Smart phones: Global shipments of smart phones were 1.46 billion pieces in 2017 with a growth rate of 7.4% in comparison with 2016. (Fig. 5) Samsung maintained its global leading position in the production of smart phones using its advantages acquired through long-term conscientious operations in the global market. Apple won the second place in the global market. It plans to increase the application of the Face ID and full screen to its smart phones in 2018, optimize existing functions, and increase memory capacity. Three new models are expected to launch in Q3. These efforts and the operation of the Indian market make it optimistic for Apple to have growth momentum in the second half of 2018. Chinese brands have frequently created new peaks of shipment thanks to the strong demand in their home market over the past years. As this market was becoming saturated, all the brands transferred to the overseas emerging markets and cooperated with local telecom carriers. With the advantage of high CP ratio, they enter the Indian and southeastern markets, and even the European market, to maintain their market shares.

| Ranking | Brand | 2016 | 2017 | 2018 (estimated) |
|---|---|---|---|---|
| | | **Market share** | **Market share** | **Market share** |
| 1 | Samsung | 22.8% | 21.90% | 20.30% |
| 2 | Apple | 15.3% | 15.20% | 15.70% |
| 3 | HUAWEI | 9.6% | 10.80% | 11.60% |
| 4 | OPPO | 7.2% | 7.60% | 7.10% |
| 5 | VIVO | 6.0% | 6.60% | 7.00% |
| 6 | Xiaomi | 3.7% | 6.40% | 6.10% |
| | Others | 35.4% | 31.50% | 32.20% |
| **Total production** | | **1.360** billion pieces | **1.458** billion pieces | **1.498** billion pieces |

Source: TrendForce (February 2018)

**(Fig. 5 2016-2018 production ranking of global smart phones by brand)**

In particular, the average installation rate of eMMC/eMCP demonstrated the growth momentum of smart phones. The UFS 2.1 capacity installed in the flagship models of the Galaxy S8, Huawei P10, and Xiaomi 6 started from 64GB in the first half of 2017. This was double the lowest capacity of 32GB in 2016. Apple did not equip its iPhone 8/8 Plus/X with 128GB any more in the second half of 2017, but directly upgraded it to 512GB. It is expected that the new flagship models of Samsung, Huawei, Xiaomi, and OPPO will install 256GB UFS2.1 + 6GB/8GB LPDDR4 in 2018, and drive the demand for NAND flash to an unprecedented level. (Fig. 6)

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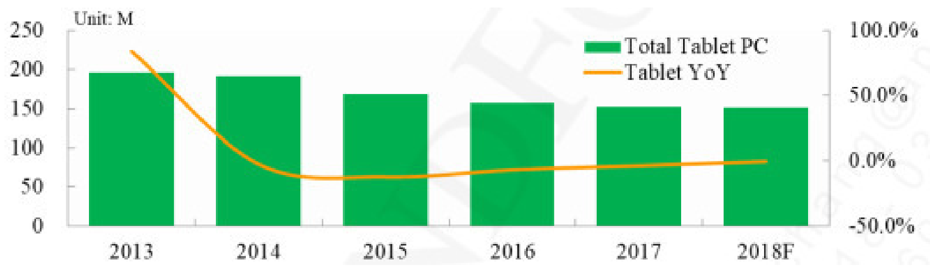
: TrendForce Corp., March 2018

**(Fig. 6: 2013-2018F growth analysis of smart phones)**

The total shipment volume of tablet PCs was 152 million sets, 5.4 million sets or 3.4% less when compared to 2016. The shipment volume of the own-brand manufacturers was about 117.6 million sets with an annual decline of 1.8% and the shipment volume of white-box smart phones was 34.4 million sets with a decline of 3 million sets or an annual decline rate of 8.7%. The shipment volume of tablet PCs in 2018 will decline similarly. The main reason for the decline is that the tablet PC market is continuously eroded by large-size screen mobile phones. However, Amazon and Huawei are ambitious for the operation of the tablet PC market, and have an expected growth rate of 7.8% and 14.2%, respectively, in this field. They are the major momentum behind improved shipments of tablet PCs. Hence, the shipment volume of the own-brand manufacturers may have the chance to reach 118 million sets. Since the market of white-box smart phones may be affected by the shortage of components, such as batteries, capacitors, and resistors, the shipment volume of white-box smart phones would decline by 3.5% and go down to 33.1 million sets in 2018. The overall shipment volume of tablet PCs is expected to decrease slightly with a total quantity of about 151.7 million sets. (Fig. 7)




Source: Trend Force Corp. March 2018

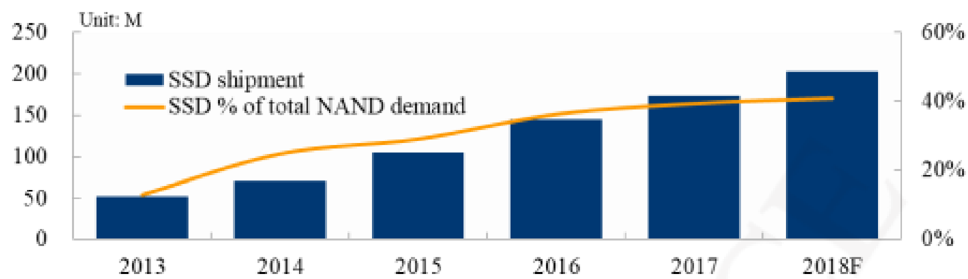
**(Fig. 7: 2013-2018F global tablet PC shipment volume)**

The mainstream product of SSD manufacturers has changed to 2D/3D TLC-SSD. 2D MLC SSD targets niche markets and most manufacturers stop producing or selling the product. 3D SSD new products started selling in the 64/72-layer TLC model in the first quarter of 2018. In the future, manufacturers of NAND flash will develop the 3D QLC Flash technique which brings bigger storage and more competitive SSD. We are expecting the first 64- layer QLC-SSD product sample around midterm of 2018 the quickest and officially enter mass production stage in the second half of 2018.

The growth momentum of the ratio for laptops to be equipped with SSD will contribute to the vast rise of equipment ratio. The mainstream capacity is 256GB for either commercial laptops or consumer laptops, and 3D TLC-SSD will become mainstream components. Although we are expecting the price of SSD to come down and their supply to stabilize, the mainstream capacity of an SSD in the PC OEM market will stay put for 256GB and 128GB secondly. 512GB may not become the mainstream capacity until 2019. The equipment rate of laptops fitting out SSD will exceed 50% the first time in 2018. (Fig. 8).

For the Client SSD product interface (referring to the SSD that laptops equipped with), SATA III is still the main product in the market. Although the performance of PCIe SSD is way greater than SATA III SSD, its price-performance ratio was not good as SATA III SSD in 2017. Besides, the supply of PCIe SSD was not stable, which made its penetration rate lower than expected. The penetration rate of PCIe SSD was about 30%. The PCIe product lines that the SSD suppliers bring out this year will include PCIe G3x4 and PCIe G3x2. We will find out which one will become mainstream during 2018 to 2019. And the penetration rate of PCIe SSD will stand a chance going up to 50%.

The application of Enterprise SSD (referring to the SSD servers are equipped with) still grows stably and major NAND flash suppliers see Enterprise SSD as the momentum for our profit growth. Especially for the ongoing expanding demand for cloud computing, E-commerce, high speed streaming media, online streaming, AI and 5G related devices, Enterprise SSD is growing rapidly leading to a fierce competition between manufacturers. The shipped quantity and average capacity grew greatly in 2017. Overall, the SSD bit consumption rate is around 40%, and the growth rate of Enterprise SSD bit consumption is over 60%. The growth momentum of Enterprise SSD is going to lead the consumption rate of SSD to 41% to 44% in 2018. (Fig. 8)



Source: TrendForce Corp., March 2018

**(Fig. 8: 2013-2018FSSD shipped quantity worldwide)**

As for the market of memory cards, the supply that NAND flash channel provided improved in the 4th quarter in 2017. To increase the profit quality of memory card product lines, the leading manufacturers have started to think about bringing UFS memory cards in the market to replace the market of high end memory cards. The selling points of UFS memory card include the vast advances in efficacy and the supply chain manufacturers do not need to turn in royalty. SAMSUNG always has been promoting UFS standards. When will its flagship smart phones start to support UFS memory card will be the trial balloon in the future market. To resist the threat of UFS, the SD association plans to set a higher level standard- SD7.0 of PCle transmission structure.

The penetration rate of USB 3.1Gen1 in 2017 was between 17%-19%. There is a chance to reach 25% in 2018 because the supply for the 64/72-layer 3D NAND 64/72 will be increased and the price will come down significantly. The capacity of 3D NAND will start from 256Gb (32GB), and USB3.1, with high requirements for average capacity and performance, will be the mainstream. Besides, since laptops from Apple started to use USB Type C in 2015, PC and cell phone manufacturers also continue to release USB Type C products. We believe this will drive production of USB Type C flash drives.

The global sales volume of automobiles tops 100 million units. The rise of smart cars and the need for Internet vehicles are exploding. The sales volume in the automobile market in China tops 30 million units, which is 30% of the global sales volume. China is not only the biggest production-marketing country, but also the world's largest after-market. The need of memory for smart cars and Internet vehicles cannot be underestimated. Especially for the development from security control to intelligent assistance and further to unmanned driving, draws the attention of big semiconductor manufacturers such as Samsung, Intel, Qualcomm, Micron and Toshiba. The automobile market will grow rapidly like smart phones in the foreseeable future (Fig. 9).

| Smart Car | 2017 | | 2020 | |
|---|---|---|---|---|
| | Dram | Flash | Dram | Flash |
| Navigation entertainment | 1/2GB DDR3 | 16/32GB eMMC | 8GB LPDDR4 | 64/128GB UFS/PCles SSD |
| ADAS Driving Assistance System | 4/8GB DDR3 | 512Mb NOR Flash | 22GB LPDDR4 | 64/128GB UFS/PCles SSD |
| Instrument system | 1GB DDR3 | 512Mb SLC Flash | 2GB LPDDR4 | 8GB eMMc |
| Total | 8 GB | 25 GB | 32 GB | 200 GB |

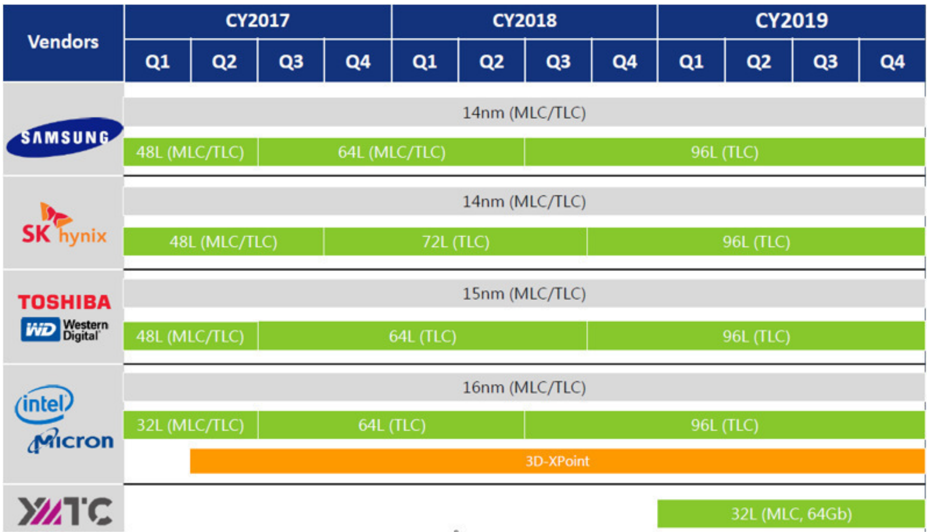
Source: China Flash Market, Jan., 2018

**(Fig. 9 2020 the need of automobile market for memory explodes)**

C. Overview of major NAND Flash suppliers

(A) NAND Flash process transition timeline

2D NAND tech node is stuck at 15 nanometers. Due to the difficulty of shrinking process in following technology node, 2D NAND shrinking process will not continue. All manufacturers take priority in the improvement of production process techniques of 3D NAND and the progress of mass production, actively turning from 32L/36L/48L to 64L/72L, even 96L in 2018. The memory also upgrades from 128Gb in 2D model to 256Gb/512Gb in 3D model. In addition to TLC model, they are also keen on QLC model. The output portion of 3D NAND was about 60% in the 4th quarter in 2017. Hopes are that it will continue to grow and reach 80% in the end of 2018. This also helps lower the cost of SSD to raise the penetration rate of it (2D/3D products techniques of manufacturers in Fig. 10).



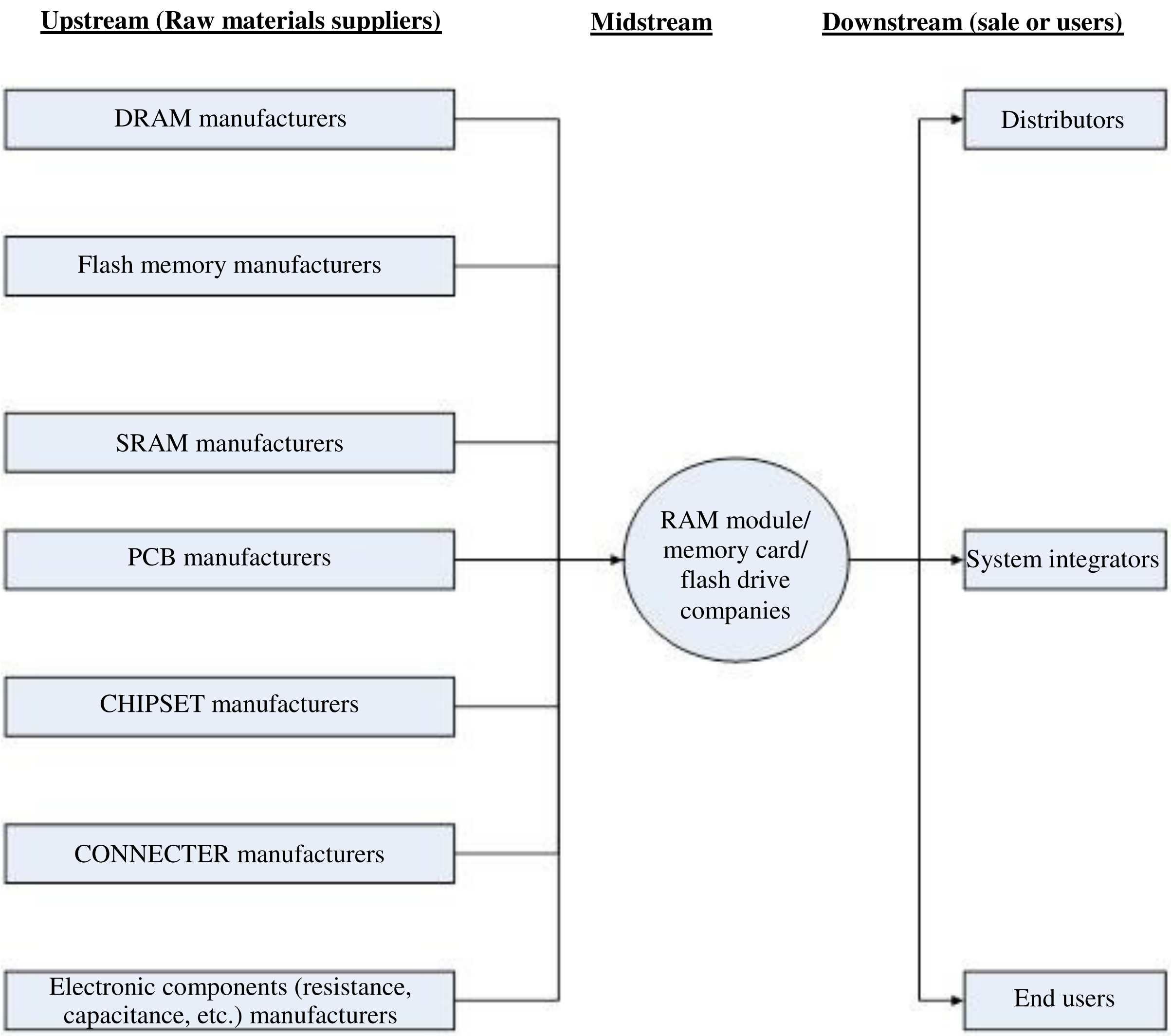

Source: TrendForce Corp., Nov., 2017.

**(Fig. 10: NAND flash 2D/3D products techniques of manufacturers)**

(B) Supply-demand development of the industry

For NAND flash industry, 2018 will fill with challenges and opportunities. On the aspect of supply, the advanced process transfer of NAND flash will continue, thus the 3D NAND yield rate of each manufacturer can be expected to go up. The speed of yield rate increase will influence the quantity and quality of Nand Flash related products in 2018. On the aspect of terminal demand, Enterprise SSD is still the product with the most stable demand growth. Thanks to the strong growth of demands from servers and information centers, the highly efficient Enterprise SSD will become more common components and their capacity will escalate vastly. The price of NAND flash will also determine the growth speed of the Client SSD average equipment rate. Lower prices will benefit the SSD penetration rate in laptops. In general, cell phones and SSD demand are still the main momentum in 2018. Supply and demand will probably balance out in 2018.

ii. The relationship between upstream, midstream and downstream in the industry




iii. The development trend of each product

(1) The development trend of RAM module

RAM module is mainly used in PCs, servers and mobile devices. Due to the new techniques and process, the function of DRAM upgrades rapidly. Its development mainly follows the following trends:

A. High capacity:

With the CPU function strengthened, the memory format transfers from DDR3 to DDR4, leading to the upgrade of DRAM IC main capacity from 4Gbit to 8Gbit. The capacity of RAM module gradually shifts from 8GB to 16 GB because of the product format upgrade.

B. Low power consumption and low voltage:

With the trend of light, thin, short and small in system products, product development will be geared toward low power consumption and voltage; and with the trend of voltage and power consumption decrease when performing a system product, RAM module product is shifting from DDR3 1.35 volt to DDR4 1.2 volt now.

C. High speed:

In coordination with the speed growth of CPU, the processing speed advance of DRAM has become very important. The mainstream format of DDR4 RAM module was 2400MHz in 2017. It will gradually become 2666MHz in 2018.

(2) The development trend of flash memory

A. The capacity expansion of smart phones and SSD is the main growth momentum. In general, the biggest change of SSD is the upgrade of technique specification. Such as the abrupt rise of multiple channels PCIe SSD, and the breakthrough of reading and writing function, expandability and energy saving. In 2018, with the advance in 3D NAND memory yield rate and productivity as well as the controllers and module providers' technique perfection, the efficacy of SSD products is writing a whole new page and the market penetration rate will also increase. Now SSD are mainly used on business laptops or high-end consumer laptops that require more efficacy and higher efficiency. Hopes are that it will expand to mid-range mainstream models and lower-end product lines in 2018. As for the application of Enterprise SSD, conditions are looking good along with the huge growth of cloud computing and the rise of IoT. TrendForce, a market survey and research company, expects that the annual consumption of the NAND flash SSD will have a growth rate of more than 40% YoY.

B. At the prospect of 2018 cell phone market status, we predict the shipped quantity of cell phones worldwide will be 1.5 billion which means the shipped quantity growth is slowing down. The demand for NAND flash will mainly grow because the equipment capacity increases. We are expecting the release of three new models from Apple in the third quarter and the flagship models of other companies.

C. Taken all together, the biggest demand in NAND flash application field still comes from mobile devices and servers, such as smart phones, tablets and SSD. With the rising IoT trend, the rapid growth of intelligent devices, the need and application of data storage on smart robots, smart appliances, smart speakers, and wearable devices, IoT, vehicle navigation systems, intelligent wearable devices, drones, and future AI devices, the growth of NAND flash application is worth expecting.

(3) Techniques and research development status

1. The R&D expenses in the recent years and till the date on which the annual report is printed

Unit: TWD 1,000

| Year | 2016 | 2017 | As of 31 March 2018 |
|---|---|---|---|
| R&D expenses | 87,530 | 99,120 | 28,763 |

2. R&D status of Apacer

Devoted to the industrial application market, Apacer has developed a deep understanding of the storage application need. Also, we continue to invest resources for firmware development, creating and developing the SSD storage model that industrial application needs. Moreover, based on the understanding for the firmware and structure of SSD storage, we can swiftly provide customized storage solutions tailored to specific client needs. Based on the development of core storage techniques, we raise the stability and credibility of products. In addition to SATA-interface SSD, we are more devoted to developing PCIe interface SSD storage techniques, providing the storage need of newer generation transmission interface.

Policy toward developing new products includes SSD application integration and innovation. Besides those, we proactively satisfy our customers' needs and provide them with thorough solutions. We have developed and released optical inspection devices and LAN transmission modules, promoting industrial application field and expanding car-borne field.

In addition to designing and developing higher compatibility format to fit various demand for use, we also devote ourself to new developing strategies of new formats for mobile devices storage and the development of application products related to mobile digital storage in the consumer market. We brought out many kinds of high speed USB 3.1 flash drives, fingerprint encrypted flash drives and dual-interface flash drives. This year, we intently invested R&D resources to the eSports market, undergoing many product developments, including FRAM, RAM modules that have LED lighting functions and ultra-high speed transmission SSD, etc.

As for R&D, we have been granted 178 approved patents for our products in Taiwan and other countries. 63 patent applications are currently pending.

3. R&D outcomes

| Year | R&D outcomes |
|---|---|
| 2017 | 1. Apacer has launched two HDD/SSD enclosures - Apacer AD100 and AD300, changing your old hard disk into a ultimate thin portable hard disk! Apacer AD100 and AD300 both use SATA III and USB 3.1 Gen 1 high speed transmission interface, equipped with UASP acceleration mode to make the transmission even faster up to 400MB/sec max. AD100 uses high-strength steel materials and strengthened plastic to improve the protection when carrying it around. The AD300 is built with aluminum alloy along with a beehive cooling design to increase the effectiveness of cooling when operating. Both models of HDD enclosures use quick installation design and are removable without the need to us any tool, making old HDDs become a useful portable storage tool of high capacity and speed.<br>2. Apacer AC632 USB 3.1 Gen 1 is an drop-resistant portable HD of military specifications. With the thinnest and lightest metal model in the industry, the robust AC632 portable HD acquired the 1.2M drop-resistant certification of US military specifications and breaks the stereotype that "military specification means thickness and heaviness". The tough and modern metal housing with the internal suspension and shockproof functions demonstrates the elegance and grace of a gentleman and the unyielding and tough features of a warrior, like an incarnation of a special agent from the movies! AC632 uses USB 3.1 Gen 1 high-speed transmission interface and provides 1TB and 2TB models for selection. It is the first choice for the user seeking light and safe devices.<br>3. Apacer AH359 USB 3.1 Gen 1 and AH336 USB 2.0 Streamline Flash Drive reflect the design concept of "Ultra-simple X" to provide an extremely smooth experience with its super-simple streamline style, comfortable and gentle touch of arc edge, and thoughtful ornament hole design. The shell is finished with modern simple color, the elegant mirror surface in the front, and the fine texture of dual-craft processing on the back to give more visual gradations AH359 uses USB 3.1 Gen 1 high-speed interface to provide a transmission speed of 5GB per second, and can finish the reading and writing tasks very easily. The 64GB capacity allows storage of all the digital and AV files to enrich the life!<br>4. Inheriting the robust and tough tradition of the Apacer portable HD of military specifications, AC631 is equipped with "Cang-Ting Indigo" all-around armor and a fully enclosed structure. It acquired the drop-resistant certification of US military specifications and has IP55 certified waterproof and dust-resistance features. Data are protected without the concern for loss even when it is dropped from a height of 1.22 meters or subject to spray with a low-pressure spout in all directions. A thoughtful transmission line storage function is designed. The scratch-prof and wearproof finishing provides additional protection for the product. AC631 can protect beautiful photos taken during the trip and all valuable memories. Players can go on adventures without worry about anything.<br>5. We worked with P714 Planet, an original illustration brand name in Taiwan, to introduce three Apacer X P714 joint models - Up in the Air, Escort, and Support - of AH336 USBs and AC233 USB 3.1 Gen 1 1TB portable HDs with the "Dream Planet" as the concept of the creation. Apacer leads users to wander on the colorful Dream Planet, enjoy the warmhearted company of friends, encourage each other, and make the dream come true jointly with full energy! |

| Year | R&D outcomes |
|---|---|
| | 6. Apacer introduced the dedicated portable storage solution AH790 Lightning Swivel USB Flash Drive for iPhone and iPad. The product has a maximum capacity of 64GB, and features rotary switching between Lightning and USB 3.1 Gen1 Type-A ports. The product uses a refined zinc alloy casting technique for an aesthetic appearance, and allows quick transmission of data between mobile devices and computers. The dedicated iFileBridge application provides multiple file management functions, including the "One-touch Backup" function that can free up space on a mobile phone, the "Shoot and Store" function that does not occupy space, and the easy access function that can play large AV files. The AH790 passed the Apple MFi certification with its perfect quality and makes the mobile life of the Apple fans more complete!<br>7. The AC532 classic portable HD provide complete protection for valuable data with its thin & light style and complete protection design. It is the first choice in terms of CP ratio. AC532 is equipped with internal suspension and shockproof functions and can resist drops from a height of 1 meter. The anti-slip design on the side can effectively minimize the drop, slide, collision and other damage to protect the data. Both classic black and white models are available. The product sports a simple and neat style. It uses USB 3.1 Gen 1 high-speed transmission interface to substantially reduce the transmission time. The maximum 2TB storage capacity makes the mobile life more free and efficient!<br>8. Apacer introduced the super gaming SSD - Apacer COMMANDO Series PT920. With inspiration from the powerful assault rifle for the design, the product uses the PCIe Gen 3 x4 high speed interface to ensure a reading/writing rate of 2500/1350 MB every second. The random write speed crucial for the victory demonstrates excellent performance of 175,000 IOPs. The product provides 480GB and 240MB models for selection. PT920 has a radiator with the style of a submachine gun to produce an excellent cooling effect. The multiplex reading and writing functions and Apacer's three-year warranty make the product the most trustful and conquering weapon for gaming competition.<br>9. Apacer introduced the brand new AH730 and AH750 OTG Dual Flash Drive makes of quality elastic steel disks and 360-degree spinning structure. With an ultra compact style, the product can expand the mobile device to a maximum 64GB space at any time and solve the problem of insufficient storage capacity of mobile phones. The Micro USB and USB 3.1 Gen1/ 2.0 dual interfaces allow quick transmission of data and easy sharing of files between mobile phones and tablet PCs with the OTG function. The one-piece ornament hole can be used with a preferred string to combine with the mobile phone as a whole. It is a fashionable metal accessory of personality!<br>10. Apacer's PANTHER RAGE DDR4 LED gaming PC memory module of the new generation provides a clock rate up to 3000MHz. It brings gaming masters and super modders an extreme, tough, and glaring weapon! Building on the leading technology of Apacer in the fields of industrial memory and radiation as well as the excellent tradition in the selection of dies, PANTHER RAGE DDR4 is equipped with a set of LEDs that radiate cold white light, like the sharp dense teeth of a panther warrior who make the enemies terror-stricken.<br>11. The AC630 USB 3.1 Gen 1 drop-resistant portable HD of military specifications is designed to meet the requirements of outdoor lovers. It has a dual-color and tough appearance and a one-piece drop-resistant rubber structure. It passed the drop-resistant certification of US military specifications. The 2TB capacity and a convenient transmission line storage design allow the mountain-climbing, camping, and outdoor sports lovers to store a large number of records during the trip and enjoy complete protection of these memories.<br>12. Apacer's brand new AH13A/AH15A Flash Drive uses the patented press-to-release snap hook design that enables release within 1 second. The extended length design of the AH13A/AH15A Flash Drive allows operation with one hand. The high-strength metal structure brings waterproof, dustproof, and shockproof features which can protect data against various accidents in mobile life. AH15A, in black nickel, features a USB 3.1 Gen 1 high-speed transmission interface to substantially reduce the read/write time. AH13A, in mirrored silver, supports the commonly used USB 2.0. AH15A has a maximum capacity of 128GB and can store up to 33,000 photos, 30,000 songs or HD movies of 30 hours to make digital life amazing at any time. |

| Year | R&D outcomes |
|---|---|
| | 13. Apacer's ASMini portable "pocket" SSD has a size as large as a name card with a maximum capacity of 240GB and a read/write speed up to 450/400MB per second. It is the best among the products in the same segment. ASMini features shockproof and drop-resistant capability. It can read and write in a mobile state without the concern for loss of data, and is the best choice of portable storage.<br>14. Apacer's AC730 portable HD of military specifications is made pursuant to the highest standard in the industry. It is equipped with a titanium-silver-aluminum alloy armor, an internal suspension and shockproof system, and a fully sealed mechanism for multiple protection. The product passed the 1500kg pressure resistance test, drop-resistant certification of US military specification, and IP68 waterproof test to realize five protective capabilities: pressure resistance, drop-resistance, vibration resistance, waterproof, and dustproof. It can protect the valuable data of the use in extremely harsh environments and all sorts of impact accidents. The pressure resistance capability of the product is the best in the industry and three times that of other product in the segment. AC730 can protect the data without the concern for loss and not even a military armored fighting vehicle, a sandstorm or drop from a height of 1.2 meters, or immersion I meter udner water for 60 minutes don't cause any harm.<br>15. The CANBUS – CANOPEN module uses the industrial automation and network transmission technology as a response to the development of the Industry 4.0. The CANOPEN transmission commands are controlled to meet the requirements of the industrial automation.<br>16. SSD plays a key role in the storage field as security sensitivity is becoming increasingly important. We developed the latest security specifications in line with the international standard TCG OPAL 2.0 to improve the security of the data in the industrial application.<br>17. The optical testing application is upgraded. The light meter is based on conversion of a specific spectrum to meet the illumination testing requirements of different industries. We provide customized optical testing solutions such as special optical testing of liquid crystal panels.<br>18. The PCIe Gne3 x4 SSD is a high-speed multi-channel storage SSD of the next generation. It uses NVMe protocol to improve the performance up to 2500MB/sec and brings higher speed for servers and industrial applications. |

4. Long-term and short-term business development plans

A. Short-term business development plan

"Reliability" and "innovation" are the core values of our brand. Through integration of digital storage, innovative application and value-added services, we aim to become "the most reliable business partner" and provide products and services that exceed customer expectations. We actively develop the application of digital storage in combination with cloud and IoT products and application services. We also seek to boost growth and profits for the existing memory modules and industrial SSDs. These are our short-term objectives for business development. The following is a brief description of our strategic plans:

(1) Invest deeply in the field of industrial control through strategic alliances

By forming alliances with strategic partners, we integrate the rich experience and innovative R&D capabilities of Apacer and the partners in the fields of SSDs and controllers to generate synergy in the development of supply chains. Together we take on a constantly changing storage market, look for potential demands with development possibilities, and enhance our competitive advantage in niche markets. We invest vertically and deeply in all the fields of application of industrial control, and engage in joint development with our customers.

(2) Expand business operations in eSports

We continue to release high-quality DDR3/DDR4 products and SSDs to meet the strict requirements of professional eSport players regarding performance. To get closer to gamers and lovers of overclocking and expand our business in the eSport market, we design whole new brands for our excellent and stylish eSport products and introduce them to players, with the Greater China region as the target market. We aim to create a totally new feeling for players and satisfy their high-level demands regarding speed, display and cooling.

(3) Following the mobility trend

We continue to release OTG, Type-C and Apple Lightening mobile peripheral products. Also, to meet consumers' demands for information security, we continue to develop mobile storage products with the latest information security and protection technologies. The aim is to enable consumers to enjoy a smart life with greater convenience, higher speed, and better security, and to explore opportunities for the development of applications in emerging markets.

(4) Keep track of the development of IoT application

We invest in cloud and IoT markets. To meet the demands for automated fleet management and application of Industry 4.0 smart factory, we developed CANbus in-vehicle communication modules to provide highly integrated smart cloud storage and application service solutions.

(5) Expand business in the field of application of optical testing

The IoT boom is connecting all kinds of mobile devices in multiple fields including entertainment, communication, industry, and medicine. To meet customer demands for optical testing of panel displays, we integrate our strategic partners' patents and 40 years of experience in micro-electronic spectrometers and use the technologies of proprietary micro optics and spectrum measuring system integration to develop lightweight and portable spectral luminance, we continue to unveil related products such as color meters and light meters. We aim to provide optical testing products with higher speed, higher resolution and better testing quality.

B. Long-term business development plan

Due to widespread use of smart end devices and the booming of cloud and IoT application around the world, we rely on the solid advantages of our R&D core technologies accumulated through our core business of storage to develop potential fields of application, including storage, reception, analysis, control and sharing of information. We draw up plans for future development and keep working toward our business vision of "becoming the top manufacturer in the integration of IT-enabled information services with digital storage as the core technology".

(A) Strengthen global strategy

With "reliability" and "innovation" as the core values of our brand, we keep expanding channels around the world to provide highly efficient sales and service networks. We actively develop business in regions worldwide and strive toward the goal of becoming a leading brand in global digital application and innovation.

(B) Develop technologies for cyber-physical and software-hardware integration

We actively attract and cultivate R&D talents in the fields of trending industries to enhance our R&D capabilities regarding cyber-physical and software-hardware integration.

(C) Global marketing strateg

We continue to expand the establishment of channels and deepen the management of channels in order to improve our global brand image and visibility.

(D) Establish talent supply chain systems

We pursue comprehensive implementation of a talent supply chain system with position and competency as the core concerns. In line with our organizational strategies and objectives, we connect all stages of talent management, from recruitment, training, performance assessment to promotion and appointment. Through the introduction of various assessment and testing tools, we conduct talent positioning with precision and build our talent database accordingly to reserve high-potential talents for our medium-term and long-term objectives.

The policies described above are designed to achieve stable revenue growth and profits.

II. Market and production and sales status

(I) Market analysis

1. Sales region for major products

Unit: TWD 1,000

| Region \ Year | | 2016 Sales amount | 2016 % | 2017 Sales amount | 2017 % |
|---|---|---|---|---|---|
| Domestic sales | | 1,697,301 | 24.88% | 2,294,510 | 22.85% |
| Export sales | America | 1,563,622 | 22.92% | 2,603,040 | 25.92% |
| | Europe | 694,993 | 10.19% | 1,191,645 | 11.86% |
| | Asia | 2,754,859 | 40.38% | 3,783,512 | 37.67% |
| | Other | 111,451 | 1.63% | 170,769 | 1.70% |
| | Subtotal | 5,124,925 | 75.12% | 7,748,966 | 77.15% |
| Total | | 6,822,226 | 100.00% | 10,043,476 | 100.00% |

2. Market share

The company engages in the production and sales of memory modules and flash memory products. There are many companies engaging in these products. Due to the fact that the production scales of these companies are different, there are no professional and comprehensive industry ranking statistics. Apart from us, domestic companies engaging in the production and sales of DRAM products with a certain scale include ADATA, Transcend, Panram, Unifosa, Silicon Power, and Innodisk. The revenues and market shares of our company and aforementioned companies are listed in the following table. The ratio of operating revenues of the company to the total operating revenues of aforementioned companies in 2017 is 13.14%

Unit: TWD 1,000

| Name of Company | Net Operating Revenues | Market Share |
|---|---|---|
| Apacer | 10,043,476 | 13.14% |
| ADATA | 32,250,351 | 42.19% |
| Transcend | 20,964,853 | 27.42% |
| Panram | 1,739,082 | 2.27% |
| Unifosa | 620,251 | 0.81% |
| Silicon Power | 4,287,194 | 5.61% |
| Innodisk | 6,544,206 | 8.56% |
| Total | 76,449,413 | 100.00% |

Source: 2017 consolidated or parent-company only financial reports of all companies that have been certified by public accountants

3. Market supply and demand status and growth in the future

(1) Market supply and demand status and growth of DRAM in the future

A. Supply and demand status:

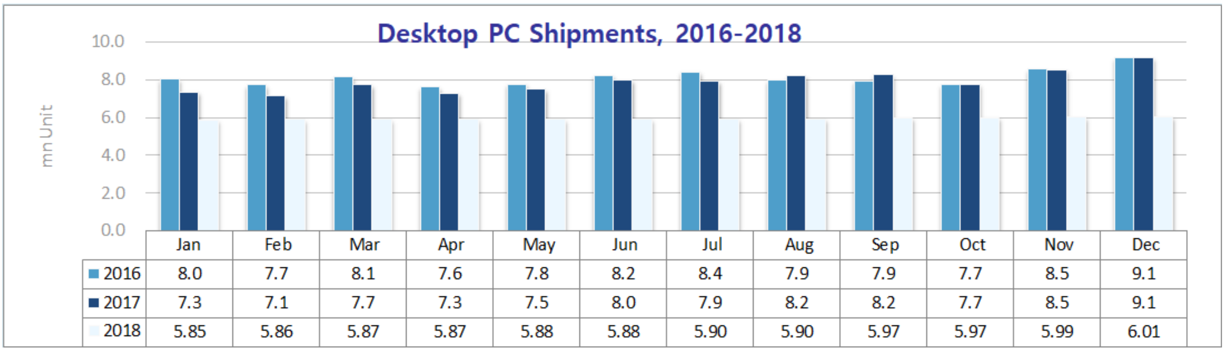
Overall DRAM prices in 2017 continued to increase from 2016 due to the adjustment of product portfolios and the increase in the output of smart phones and the carrying memory capacity in the market. OEM prices increased for six consecutive quarters, and by the end of 2017 had dramatically increased by 30% compared to the beginning of 2017. When looking ahead at 2018, we see Korean companies planning expansion of their DRAM production. Yet the time frame of this remains uncertain while upgrading these advanced production processes is not easy. Hampered by immature technology and restraints on patents, DRAM suppliers in Mainland China can only enter mass production by the end of 2018 or by the beginning of 2019. Trendforce forecasts that the YoY growth rate for global DRAM supply in 2018 will be 22%.

From a market demand perspective, AI, 5G communication, Internet of Things, online stores, and social media websites increase the functions of websites/apps, such as live stream, video upload, and big data analysis. Server demand is growing rapidly as usage volume by users is soaring. Despite slowing growth of smart phone output, the growth rate remained positive. In addition, the specifications of smart phones gradually expand, such as face ID, which causes required mobile memory capacity to surpass the demand in the past. Even as PC output slightly decreased, OEM firms will still increase standard memory capacity due to pressure from specification comparison. Trendforce forecasts that the YoY growth rate for global DRAM demand in 2018 will be 20.4%.

B. Growth potential of DRAM in the future

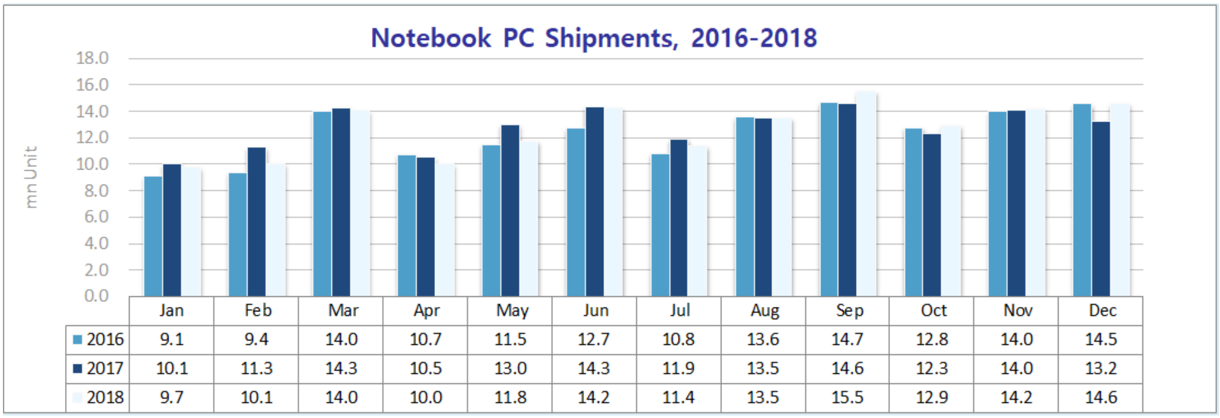
With regard to analysis figures, in future, smart phones and servers will be leading. From an output perspective, the growth in Desktop PCs and Notebook PCs is expected to be -2.9% and -0.7% respectively (Figure 1 and 2). Output for servers and smart phones is expected to post growth rates of 3.3% and 2.7% respectively (Figure 3 and 4). From the perspective of carrying memory capacity, the growth of carrying memory capacity for Desktop PCs and Notebook PCs in 2018 will be 6.8% and 6.7% respectively (Figure 5). However, the growth for smart phones and servers will grow in 2 digits, with growth rates of 19.2% and 32.6% respectively (Figure 6). This is the reason why DRAM firms plan to use more than 70% of production capacity to produce mobile and server RAM (Figure 7).

Source: inSpectrum, February 2018




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | 8.0 | 7.7 | 8.1 | 7.6 | 7.8 | 8.2 | 8.4 | 7.9 | 7.9 | 7.7 | 8.5 | 9.1 |
| 2017 | 7.3 | 7.1 | 7.7 | 7.3 | 7.5 | 8.0 | 7.9 | 8.2 | 8.2 | 7.7 | 8.5 | 9.1 |
| 2018 | 5.85 | 5.86 | 5.87 | 5.87 | 5.88 | 5.88 | 5.90 | 5.90 | 5.97 | 5.97 | 5.99 | 6.01 |

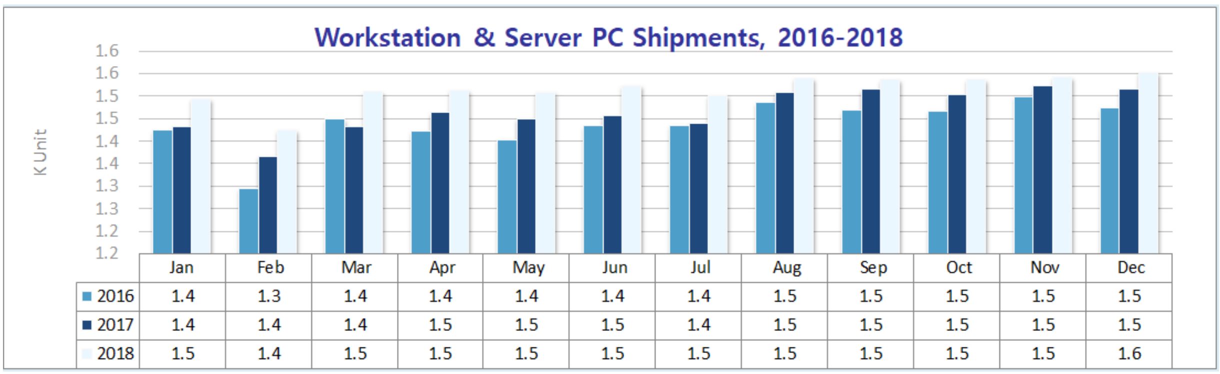
**(Figure 1 Monthly shipment comparison figures for Desktop PC between 2016 and 2018)**




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | 9.1 | 9.4 | 14.0 | 10.7 | 11.5 | 12.7 | 10.8 | 13.6 | 14.7 | 12.8 | 14.0 | 14.5 |
| 2017 | 10.1 | 11.3 | 14.3 | 10.5 | 13.0 | 14.3 | 11.9 | 13.5 | 14.6 | 12.3 | 14.0 | 13.2 |
| 2018 | 9.7 | 10.1 | 14.0 | 10.0 | 11.8 | 14.2 | 11.4 | 13.5 | 15.5 | 12.9 | 14.2 | 14.6 |

Source: inSpectrum, February 2018

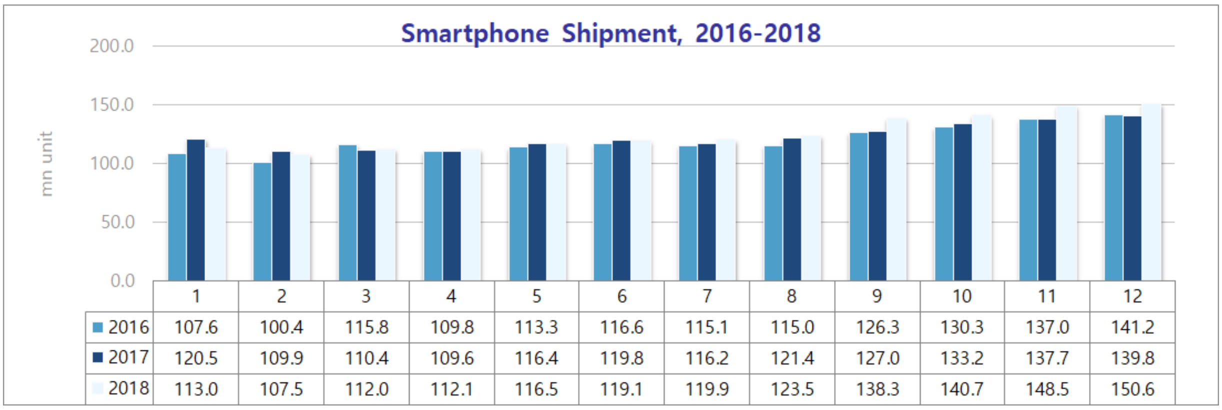
**(Figure 2 Monthly shipment comparison figures for Desktop PC between 2016 and 2018)**




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | 1.4 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| 2017 | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| 2018 | 1.5 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.6 |

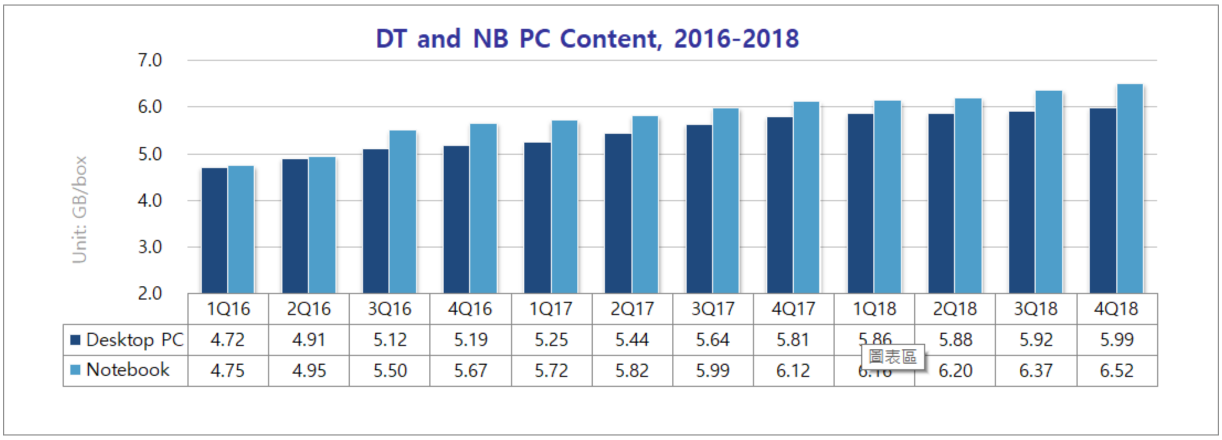
Source: inSpectrum, February 2018

**(Figure 3 Monthly shipment comparison figures for WS/Server PC between 2016 and 2018)**



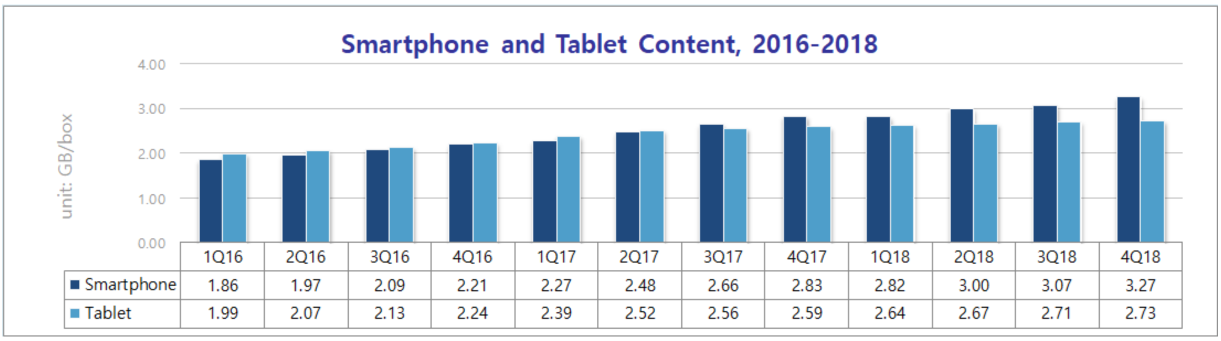

Source: inSpectrum, February 2018

**(Figure 4 Monthly shipment comparison figures for smart phones between 2016 and 2018)**



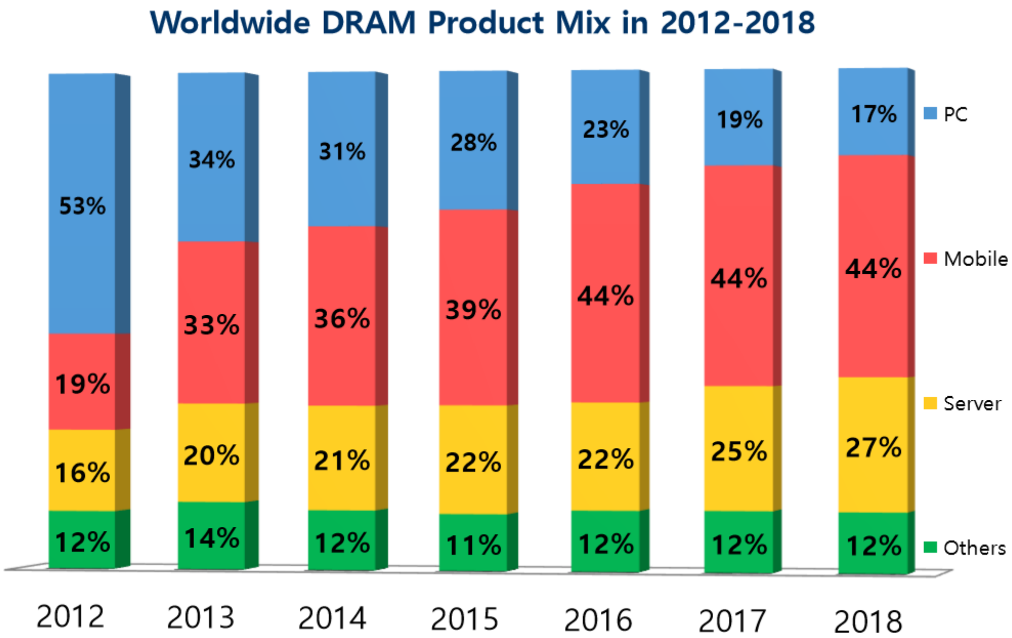

Source: inSpectrum, February 2018

**(Figure 5 Comparison figure for PC carrying memory capacity between 2016 and 2018)**




Source: inSpectrum, February 2018

**(Figure 6 Comparison figure for smart phone/Table carrying memory capacity between 2016 and 2018)**




Source: in Spectrum, January 2018

**(Figure 7: WW DRAM output comparison figure between 2012 and 2018)**

Things requiring attention are the production capacity expansion plans of DRAM firms and the price interference by Chinese government in 2018, which will cause impact on the price of DRAM in 2018. In response to tight supply and ease price pressure on DRAM via increasing DRAM production, Samsung plans to transform part of the production capacity of the Pyeongtaek plant into DRAM. However, the actual production volume will be dynamically adjusted based on the demand for use in terminal devices. SK Hynix will construct its second 12-inch fab in Wuxi, China dedicated to DRAM production. The actual production plan is still in the research stage. By the time the construction is completed and equipment is moved in, the earliest mass production time frame is expected to be at the beginning of 2019.

Ever since the Chinese government strategically supported the semi-conductor industry by methods like providing funds, DRAM has been the key of development. The main reason is that China has a weak DRAM base. Firms' technologies, production capacity and the overall DRAM output value are still lagging. As a large exporter of terminal products like cell phones and PCs, China heavily relies on importing DRAM chips, key components to this export category. Therefore, with the assistance of government funds, related industries in China are actively planning to construct fabs to product DRAM chips, aiming to reach certain degree of import substitute by 2025. DRAM makers Fujian JHICC and Hefei Ruili IC are constructing fabs, aiming to complete 20nm/25nm DRAM trial production within two to three years. Even though firms in China have been poaching technology talents from existing DRAM firms, the majority of DRAM patents are controlled by three major DRAM groups of the world. Currently products made in China have difficulty finding an international market.

Since China is a major customer for DRAM, when Chinese firms are unable to take the pressure of increases in DRAM prices, they look to the Chinese government to control the price increases from the memory chip makers and provide memory to Chinese firms with priority. Considering the market scale and demand for memory in China, as well as the investments in plants in China, Samsung Electronics from South Korea will find it hard to ignore such requests from the Chinese government.

(2) Market supply and demand status and growth of NAND flash in the future

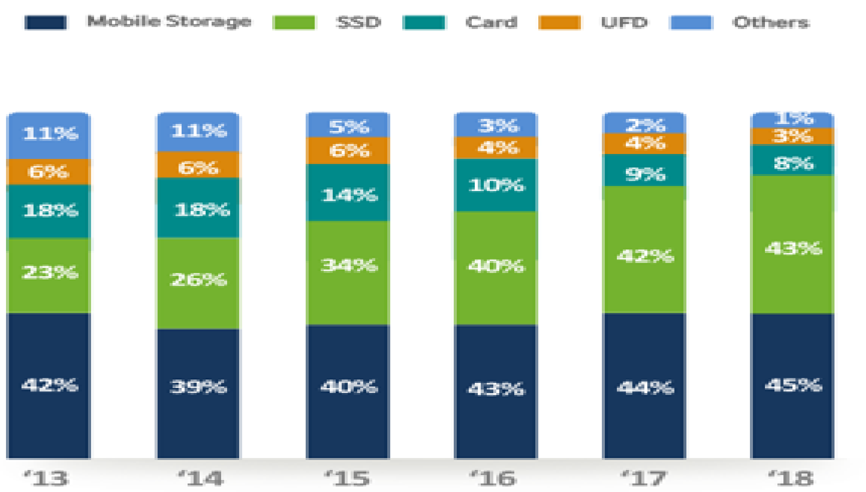
A. Supply and demand status:

When looking at 2018, the growth rate for NAND flash output and demand is 43.7% and 40.1% respectively, and the yield of 3D production process is also expected to increase. Therefore, the overall market will return to a balance of supply and demand. Through price optimization, the average carrying memory capacity of terminal devices and the demand for SSD will increase dramatically. The consumption ratio of smart phones, tablets and SSD will surpass 80%.

B. The growth potential for NAND FLASH application in the future

When looking into the terminal applications of NAND flash in 2018, the demand ratio of smart phones, tablets and SSD will surpass 80% by the end of the year.

The growth of SSD in 2018 remains a highly expected application (see Figure 8). It is estimated that the SSD carrying ratio for notebook PC in 2018 will surpass 50%, which is mainly caused by the fact that the increase of yield of 3D production process will have a chance to lower the costs of SSD that is beneficial for the increase of SSD penetration rates and carrying capacity. In addition, in response to the massive storage demand from data centers, NAND flash firms also strive to develop new technology and new production processes for NAND flash memory in order to increase the storage capacity per unit. As we approach an era where the density of a single chip may reach tera-byte (TB) level, all firms strive for the development of 3D NAND flash memory.




Source: Data from third party, October 2017

**(Figure 8 NAND flash demand analysis, based on application, between 2013 and 2018)**

As the volume of feature phone continues to decrease and the market for smart phone becomes gradually saturated, the global smart phone output volume in 2018 is expected to be around 1.498 billion. The growth in output will slow down. Chinese cell phone firms are seeking sales and cooperation opportunities in emerging markets, such as India and Southeast Asia, and are also actively entering the European market. Demands like face ID and video streaming will increase the average carrying capacity of NAND flash in order to provide more convenient functions, such as more fluent video processing, to cell phone users.

On the other hand, as wearable devices become common around the world, applications for wearable devices are expected to occupy a quite large market share. According to the analysis by MIC, the output value of IoT will grow rapidly. IoT devices worldwide will reach 25 billion by 2020 with the value of USD 7.1 trillion. The business opportunities of this market are astonishing. The fact that the IoT becomes common and the consumer market adopts more and more smart watches and activity trackers bring a huge opportunity for IoT manufacturers. In the application area, related equipment, such as consumer electronics, energy management and construction industry, accounts for higher output ratios. Apart from aiming at developing products that meet customer demands, all corporations also draw plans with greater vision for the IoT application business opportunities whose output value will reach USD 7.1 trillion in four or five years. This imperceptibly increases the development of NAND flash application.

Against the backdrop of trends like 4K video, VR, AR, and booming IoT intelligent monitoring applications, the demand for NAND flash in consumer electronics, enterprise, industrial, and automobile application markets is increasing dramatically, which brings an excellent growth opportunities for suppliers of controllers and SSD modules.

4. Competition niches

(1) Digital storage core technology

In order to seek stable growth and profits and lower operating risks, our company has leveraged pur storage core technology to develop embedded flash (e-flash) products, adjusted our product portfolio, and gradually increased the sales ratio of flash memory products in recent years. In addition, we also actively expand our product range to include more diverse digital storage areas and develop digital products and peripheral products combining cloud/IoT services as well as optical inspection application products in order to increase our market competitiveness and pursue growth and stable profits in these new areas.

(2) Marketing channels reaching out the world

The company has comprehensive sales centers around the world for marketing is brand. In order to respond to local market characteristics and local market dynamics all over the world, we actively develop our global marketing channels. Currently the company has established operation posts in the United States, Netherlands, Japan, Hong Kong, China and India, which is beneficial for the marketing of our brand, providing nearby service to local customers and cultivating local markets.

(3) Provide customized services

Our company strives to provide customers with customized products and services. The demand for memory for diverse mobile devices and equipment will generate explosive growth. Based on our understanding of customer needs, we provide customized products, service, and support, which are advantages that will help us seize market share.

(4) Stable supply sources

Owing to the fact that memory is a product susceptible to strong price fluctuations, having stable raw material supply sources is an indispensable element for memory related enterprise. Therefore, our company has been maintaining long-term good relationships with several domestic and foreign suppliers, that are stable raw material suppliers for DRAM and flash chips.

(5) Excellent quality control

Our company has strict requirements on quality. Apart from increasing product quality through automatic equipment production, we also passed the ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 and IECQ CQ 080000 quality certifications. Our ultimate goal is zero-defect quality.

(6) Quality customer service team

In addition to our RMA department, problems of diversity and compatibility issues between different platforms and applications have become more and more frequent. In response to customer requests for technology analysis, we have not only comply with our existing process but also developed a next-generation platform in collaboration with our customers to fulfill customer’s demand for quick and efficient trouble shooting.

(7) Comprehensive and diverse experience

Our portfolio of digital storage products allows our customers to share information to family members and friends without being limited by data size and transmission location when sharing and transmitting files. Customers may enjoy a comprehensive and diverse information experience and a convenient digital life. In addition, we will continue to release other app integration service software, such as the SSD Widget App real-time monitoring software and the FileBridge OTG file management app, to provide customers with more convenient and comprehensive value-added services through the integration of software and hardware.

5. Favorable and unfavorable factors of development and countermeasures

(1) Favorable factors

A. Product quality is recognized by customers

Ever since the founding of our company, we realize that quality is the basis for sales promotion. Therefore, we place great emphasis on product quality management. Our company passed the ISO 9001 and ISO 14001 quality certifications in 2003 and 2005 respectively, and we continually introduce new automatic production equipment and high-performance inspection equipment. In the production process, we also strictly implement gateway inspections to effectively control and production quality and yield. Therefore, our products have earned a high reputation in the industry and have expanded to international markets.

B. Innovative R&D ability

Our company has worked hard to build our own brand. We have successfully developed multiple products with our own talents, and we have successively applied for patents. Based on the consideration that the life cycle of products is short and that staying ahead of introducing new products, we strive to lower the cost and raise the speed of R&D for new product. Our company spares no effort in investment in research and development. We design products with specifications based on technology development blueprints that satisfy the terminal demands of customers in hardware, firmware, software, and testing in order to create a win-win market, and establish the competitiveness niche of the company in the industry.

C. Alternation of generations for products that creates business opportunities

As the 3D production process for NAND flash becomes mature in the market, SSD firms also actively expand to the computer consumer market, especially notebook PCs. Owing to the fact that the average unit costs of SSD will continue to slide and the yield of MLC specification process will steadily improve, the market expects that the demand for SSD will increase dramatically.

D. Insight into the trend and set foot in AI and IoT application

Mobile, cloud, IoT and big data will dominate the industry application growth. Our company uses digital storage as the core to expand the service integration of information reception, analysis, sharing, and monitoring technology information and grasp trends and reach to potential market in the future.

E. Globalized operating strategy and marketing channels

Ever since its foundation, our company has been marketing its self-owned brand "Apacer" products to the world. Apart from cultivating the domestic market, our company also actively establishes overseas marketing sites. We have established marketing channels through subsidiaries in the United States, Hong Kong, Japan and Europe. Not only helps the company to grasp the dynamics of those local markets, but also provide services to customers in aboved areas. Being close to the market and aware of market trends, our company is able to appropriately reduce operating risks in an environment of intense competition.

F. Harmonious cooperation relationship with suppliers

Owing to the nature of the industry, the prices of major raw materials is susceptible to volatile fluctuations. Our major suppliers of suppliers for DRAM chips are from major DRAM suppliers around the world. We have diversified our procurement sources for flash memory chips in order to prevent massive inventory loss. Our company and oursuppliers have collaborated for quite some time based on mutual trust and have developed excellent relationships, which means that the stability of our supply sources is secured.

Owing to our strategic alliance with Phison Electronics through private placement in 2015, the competitiveness advantages and resources from both parties have become integrated, which has made our product lines more complete, expanded our operation scale, and offers our customers more diverse customized solutions. In the future, our company will focus on further development in customized industrial control SSD storage devices, continue to expand our differentiation advantages, and drive the integration of our companies in order to take on the global competition and ever-changing industrial environment, jointly expand the cross-border niche markets, increase competitiveness of both parties in the global market, and create synergy along our overall industrial chain.

(2) Unfavorable factors and countermeasures

A. Volatile price fluctuations of main raw materials affecting the stability of profits

The key raw materials, DRAM and flash chips, highly account for product cost ratio, and the price varies rapidly, which affects the profit stability of the company.

Countermeasures:

a. Collect the supply and demand data of raw materials in order to enhance the judgment capacity on the price trend in the market and avoid the price fluctuation risk in the market.

b. Enhance our inventory management, highly efficient sales system, and comprehensive global marketing posts to enable fast production and shipping in order to lower the price fluctuation risks.

B. The life cycle of products is short and the price competition is intense

Information products have short life cycles. Firms accelerate the development speed of new products in response to the market demand, which causes intense price competition. In addition, owing to the fast update speed of products, it is noteasy to control production and inventory information products. It is highly possible that not-quick-enough responses to changes in the market may lead to excess inventory or losses on raw material prices.

Countermeasures:

Apart from striving to marketing the brand, our overseas marketing posts enable us to rapidly grasp market demands and trends and develop products with high value-added, introduce products with high profits and quality, and enhance market competitiveness. By improving its R&D capacity, our company is able to follow a development strategy of introducing new products ahead of the market in order to maintain profit capacity. In addition, we improve production management efficiency, lower production costs, and enhance product quality and control over inventory through computer and data management, which strengthens our company brand and product reputation in the market.

C. Exchange rate fluctuation risks

Owing to the fact that the company mainly relies on export, we have large dependence on export. Therefore, exchange rate fluctuations have a certain impact on the profits of the company.

Countermeasures:

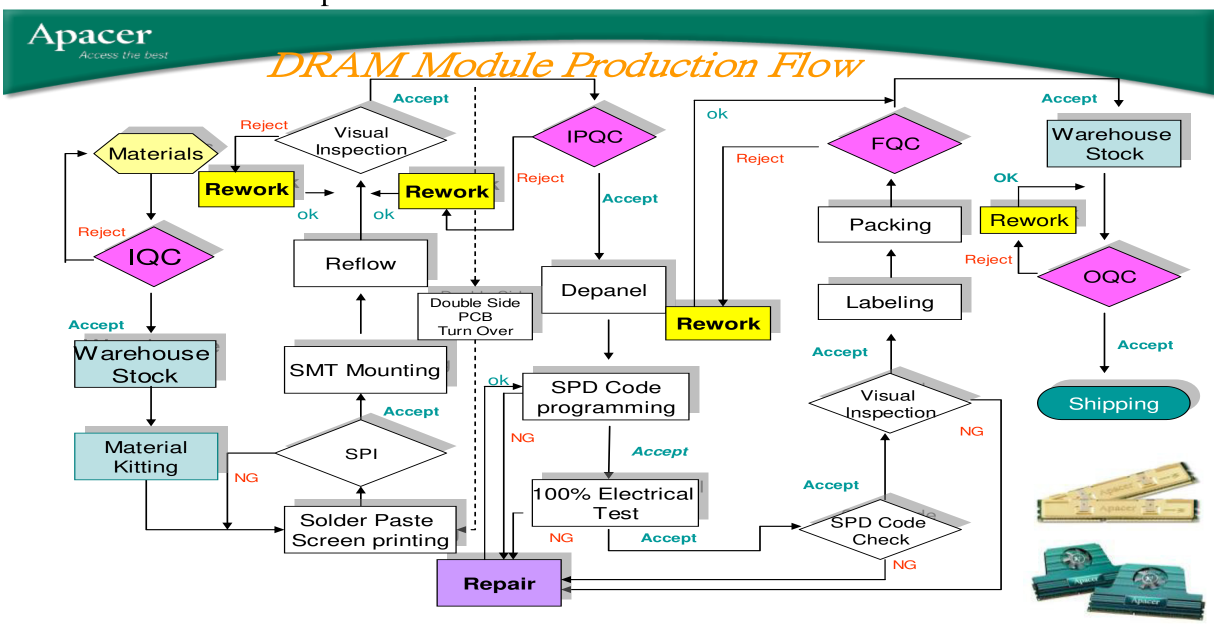
Our company keeps close contact with banks to grasp the status of exchange rate fluctuations. We also assign personnel to collect exchange rate fluctuation information and prepare research report in order to control the timeliness of exchange rate fluctuation and adjust our foreign currency asset and liability positions. We also use financial instruments to effectively respond to impacts caused by exchange rate fluctuations.

(2) Important uses and production processes of our main products

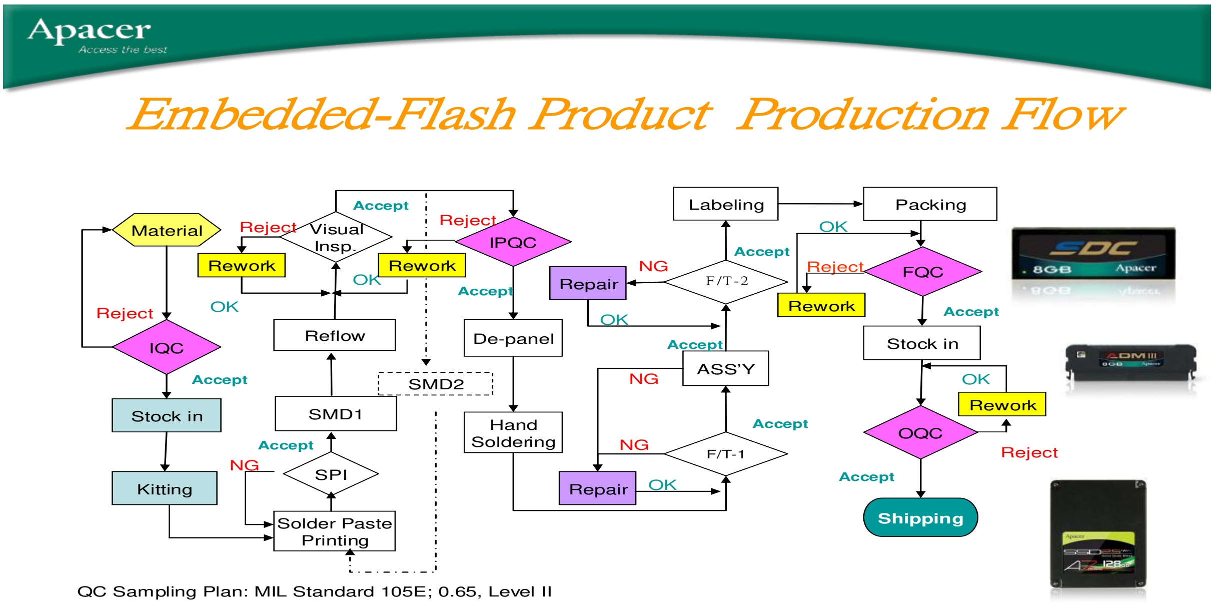
1. Important uses of the main products

| Main products | Main uses |
|---|---|
| Memory module | Memory modules are various types of DRAMs printed on a circuit board via a circuit design, which are embedded in computer main boards and which are compatible with the computer functions, to expand the data processing capacity of the computer and accelerate data processing. They are mainly used in personal computer systems and consumer electronics, for example: personal computers, notebook computers, laser printers, servers, and workstations. |
| Flash memory | (1) Applied as information storage in portable digital products. flash memory is a non-volatile semiconductor technology, which can be used for permanent and modifiable data storage. Thanks to its small size, large capacity, easy portability, and high reliability, it is used in SSDs, mobile phones, digital music players, and tablets.<br>(2) Applied in embedded systems to replace traditional hard disks in industrial applications such as Thin Clients, medical devices, P.O.S., surveillance systems, and military equipment. Consumer applications such as set-top boxes, game consoles, satellite navigation systems, etc. |

2. Production processes




QC Sampling Plan: MIL Standard 105E; 0.65, Level II




(3) Main raw material supply

| Product name | Main raw material | Major suppliers | Supply situation |
|---|---|---|---|
| Memory modules, flash memory and related products | DRAM, Flash | Samsung, Phison Electronics Corp., World Peace International Group, etc. | Normal |

(IV) List of major suppliers and customers

1. List of suppliers accounting for more than 10% of total procurement in either of the last two years:

Unit: TWD 1,000

| 2016 | | | | 2017 | | | | 2018 through March 31 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Title | Amount | Annual net procurement ratio (%) | Relationship with the issuer | Title | Amount | Annual net procurement ratio (%) | Relationship with the issuer | Title | Amount | Annual net procurement ratio (%) | Relationship with the issuer |
| A | 1,335,629 | 22.28 | None | A | 2,550,763 | 28.33 | None | A | 808,223 | 40.64 | None |
| C | 896,727 | 14.96 | None | B | 1,152,646 | 12.80 | None | B | 335,941 | 16.89 | None |
| B | 1,326,480 | 22.13 | None | C | 973,657 | 10.82 | None | C | 229,523 | 11.54 | None |
| Other | 2,434,927 | 40.63 | | Other | 4,325,960 | 48.05 | | Other | 614,814 | 30.93 | |
| **Net procurement amount** | **5,993,763** | **100.00** | | **Net procurement amount** | **9,003,026** | **100.00** | | **Net procurement amount** | **1,988,501** | **100.00** | |

2. List of customers accounting for more than 10% of total sales in either of the last two years: None.

(V) Production volume and value over the last two years

Unit: 1,000 pieces; TWD 1,000

| Year / Production Quantity / Major products | 2016 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Production capacity** | **Production volume** | **Production value** | **Production capacity** | **Production volume** | **Production value** |
| Memory module | (Note 1) | 2,900 | 1,639,585 | (Note 3) | 2,808 | 2,755,391 |
| Flash memory | (Note 2) | 14,414 | 2,164,113 | (Note 4) | 11,276 | 2,520,779 |
| **Total** | **5,580** | **17,314** | **3,803,698** | **5,336** | **14,084** | **5,276,170** |

Note 1: Nearly 13% of this production volume is outsourced.
Note 2: Nearly 82% of this production volume is outsourced.
Note 3: Nearly 26% of this production volume is outsourced.
Note 4: Nearly 74% of this production volume is outsourced.

(VI) Sales volume and value over the last two years

Units: 1,000 pieces; TWD 1,000

| Year / Sales Quantity / Major products | 2016 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Domestic sales** | | **International sales** | | **Domestic sales** | | **International sales** | |
| | **Volume** | **Value** | **Volume** | **Value** | **Volume** | **Value** | **Volume** | **Value** |
| Flash memory | 4,003 | 920,741 | 15,046 | 3,496,578 | 9,295 | 907,562 | 11,590 | 4,400,844 |
| Memory module | 5,715 | 774,845 | 2,761 | 1,625,713 | 8,668 | 1,386,501 | 2,994 | 3,348,054 |
| Other | 32 | 1,715 | 20 | 2,634 | 293 | 447 | 32 | 68 |
| **Total** | **9,750** | **1,697,301** | **17,827** | **5,124,925** | **18,256** | **2,294,510** | **14,616** | **7,748,966** |

III. Personnel information over the last two years

(I) Talent cultivation and career development

In response to the rapidly changing environment in and around our industry, our company provides education and training to its staff to develop the competencies needed to achieve our organizational goals and business strategies, to enhance their professional capabilities, and to boost their knowledge and energy, in order to respond to the challenges in our work. We deploy diversified forms of training tailored to the positions and roles of our staff members and aligned with the organization's annual goals and strategies. In addition to teaching by external instructors, we also invite our own managers and colleagues to share their experiences internally. We also regularly upgrade and assess the skill sets of our technicians. In addition, our staff is also encouraged to participate in public training courses organized by external professional organizations as another enriching avenue for continuous learning. In 2017, the total number of training hours for direct and indirect personnel was 2,297 hours.

(II) Number of employees, average years with our company, average age, and degree distribution ratio

| Year | | 2016 | 2017 | As of 31 March 2018 |
|---|---|---|---|---|
| Number of employees | Direct personnel | 169 | 174 | 170 |
| | Indirect personnel | 353 | 373 | 380 |
| | Total | 522 | 547 | 550 |
| Average age | | 37 | 37 | 37 |
| Average years with our company | | 6 | 6 | 6 |
| Degree distribution ratio | Doctoral degree | 1 | 1 | 1 |
| | Master's degree | 80 | 77 | 81 |
| | College | 337 | 375 | 374 |
| | Senior high school | 96 | 89 | 88 |
| | Below senior high school | 8 | 5 | 6 |

(III) Training structure and efficacy

The Department of Human Resources and Administrative Services arranges training for our staff aligned with their needs. Before any training, the department interviews the heads and employees of the units concerned about their needs. After every training, the department surveys satisfaction and opinions through a questionnaire. Thus the offering is continuously revised and adjusted. In line with the organization's goals and business strategy, the main targets for the annual training schedule are as follows:

1. Training courses are customized according to the needs of the training participants.
2. Train and strengthen the skill sets of our internal lecturers, whose experience is close to the actual situation of their colleagues.
3. Select key staff members with potential to expand our talent pool and build successors.
4. Hold industry trends seminars, to help staff understand the overall situation and business opportunities in the industry and the market.

Course planning and training focus:

1. To enable employees to improve their professional capabilities and in line with their ability to accomplish the organization’s strategic goals, we will strengthen experience sharing by internal lecturers this year and encourage our employees to participate in external training to absorb diversified knowledge and energy.
2. Our courses are divided into four categories: supervisor training, talent training, general staff training, and new staff training. Their content is described below.

A. Supervisor training: The focus of middle-level supervisors is on the core value of continuous innovation, and the ability to carry out change management in response to the environment, predict and control risks of the industry and its context in the future, and understand financial figures and be able to apply them. Base-level supervisors must strengthen their self-awareness in their roles, improve the planning of work flows, carry out good execution, and have a basic understanding of financial figures.

B. Talent training: To reduce gaps in our workforce and to identify high-potentials, we ask members of our management team to give lectures that are close to the actual work situation of our staff. We also give them projects to manage and help them improve their work flows to prepare them for managerial roles.

C. General training: This is general training such as interpersonal communication and coordination, self-management, etc. These intensive courses promote the company's core spirit, and include an innovation camp. This type of training consists of specialized courses by the units and by external providers. In addition, as required by law, courses such as labor safety and health and fire safety training are also held regularly. Staff are also sent to external training to keep their professional licenses according to regulations.

D. New staff training: This offers new employees knowledge about the company's business direction, development vision, corporate culture, and core values. System rules and system processes are offered through online learning.

In 2017 education and training outcomes have been as follows:

| Course type | Number of courses | Number of participants | Number of hours | Total cost (TWD) |
|---|---|---|---|---|
| New staff training | 4 | 151 | 247 | 1,111,570 |
| General training | 177 | 3,868 | 656 | |
| Supervisor training | 19 | 335 | 26 | |
| Talent Training | 8 | 133 | 344 | |
| External training | 132 | 132 | 1,024 | |
| Total | 340 | 4,619 | 2,297 | |

(IV) Diversified learning and development

Every employee can enhance their professional capabilities through various channels, such as, within the company: on-the-job training, job coaching, job transfer, seminars, online learning, reading clubs, etc. Outside the company, they can participate in study activities of professional organizations, short-term training courses of well-known domestic and foreign universities and training institutes, etc.

(V) Corporate Social Responsibility Report

Our company continuously strives, through its mission, philosophy, beliefs, employees' value judgments and codes of conduct, to integrate internal and external resources of the company and practices energy-saving, environmental-friendly and healthy living. We pursue sustainability and profitability, while also fulfilling our social responsibility.

(6) Employee Code of Conduct and Code of Ethics

In its system of rules, our company clearly sets forth the rights and obligations of employer and employees in order to build a management system, improve organizational functions, and improve work efficiency. We have norms to regulate employees' professional conduct in the work place and deepen their ethics through internal announcements and training.

1. Implement hierarchical management

Our company has adopted a "Decision making authority table", "Principles for managerial titles and grades at all levels of the organization" and "Grade/title system list", which set forth the rules and specifications of jobs across the company in order to clarify the various levels, ensure smooth operations, and offer employees a career development blueprint.

2. Compliance with government regulations

Our company strictly abides by all government laws and decrees as well as regulations formulated by the competent authorities. In addition to safeguarding employees' rights and interests, these also regulate employees' behavior and professional ethics.

3. Employees' Code of Conduct

A. Avoidance of Conflict of Interest: According to the company's "Integrity Code of Conduct" and "Integrity Management Procedures and Behavior Guidelines", employees are strictly required to avoid actual or potential interference from personal interests with the company's overall interests.

B. In accordance with the norms of the "Internal Important Information Handling Operation Procedures", we regularly remind and require our employees to abide by these codes of conduct. The legal, audit, finance, information, and administrative departments also remind their staff from time to time of the key points of these behaviors, including norms relating to intellectual property rights protection and information security.

C. The "Work Rules" set forth clear norms for employees' conduct and codes, along with sanctions that may include termination of the employment relationship in serious cases such as:

(1) Where the employee misrepresents any fact at the time of signing of a labor contract and thus caused the company to suffer damage or fear thereof.
(2) Where a worker commits a violent act against or grossly insults the company’s responsible person, his /her family member, a manager at any level, or a fellow employee.

(3) Where the employee has been sentenced to temporary imprisonment, and is not granted a suspended sentence or permitted to commute the sentence to payment of a fine.
(4) Where the employee deliberately damages or abuses any machinery, tool, raw materials, product, or other property of the company, or deliberately discloses any technical or operational confidential information of the company thereby causing serious damage to the company.
(5) Where the employee is, without good cause, absent from work for three consecutive days, or for a total six days in any month.
(6) Where the employee engages in corruption or misappropriation of public funds, or accepts bribes or commissions.
(7) Where the employee runs other business outside the company which affects the company's interests and business conflicts in a serious way.
(8) Where the employee refuses to follow reasonable instructions and neglect their duties, resulting in damage to the company; this must be specific and serious.
(9) Where the employee slanders the company, instigates an illegal slow-down or illegal strikes, with specific evidence.
(10) Where the employee forges the signature of their supervisor or abuses their supervisor’s stamp.
(11) Where the employee threatens the supervisor or destroys or alters a company file.
(12) Where the employee steals or gambles anywhere within the premises of the company that affects the order of work; with specific evidence after investigation.
(13) Where the employee violates a national statute and thus affects the performance of a labor contract, or breaches the labor contract in a serious way.
(14) Where the employee brings banned items such as guns, ammunition,

or knives into the workplace without good reason.

4. Protecting and using company assets properly

Our employees are responsible for protecting the company’s assets and ensuring that they can be legally and effectively used. If they wish to use the services, equipment, facilities, items, or other resources of the company for other than business, they must obtain permission beforehand. The use and management of our assets are controlled through a clear system.

5. Responsibility for confidentiality

Our company sets great store with protecting confidentiality and intellectual property rights. Our employees are required to sign an "Employment/Confidentiality Agreement" and "Confidentiality Rules" at the time of joining the company. Their content covers the confidentiality obligations of the company, the ownership of intellectual property rights during employment and after resignation, and other related regulations. Secrets regarding business or technology must not be disclosed; one must not read documents, letters, emails, design drawings, etc. that are not related to one’s job.

6. Gender equality and the prevention of sexual harassment

In accordance with the law, our company has included norms on gender equality in its "Work Rules" and has formulated a "Regulation on the Reporting and Punishment of Sexual Harassment in the Workplace", which provide detailed behavioral standards and reporting channels and processes for employees to follow.

IV. Environmental protection expenditure

(I) Total losses(including compensation) for environmental pollution from the most recent year to the printing date of this annual report and disclosure for future countermeasure and possible expenditure resulting from not adopting countermeasures; if difficult to estimate, describe the matters that are difficult to estimate): None.

(II) Greenhouse gas emissions and reductions

Apacer Technology took greenhouse gas inventories in 2013 and set 2012 as the base year for inspections going forward. In the same year, we were verified through an external third-party verification company and obtained a statement of reasonable assurance level. Apacer Technology annually checks its greenhouse gas emissions of the previous year. The boundary of the inventory is the direct and indirect greenhouse gas emissions of all our plant sites in Taiwan.

In 2017, our total greenhouse gas emissions were 1,876.732 metric tons of CO2-e/year. There was a slight increase of 82.505 metric tons of CO2-e/year when compared to 2016, mainly caused by an increase in capacity utilization rate and turnover in 2017 from 2016. Our company's average greenhouse gas emissions from 2013 to 2017 were 1,759.47 metric tons CO2-e/year, which was 2.3% lower than the 2012 base year (1,800.715 metric tons CO2-e/year). Thus we did not achieve our targeted reduction of 5%. Our analysis of the reasons for this may be summarized as follows:

1. In 2016, we added a sixth floor to our office area, which led to increased emissions.
2. In recent years, the electricity emission coefficient announced by the Bureau of Energy has increased every year. Because our indirect energy emissions account for more than 99% of total emissions, this increased our emissions figures.
3. Increases in capacity utilization and turnover have led to increased emissions.

| Year | 2016 | 2017 |
|---|---|---|
| Direct greenhouse gas emissions | 8.047 metric tons CO2-e/year | 8.505 mt CO2-e/year |
| Indirect greenhouse gas emissions | 1,786.179 mt CO2-e/year | 1,868.228 mt CO2-e/year |
| Total greenhouse gas emissions | 1,794.227 mt CO2-e/year | 1,876.732 mt CO2-e/year |

(III) Energy conservation and carbon emission reduction awards

As we support green energy and environmental protection, Apacer Technology is always focused on strengthening energy efficiency within the company and reducing unnecessary energy consumption. We also stimulate our employees to reduce energy use, carbon emissions, and greenhouse gas emissions. In 2014, Apacer was awarded the Energy Conservation and Carbon Reduction Action Mark by the Environmental Protection Agency. In 2015, we participated in the "Clean Energy Conservation and Carbon Reduction Production Plan" of the New Taipei City Government. Our new technologies, techniques, and resources help control the use of energy and resources, raise energy efficiency and improve our competitiveness on our path toward greater corporate sustainability. In recognition of Apacer's efforts and achievements in energy conservation and carbon reduction, the New Taipei City Government presented us with a Certificate of Appreciation during the announcement of the outcomes of the 2015 Clean Energy Conservation and Carbon Reduction Production Coaching Program.

(IV) Green product management

In response to the European Union's RoHS Directive and customer requirements, our company has made all its processes lead-free as of 2007, and gradually made them halogen-free as well since 2011 in line with the environmental trend of green products. The RoHS Directive has been fully incorporated into our production processes and material management, which comply with the EU's REACH regulation. We also use these regulations in our audits of component suppliers whom we require to provide us with their environmental protection commitments and RoHS test reports. In July 2007, we passed the IECQ QC080000 management system audit carried out by a third-party certification company. Under this system, we completely control the management of prohibited hazardous substances from product to manufacturing process.

Our company also promises that products delivered to our customers will never use metals from conflict mining areas, in accordance with the DRC Conflict-Free norms.

Our company's products comply with international standards, and our response measures have not significantly impacted our financial performance.

V. Labor relations

(I) The following were a list of our company’s employee welfare measures, education, training, retirement system, with descriptions of their implementation status within our company, as well as agreements between management and labor and the status of employees' rights and interests:

1. Staff welfare measures, education, training and implementation

(1) Employee welfare measures

A. Employee group insurance: To provide more complete guarantees for its employees in addition to the statutory labor insurance and health insurance for employees, our company has also taken out group insurances for its employees, including injury insurance, hospital treatment insurance, and cancer health insurance.

B. Employee activities: Our company has an Employee Welfare Committee in accordance with the law, which plans employee activities throughout the year. These include a Family Day and Dragon Boat Festival and Mid-Autumn Festival fun contests to nurture the physical and mental health of our employees and their team spirit. We also have a staff recreation room with health equipment.

C. Other benefits: wedding and funeral allowances, social allowances for teams, regular health checks, special offers of company products, travel allowances, and gift certificates for the three major holidays.

(2) Staff training system

In addition to our company's training courses, we also offer diversified learning management to stimulate peer learning and knowledge sharing. This includes the following items:

A. The company's Intranet offers dedicated areas for articles, good books, and experience sharing.

B. An incentive system for promoting reading clubs and other learning activities.

C. Our library provides a variety of books and magazines for employees to read.

(3) Staff education and training

In order to achieve our company's vision of "Becoming the Leading Information Service Integrator with Digital Storage" we work to enhance our employees’and company’s culture values of "Trust, Innovation" and our company’s human-centric qualities of "Caring, Sharing, and Mutual

Assistance". Our education and training develop core competences in our staff to their competitiveness in the workplace. These courses consist of the following four types:

A. Core courses: These courses on our corporate culture and corporate strategy cultivate our advantages as a leading organization and our abilities to maintain core technology.
B. Management courses: These courses develop management capabilities needed by managers at all levels.
C. Specialist courses: These courses cultivate the specialized skills necessary for our staff to perform their jobs.
D. General courses: These courses cultivate common knowledge among our employees such as new staff induction training, labor safety training, responsible business alliance training, etc.

2. Retirement system

Our company takes responsibility for the stability of its employees' life in retirement, also in order to improve their working morale during employment. In accordance with the Enforcement Rules of Labor Pension Act, our company has an employee retirement plan, which specifies employee retirement conditions, pension benefits standards, pension applications, and pension disbursements. In accordance with the law, we also have a Workers' Retirement Reserve Fund Supervision Committee. In accordance with the "Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds", monthly pension contributions are transferred to the Workers' Retirement Reserve Fund account at a financial institution designated by law. In July 2005, in response to the government's new pension system, 6% of the wage of employees who chose the new pension system is transferred to individual accounts at the Labor Insurance Bureau in accordance with the law. Those who chose the old system continue to enjoy their pension rights under the old system.

3. Agreements between labor and capital

By emphasizing the harmony of management and labor and paying attention to the welfare of employees, our company's labor relations are good and there have been no labor disputes.

4. Employee rights

Our company invests in labor relations from a perspective of co-existence and co-prosperity. Therefore, we pay attention to employees' opinions. Employees may communicate through formal and informal channels at any time to give feedback on issues in their lives and at work. Two-way communication enables our company and its employees to understand and support each other, build consensus, and create success.

(1) Management labor conferences:

We regularly hold management labor conferences, where representatives from the employer and employees participate in two-way communication on our company's systems and employees' issues regarding company rules, the work environment, and safety and health. This negotiation model helps both parties to strengthen mutual trust and provides valuable input to the management.

(2) Employee Welfare Committee:

The Employee Welfare Committee consists of members selected from among employees who are passionate about public welfare and are good communicators. Therefore, the committee's meetings offer management and labor insights into welfare measures of the company.

(II) Protection measures for the working environment and employees' personal safety

1. Specific measures for safety and health management

A. Periodic review of the safety and health management system

The periodic review mechanisms of ISO 14001 and OHSAS 18001 ensure that all work processes are in line with international requirements.

B. Evaluating risks and countermeasures

We periodically review each unit for unacceptable risks and non-compliance with regulations, after which we formulate safety and health management plans and risk control measures, and submit these outcomes results to the Safety and Health Committee for review.

C. Movement toward zero hazards

We implement a self-management plan for safety and health as well as a safety and health education and training plan to achieve zero occupational hazards.

D. Evaluation of the work environment

According to the "Implementation Rules for the Measurement of Labor Environments", the committee must regularly have their company's operating environment assessed by a qualified operating environment evaluation agency to determine whether the measurement result meet the statutory requirements. Any anomaly in the measurement results must be improved to ensure employee health.

E. Health care and management

In accordance with the "Labor Health Protection Rules", health inspections for general operations and for hazardous operations are carried out separately. The inspection items include chest X-ray, blood pressure, electrocardiogram, urine, blood, and biochemistry serum assays. Special inspections are conducted by level for employee work under special hazards at work such as free radiation, organic solvents. With regard to hypertension, hyperlipidemia, abnormal blood glucose, abnormal body mass, and other metabolic syndromes, our resident nurses use the "Personnel Risk Assessment Table" to remind employee with aboved disease of their health status and to maintain healthy living habits. In addition, external experts are regularly invited to share new and correct health knowledge through seminars to promote preventive care among employees.

We have a "Workplace Health Promotion Program" to create a relaxed and healthy workplace culture so that employees can build and enjoy a work environment that is happy for the body and mind. It not only reduces leave taken, staff turnover, and medical expenses, but also can bring down the incidence and cost of physical and mental health issues caused by injury and chronic diseases - a win-win result.

2. Implement operational safety control

A. In line with the requirements of safety and health regulations and the outcomes of our safety and health risk assessments, we have strict operations control and work permits for operations such as work at elevated height, with open fire, free radiation equipment, etc., and staff must follow these.

B. All machinery and equipment are legally qualified through regular inspections. Operators have professional licenses and regularly follow on-the-job training.

C. All incidents (with or without injury and including false alarms) are reported and given follow-up to eliminate potential hazards. In addition, equipment with moving parts, potentially dangerous process points, and protective devices are physically inspected and improvement plans formulated and implemented, to prevent injury.

D. Roaming inspectors in the plant compound inspect activities and environments along their routes, and also assist with support or rescue in the event of traffic accidents, emergencies, or major drills.

E. To ensure that operators are not exposed to radiation hazards, periodic inspections of equipment are carried out. Also staff are required to wear anti-radiation gear and participate in radiation work health inspections. Based on the readings of radiation meters and medical check-ups. Radiation doses and employees' health conditions are monitored to prevent equipment anomalies causing radiation damage to our staff.

(III) Total losses suffered due to labor dispute from the most recent year to the printing date of this annual report and disclosure for the future countermeasure and estimated possible expenditure;if it is difficult to estimate reasonably,describe the matter below:

Our company has harmonious labor relationships and has not suffered any losses due to labor disputes. Such losses are not expected to occur in the future.

VI. Important contracts

| Nature of contract | Parties | Contract date | Main content | Limits Terms |
|---|---|---|---|---|
| License contract | Qisda Technology Co., Ltd. | 2017/10/1-2018/9/30 | Computer system lease and licensing | None |
| License contract | DATA SYSTEMS CONSULTING CO., LTD. | 2017/5/10-2018/10/31 | Information system establishment and licensing | None |
| Insurance contract | Fubon Property and Casualty Insurance Co., Ltd. | 2017/7/1-2018/7/1 | Commercial fire insurance | None |
| Insurance contract | Shin Kong Insurance Co., Ltd. | 2018/1/1 -2018/12/31 | Cargo insurance | None |
| Insurance contract | Hotai Insurance Co., Ltd. | 2017/5/1-2018/4/30 | Product liability insurance and public accident liability insurance | None |
| Insurance contract | Fubon Property and Casualty Insurance Co., Ltd. | 2017/8/9-2018/8/9 | Supervisors and Managers Liability Insurance | None |
| License contract | Qisda Technology Co., Ltd. | 2017/10/1-2018/9/30 | Computer system lease and licensing | None |

# VI. Financial overview

I. Condensed balance sheet and comprehensive income statement over the past five years

(I) Condensed balance sheet and consolidated income statement information - IFRS

**(1) Condensed balance sheet (consolidated financial statement)**

Unit: TWD 1,000

| Item \ Year | | Financial information of the last five years (Note 1) | | | | | As of March 31,2018 (Note 1) |
|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Current assets | | 2,879,203 | 3,245,221 | 2,945,616 | 2,856,713 | 3,589,477 | 3,283,455 |
| Long-term investment | | 87,567 | 99,597 | 18,249 | 17,984 | 19,197 | 29,205 |
| Property, plant and equipment | | 715,264 | 718,861 | 888,960 | 902,951 | 899,387 | 892.983 |
| Intangible assets | | 13,741 | 11,953 | 7,691 | 11,123 | 24,363 | 26,239 |
| Other assets | | 32,793 | 30,058 | 42,329 | 51,758 | 100,381 | 105,573 |
| Total assets | | 3,728,568 | 4,105,690 | 3,902,845 | 3,840,529 | 4,632,805 | 4,337,455 |
| Current liabilities | Before allocation | 1,335,058 | 1,472,599 | 1,009,232 | 1,372,374 | 2,010,340 | 1,613,416 |
| | After allocation | 1,605,945 | 1,806,105 | 1,199,309 | 1,614,529 | (Note 2) | (Note 2) |
| Non-current liabilities | | 12,828 | 15,228 | 17,131 | 39,620 | 54,325 | 53,666 |
| Total liabilities | Before allocation | 1,347,886 | 1,487,827 | 1,026,363 | 1,411,994 | 2,064,665 | 1,667,082 |
| | After allocation | 1,618,773 | 1,821,333 | 1,216,440 | 1,654,149 | (Note 2) | (Note 2) |
| Equity attributed to stockholders of the parent company | | | | | | | |
| Share capital | | 1,344,667 | 1,365,437 | 1,515,987 | 1,008,978 | 1,008,978 | 1,008,978 |
| Capital surplus | | 226,609 | 254,299 | 489,941 | 359,203 | 358,225 | 358,225 |
| Retained earnings | Before allocation | 820,146 | 1,037,354 | 930,854 | 1,086,882 | 1,250,073 | 1,395,642 |
| | After allocation | 549,259 | 703,848 | 740,777 | 844,727 | (Note 2) | (Note 2) |
| Other equities | | (9,290) | (39,227) | (60,300) | (30,971) | (49,321) | (92,650) |
| Treasury stocks | | (1,450) | - | - | - | - | - |
| Total stockholders' equity attribute to the parent company | Before allocation | 2,380,682 | 2,617,863 | 2,876,482 | 2,424,092 | 2,567,955 | 2,670,195 |
| | After allocation | 2,109,795 | 2,284,357 | 2,686,405 | 2,181,937 | (Note 2) | (Note 2) |
| Non-controlling interests | | - | - | - | 4,443 | 185 | 178 |
| Total equity | Before allocation | 2,380,682 | 2,617,863 | 2,876,482 | 2,428,535 | 2,568,140 | 2,670,373 |
| | After allocation | 2,109,795 | 2,284,357 | 2,686,405 | 2,186,380 | (Note 2) | (Note 2) |

Note 1: The financial information in the above table has been audited/reviewed by our CPAs. Related information is available at the Market Observation Post System website.

Note 2: The shareholders' meeting has not approved for the distribution of 2017 surplus.

(2) Condensed Consolidated Comprehensive Income Statement (Consolidated Financial Statement)

Unit: TWD 1,000

| Item \ Year | Financial information of the last five years (Note 1) | | | | | As of March 31,2018 (Note 1) |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Operating revenue | 9,835,612 | 10,218,111 | 7,379,728 | 6,822,226 | 10,043,476 | 2,494,445 |
| Gross operating profit | 1,319,986 | 1,361,776 | 961,243 | 1,156,300 | 1,298,790 | 325,967 |
| Operating income | 565,436 | 615,453 | 314,718 | 406,303 | 474,842 | 117,385 |
| Non-operating income and expenses | 15,485 | (6,203) | (34,261) | 18,906 | (1,802) | 3,139 |
| Net income before tax | 580,921 | 609,250 | 280,457 | 425,209 | 473,040 | 120,524 |
| Net income of continuing operations for the current period | 447,210 | 491,389 | 228,389 | 349,291 | 404,957 | 95,636 |
| Losses of discontinued operations | - | - | - | - | - | - |
| Net profit for the current period | 447,210 | 491,389 | 228,389 | 349,291 | 404,957 | 95,636 |
| Other comprehensive income(loss) for the current period (net of tax) | (3,807) | (5,281) | (16,856) | (10,001) | (18,169) | (5,712) |
| Total consolidated comprehensive income for the current period | 443,403 | 486,108 | 211,533 | 339,290 | 386,788 | 89,924 |
| Net income for the current period attributed to stockholders of the parentcompany | 447,210 | 491,389 | 228,389 | 349,467 | 405,418 | 95,646 |
| Net profit for the current period attributed to non-controlling interests | - | - | - | (176) | (461) | (10) |
| Total comprehensive income attributed to stockholders of the parentcompany | 443,403 | 486,108 | 211,533 | 339,695 | 386,996 | 89,931 |
| Total comprehensive income attributed to non-controlling interests | - | - | - | (405) | (208) | (7) |
| Earnings per share | 3.33 | 3.63 | 1.53 | 2.74 | 4.02 | 0.95 |

Note 1: The financial information in the above table has been audited/reviewed by our CPAs. Related information is available at the Market Observation Post System website.

(II) Condensed balance sheet and income statement information - IFRS

**(1) Condensed balance sheet (parent-company only financial statement)**

Unit: TWD 1,000

| Item \ Year | | Financial information of the last five years (Note 1) | | | | |
|---|---|---|---|---|---|---|
| | | **2013** | **2014** | **2015** | **2016** | **2017** |
| Current assets | | 2,635,525 | 2,986,665 | 2,690,997 | 2,543,801 | 3,260,681 |
| Long-term investment | | 237,497 | 282,843 | 222,736 | 266,142 | 280,722 |
| Property, plant and equipment | | 713,733 | 717,264 | 884,982 | 899,431 | 896,601 |
| Intangible assets | | 13,292 | 11,769 | 7,617 | 10,868 | 24,158 |
| Other assets | | 26,803 | 21,735 | 36,751 | 45,783 | 92,825 |
| Total assets | | 3,626,850 | 4,020,276 | 3,843,083 | 3,766,025 | 4,554,987 |
| Current liabilities | Before allocation | 1,233,465 | 1,387,185 | 949,470 | 1,302,313 | 1,962,467 |
| | After allocation | 1,504,352 | 1,720,691 | 759,393 | 1,544,468 | (Note 2) |
| Non-current liabilities | | 12,703 | 15,228 | 17,131 | 39,620 | 24,565 |
| Total liabilities | Before allocation | 1,246,168 | 1,402,413 | 966,601 | 1,341,933 | 1,987,032 |
| | After allocation | 1,517,055 | 1,735,919 | 776,524 | 1,584,088 | (Note 2) |
| Share capital | | 1,344,667 | 1,365,437 | 1,515,987 | 1,008,978 | 1,008,978 |
| Capital surplus | | 226,609 | 254,299 | 489,941 | 359,203 | 358,225 |
| Retained earnings | Before allocation | 820,146 | 1,037,354 | 930,854 | 1,086,882 | 1,250,073 |
| | After allocation | 549,259 | 703,848 | 740,777 | 844,727 | (Note 2) |
| Other equities | | (9,290) | (39,227) | (60,300) | (30,971) | (49,321) |
| Treasury stock | | (1,450) | - | - | - | - |
| Total stockholders' equity attribute to the parent company | Before allocation | 2,380,682 | 2,617,863 | 2,876,482 | 2,424,092 | 2,567,955 |
| | After allocation | 2,109,795 | 2,284,357 | 2,686,405 | 2,181,937 | (Note 2) |
| Non-controlling interests | | - | - | - | - | - |
| Total equity | Before allocation | 2,380,682 | 2,617,863 | 2,876,482 | 2,424,092 | 2,567,955 |
| | After allocation | 2,109,795 | 2,284,357 | 2,686,405 | 2,181,937 | (Note 2) |

Note 1: The financial information in the above table has been audited/reviewed by our CPAs. Related information is available at the Market Observation Post System website.
Note 2: The shareholders' meeting has not passed approved a resolution on the surplusfor the distribution of 2017 surplus.

### (2) Condensed comprehensive income statement (parent-company only financial statement)

Unit: TWD 1,000

| Item \ Year | Financial information of the last five years (Note 1) | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Operating revenue | 9,509,538 | 9,961,861 | 7,082,614 | 6,567,983 | 9,844,821 |
| Gross operating profit | 1,111,624 | 1,127,817 | 731,096 | 895,449 | 1,028,072 |
| Operating income | 534,145 | 565,244 | 280,111 | 361,037 | 425,915 |
| Non-operating income and expenses | 5,133 | 36,349 | 1,852 | 48,471 | 31,430 |
| Net income before tax | 539,278 | 601,593 | 281,963 | 409,508 | 457,345 |
| Net income of continuing operations for the current period | 447,210 | 491,389 | 228,389 | 349,467 | 405,418 |
| Losses of discountinued operations | - | - | - | - | - |
| Net income for the current period | 447,210 | 491,389 | 228,389 | 349,467 | 405,418 |
| Other comprehensive income(loss) for the current period (net of tax) | (3,807) | (5,281) | (16,856) | (9,772) | (18,422) |
| Total comprehensive income for the current period | 443,403 | 486,108 | 211,533 | 339,695 | 386,996 |
| Earnings per share | 3.33 | 3.63 | 1.53 | 2.74 | 4.02 |

Note 1: The financial information in the above table has been audited/reviewed by our CPAs. Related information is available at the Market Observation Post System website.

(4) Accountants' names and review opinions over the last five years

Accountants' names that have reviewed and given their opinions over the last five years:

| Year | Signing accountant name | Accountant opinion |
|---|---|---|
| 2013 | Tang Ci-Jie, Chen Ya-Lin | Unqualified-modified opinion |
| 2014 | Tang Ci-Jie, Chen Mei-Yan | Unqualified-modified opinion |
| 2015 | Chen Mei-Yan, Wu Lin | Unqualified opinion |
| 2016 | Chen Mei-Yan, Wu Lin | Unqualified opinion |
| 2017 | Tang Ci-Jie, Chen Mei-Yan | Unqualified opinion |

## II. Financial analysis of the last five years

### (I) Financial Analysis - Adoption of International Financial Reporting Standards (consolidated)

| Item | Year | Financial analysis of the last five years (Note 1) | | | | | As of March 31,2018 (Note 1) |
|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Financial structure | Debt to assets ratio (%) | 36.15 | 36.24 | 26.30 | 36.76 | 44.57 | 38.43 |
| | Long-term capital to property, plant and equipment ratio (%) | 332.84 | 364.17 | 323.58 | 273.34 | 291.58 | 305.05 |
| Debt paying ability | Current ratio (%) | 215.66 | 220.37 | 291.87 | 208.15 | 178.55 | 203.51 |
| | Quick ratio (%) | 121.58 | 130.02 | 223.11 | 114.36 | 97.80 | 109.81 |
| | Interest protection | 206.06 | 143.68 | 109.66 | 666.43 | 46.61 | 59.56 |
| Operational capacity | Receivables turnover ratio (times) | 13.18 | 11.49 | 8.43 | 7.77 | 8.80 | 8.17 |
| | Average collection days | 28 | 32 | 43 | 47 | 41 | 45 |
| | Inventory turnover ratio (times) | 8.29 | 6.96 | 6.44 | 5.75 | 6.05 | 5.59 |
| | Payable turnover (times) | 12.82 | 11.79 | 9.51 | 7.67 | 9.00 | 7.87 |
| | Average inventory turnover days | 44 | 52 | 57 | 63 | 60 | 65 |
| | Property, plant and equipment Turnover rate (times) | 25.98 | 14.25 | 9.18 | 7.61 | 11.14 | 11.13 |
| | Total asset turnover ratio (times) | 2.64 | 2.49 | 1.84 | 1.76 | 2.37 | 2.22 |
| Profitability | Return on assets (%) | 12.70 | 12.64 | 5.76 | 9.04 | 9.76 | 2.17 |
| | Return on equity (%) | 19.88 | 19.66 | 8.31 | 13.17 | 16.21 | 3.65 |
| | Pre-tax income to paid-in capital ratio (%) | 43.20 | 44.62 | 18.50 | 42.14 | 46.88 | 11.95 |
| | Net profit ratio (%) | 4.55 | 4.81 | 3.09 | 5.12 | 4.03 | 3.83 |
| | Earnings per share (TWD) | 3.33 | 3.63 | 1.53 | 2.74 | 4.01 | 0.95 |
| Cash flow | Cash flow ratio (%) | 44.76 | 13.66 | 68.49 | 9.97 | 1.95 | 22.09 |
| | Cash flow adequacy ratio (%) | 76.95 | 92.98 | 90.57 | 57.37 | 44.84 | 76.38 |
| | Cash reinvestment ratio (%) | 15.13 | (2.52) | 11.65 | (2.01) | (7.23) | 12.23 |
| Leverage | Operational leverage | 7.34 | 6.30 | 6.61 | 7.32 | 9.34 | 9.38 |
| | Financial leverage | 1.01 | 1.01 | 1.01 | 1.00 | 1.02 | 1.02 |

Increases or decreases of more than 20% in the financial ratio over the past two years are explained below:

1. Financial structure:
   The increase in "Debt to assets ratio" is due to an increase in working capital needed to grow our operations, which increased our short-term bank loan volume.
2. Repayment ability:
   The decrease in the "Interest protection " was due to the increase in interest expenses resulting from the increase in short-term bank borrowings.
3. Operational capacity:
   The increases in "Turnover of property, plant and equipment" and "Turnover of total assets" are due to revenue growth.
4. Profitability:
   The "Return on equity" and "Earnings per share" increased due to an increase in profit from growth of operations.
   The decrease in "Net profit ratio" was caused by an increase in raw material prices and the increase in cost.
5. Cash flow:
   The decreases in "cash flow ratio", "cash reinvestment ratio" and "cash flow adequacy ratio" are due to increased purchases of inventory related to the growth of our operations, which resulted in a reduction of cash flow from operating activities. An increase in short-term bank borrowings for working capital requirements also increased our current liabilities.
6. Leverage:
   The increase in "Operating leverage" was due to an increase in revenue.

Note 1: The financial information in the above table has been audited/reviewed by our CPAs. Related information is available at the Market Observation Post System website.

1.Financial structure:

(1) Debt to assets ratio = Total liabilities / Total assets

(2) Long-term capital to property, plant and equipment ratio = (Total equity + Non-current liabilities) / Net value of property, plant and equipment

2.Debt paying ability:

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets - Inventory - Prepaid expenses) / Current liabilities

(3) Interest protection = Net income before tax and interest expense/interest expense of the current period

3.Operating ability:

(1) Receivables turnover rate (including accounts receivable and bills arising from operations) = Net sales/ average receivables for each period (including accounts receivable and bills arising from operations)

(2) Average collection days = 365/ Receivables turnover ratio

(3) Inventory turnover ratio = Cost of goods sold / Average inventory value

(4) Payables turnover ratio (including accounts payable and notes payable arising from operations) = Cost of goods sold/ Average payables for each period (including accounts payable and bills arising from business operations)

(5) Average inventory turnover days = 365 / Inventory turnover rate

(6) Turnover of property, plant and equipment = Net sales / Average net value of property, plant and equipment

(7) Turnover of total assets = Net sales / Average total assets

4.Profitability:

(1) Return on assets = (Profits or losses after tax + interest expenses × (1-tax rate)) / Average total assets

(2) Return on equity = Profits or losses after tax / Average total equity

(3) Net profit ratio = Profits or losses after tax / Net sales

(4) Earnings per share = (Income attributed to stockholders of the parent company - Special shares dividends) / Weighted average of issued shares

5.Cash flow:

(1) Cash flow ratio = Net cash flow from operating activities / Current liabilities

(2) Net cash flow adequacy ratio = Net cash flow from operating activities over the last five years / (Capital expenditure + Inventory increase + Cash dividend) over the last five years

(3) Cash reinvestment ratio = (Net cash flow from operating activities - Cash dividends) / (Gross value of property, plant and equipment + Long-term investments + Other non-current assets + Working capital)

6.Leverage:

(1) Operating leverage = (Net operating revenue - Variable operating costs and expenses) / Operating profits

(2) Financial Leverage = Operating income / (Operating income - Interest expenses)

## (II) Financial Analysis – Based on International Financial Reporting Standards (IFRS; parent-company only)

| Item | | Financial analysis of the last five years (Note 1) 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Financial structure | Debt to assets ratio (%) | 34.36 | 34.88 | 25.15 | 35.63 | 43.62 |
| | Long-term capital to property, plant and equipment ratio (%) | 333.55 | 364.98 | 325.03 | 269.51 | 289.15 |
| Debt paying ability | Current ratio (%) | 213.67 | 215.30 | 283.42 | 195.33 | 166.15 |
| | Quick ratio (%) | 115.37 | 125.25 | 212.28 | 98.59 | 92.04 |
| | Interest protection | 191.36 | 141.89 | 106.80 | 635.90 | 45.12 |
| Operational capacity | Receivables turnover ratio (times) | 14.52 | 12.57 | 9.29 | 8.51 | 8.87 |
| | Average collection days | 25 | 29 | 39 | 43 | 41 |
| | Inventory turnover ratio (times) | 8.37 | 7.23 | 6.64 | 5.88 | 6.52 |
| | Payable turnover (times) | 12.75 | 11.84 | 9.46 | 7.69 | 9.08 |
| | Average inventory turnover days | 44 | 51 | 55 | 62 | 56 |
| | Property, plant and equipment turnover ratio (times) | 25.23 | 13.92 | 8.84 | 7.36 | 10.96 |
| | Total asset turnover rate (times) | 2.62 | 2.48 | 1.84 | 1.73 | 2.37 |
| Profitability | Return on assets (%) | 13.15 | 12.94 | 5.87 | 9.20 | 9.95 |
| | Return on equity (%) | 19.88 | 19.66 | 8.31 | 13.19 | 16.24 |
| | Pretax income to paid-in capital Ratio (%) | 40.10 | 44.06 | 18.60 | 40.59 | 45.33 |
| | Net profit margin (%) | 4.70 | 4.93 | 3.22 | 5.32 | 4.12 |
| | Earnings per share (TWD) | 3.33 | 3.63 | 1.53 | 2.74 | 4.02 |
| Cash flow | Cash flow ratio (%) | 46.93 | 19.98 | 79.02 | 8.84 | 0.46 |
| | Cash flow adequacy ratio (%) | 75.48 | 94.50 | 59.19 | 61.06 | 49.3 |
| | Cash reinvestment ratio (%) | 14.45 | 0.23 | 13.61 | (2.84) | (8.42) |
| Leverage | Operational leverage | 7.47 | 6.52 | 6.79 | 7.78 | 10.10 |
| | Financial leverage | 1.01 | 1.01 | 1.01 | 1.00 | 1.02 |

Increases or decreases of more than 20% in the financial ratio over the past two years are explained below:

1. Financial structure:
   The increase in "Debt to assets ratio" is due to an increase in working capital needed to grow our operations, which increased our short-term bank loan volume.
2. Repayment ability:
   The decrease in the "Interest protection " was due to the increase in interest expenses resulting from the increase in short-term bank borrowings.
3. Operational capacity:
   The increases in "Turnover of property, plant and equipment" and "Turnover of total assets" are due to revenue growth.
4. Profitability:
   The "Return on equity" and "Earnings per share" increased due to an increase in profit from growth of operations.
   The decrease in "Net profit ratio" was caused by an increase in raw material prices and the increase in cost.
5. Cash flow:
   The decreases in "Cash flow ratio" and "Cash reinvestment ratio" are due to an increase in inventory purchases for operational growth, which resulted in reduced cash flow from operating activities. The increase in current liabilities is due to an increase in short-term bank borrowings in response to working capital requirements.
6. Leverage:
   The increase in "Operating leverage" was due to an increase in revenue.

Note 1: The financial information in the above table has been audited/reviewed by our CPAs. Related information is available at the Market Observation Post System website.

1. Financial structure:

(1) Debt to assets ratio = Total liabilities / Total assets

(2) Long-term capital to property, plant and equipment ratio = (Total equity + Non-current liabilities) / Net value of property, plant and equipment

2. Debt paying ability:

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets - Inventory - Prepaid expenses) / Current liabilities

(3) Interest protection = Net income before tax and interest expense/interest expense of the current period

3. Operating ability:

(1) Receivables turnover rate (including accounts receivable and bills arising from operations) = Net sales/ average receivables for each period (including accounts receivable and bills arising from operations)

(2) Average collection days = 365/ Receivables turnover ratio

(3) Inventory turnover ratio = Cost of goods sold / Average inventory value

(4) Payables turnover ratio (including accounts payable and notes payable arising from operations) = Cost of goods sold/ Average payables for each period (including accounts payable and notes payable arising from business operations)

(5) Average inventory turnover rate = 365 / Inventory turnover rate

(6) Turnover of property, plant and equipment = Net sales / Average net value of property, plant and equipment

(7) Turnover of total assets = Net sales / Average total assets

4. Profitability:

(1) Return on assets = (Profits or losses after tax + interest expenses × (1-tax rate)) / Average total assets

(2) Return on equity = Profits or losses after tax / Average total equity

(3) Net profit ratio = Profits or losses after tax / Net sales

(4) Earnings per share = (Income attributed to stockholders of the company - Special shares dividends) / Weighted average of issued shares

5. Cash flow:

(1) Cash flow ratio = Net cash flow from operating activities / Current liabilities

(2) Net cash flow adequacy ratio = Net cash flow from operating activities over the last five years / (Capital expenditure + Inventory increase + Cash dividend) over the last five years

(3) Cash reinvestment ratio = (Net cash flow from operating activities - Cash dividends) / (Gross value of property, plant and equipment + Long-term investments + Other non-current assets + Working capital)

6. Leverage:

(1) Operating leverage = (Net operating revenue - Variable operating costs and expenses) / Operating profits

(2) Financial Leverage = Operating income / (Operating income - Interest expenses)

III. Auditor's review report of the most recent annual financial report

# Supervisors' review report

The Board of Directors of the Company has drawn up individual and consolidated financial statements for 2017 (including balance sheet, comprehensive income statement, changes in equity, cash flow statements, etc.), and has entrusted the Certified Public Accoutants Chen Mei-yan and Wu Lin of KPMG Taiwan to jointly issue an audit report. After our review of the auditor’s report and the 2017 business report, individual and consolidated financial statements, and the distribution of surplus pursuant to the provisions of Article 228 of the Company Act. We believe that the said reports, forms, and statements contain no nonconformities and have generated this report in compliance with Article 219 of the Company Act.

To

Apacer Technology Co., Ltd. 2018 Shareholders' Meeting

Supervisor: George Huang

Supervisor: Zheng Zhong-ren

Supervisor: Huang Ren-hong

Republic of China, 23 February 2018

IV. The most recent annual financial report

(1)Consolidated financial report

**Representation Letter**

The entities that are required to be included in the combined financial statements of Apacer Technology Inc. as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 “Consolidated Financial Statements” endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Apacer Technology Inc. and Subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Apacer Technology Inc.
I-Shih Chen
Chairman
February 23, 2018

## Independent Auditors' Report

The Board of Directors
Apacer Technology Inc.:

**Opinion**

We have audited the consolidated financial statements of Apacer Technology Inc. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

**Key Audit Matters**

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

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows:

1. Revenue recognition

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

Description of key audit matter:

The Group engages primarily in the manufacturing and sales of memory modules and flash memory products, with product diversification and market channels spread globally. The Group recognizes its revenue depending on the various trade terms in each individual sale transaction and the transfer of risks and rewards of ownership of the goods, which are considered to be complex in determining the timing of revenue recognition. Consequently, the revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and testing the design and operating effectiveness of the Group’s internal controls over revenue recognition; assessing whether the accounting policy of the timing of revenue recognition is appropriate through understanding the main types of revenues of the Group, and reviewing the sales contracts and the related trade terms with customers; assessing whether the accounting treatment of revenue recognition is appropriate through performing a sample test of the original documents of sales transaction; performing sample tests of sales transactions that took place before and after the balance sheet date, and reviewing the related documents to understand and analyze the reason for any identified sales returns and allowances that took place after the balance sheet date, to assess whether the revenue is recognized within the proper period.

2. Valuation of inventories

Please refer to notes 4(h), 5 and 6(d) for the inventory accounting policy, “Critical accounting judgments and key sources of estimation uncertainty” for estimation uncertainty of inventory valuation, and “Inventories” for the related disclosures, respectively, of the notes to consolidated financial statements.

Description of key audit matter:

The Group’s inventories are measured at the lower of cost and net realizable value. Management is required to make judgments and estimates in determining the net realizable value of inventories on the reporting date. The market prices of main raw materials of the Group, constituting the majority amount of product cost, fluctuate rapidly and the life cycle of certain products of the Group are short, which could possibly result in a price decline and obsolescence of inventories, wherein the inventories cost may exceed its net realizable value, as the Group fails to timely respond to market changes. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included obtaining and understanding the Group’s accounting policy of valuation of inventories, performing a retrospective test to understand the reasonableness of estimations of allowance for inventory valuation loss with reference to actual write-off of inventories in a subsequent period, and evaluating the reasonableness of the accounting policy of valuation of inventories; as well as performing a sample test of the estimated selling price provided by Management to assess the reasonableness of the net realizable value and allowance for inventory valuation loss.

**Other Matter**

Apacer Technology Inc. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified audit opinion.

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

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

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

Those charged with governance (including independent directors, and supervisors) are responsible for overseeing the Group's financial reporting process.

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

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

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

1. Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remained solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Tzu-Chieh Tang and Mei-Yen Chen.

KPMG

Taipei, Taiwan (Republic of China)

February 23, 2018

**Notes to Readers**

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

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

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

# APACER TECHNOLOGY INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

## December 31, 2017 and 2016

## (Expressed in Thousands of New Taiwan Dollars)

| | Assets | December 31, 2017 Amount | % | December 31, 2016 Amount | % |
|---|---|---|---|---|---|
| | **Current assets:** | | | | |
| 1100 | Cash and cash equivalents (note 6(a)) | $ 591,613 | 13 | 524,831 | 14 |
| 1110 | Financial assets at fair value through profit or loss－current (note 6(b)) | 688 | - | 167 | - |
| 1170 | Notes and accounts receivable, net (notes 6(c) and 7) | 1,294,104 | 28 | 987,443 | 26 |
| 1200 | Other receivables (note 6(c)) | 76,614 | 1 | 50,160 | - |
| 1310 | Inventories (note 6(d)) | 1,605,866 | 35 | 1,287,167 | 34 |
| 1476 | Other financial assets－current | 3,109 | - | 3,122 | - |
| 1479 | Other current assets | 17,483 | - | 3,823 | - |
| | **Total current assets** | 3,589,477 | 77 | 2,856,713 | 74 |
| | **Non-current assets:** | | | | |
| 1523 | Available-for-sale financial assets－non-current (note 6(b)) | 12,117 | - | 12,117 | - |
| 1543 | Financial assets carried at cost－non-current (note 6(b)) | 5,359 | - | - | - |
| 1550 | Investments accounted for using equity method (note 6(e)) | 1,721 | - | 5,867 | - |
| 1600 | Property, plant and equipment (note 6(f)) | 899,387 | 19 | 902,951 | 25 |
| 1780 | Intangible assets (note 6(g)) | 24,363 | 1 | 11,123 | - |
| 1840 | Deferred income tax assets (note 6(l)) | 69,320 | 2 | 46,266 | 1 |
| 1980 | Other financial assets－non-current | 7,641 | - | 5,492 | - |
| 1990 | Other non-current assets | 23,420 | 1 | - | - |
| | **Total non-current assets** | 1,043,328 | 23 | 983,816 | 26 |
| | **Total assets** | $ 4,632,805 | 100 | 3,840,529 | 100 |

| | Liabilities and Equity | December 31, 2017 Amount | % | December 31, 2016 Amount | % |
|---|---|---|---|---|---|
| | **Current liabilities:** | | | | |
| 2100 | Short-term borrowings (note 6(h)) | $ 492,240 | 11 | 129,000 | 4 |
| 2120 | Financial liabilities at fair value through profit or loss－current (note 6(b)) | 354 | - | 2,278 | - |
| 2170 | Notes and accounts payable | 1,091,974 | 23 | 852,193 | 22 |
| 2200 | Other payables (notes 6(k), (q) and 7) | 317,439 | 7 | 300,915 | 8 |
| 2230 | Current income tax liabilities | 65,931 | 1 | 37,282 | 1 |
| 2250 | Provisions－current (note 6(i)) | 15,695 | - | 15,531 | - |
| 2300 | Other current liabilities | 26,707 | 1 | 35,175 | 1 |
| | **Total current liabilities** | 2,010,340 | 43 | 1,372,374 | 36 |
| | **Non-current liabilities:** | | | | |
| 2570 | Deferred income tax liabilities (note 6(l)) | 867 | - | 446 | - |
| 2640 | Net defined benefit liabilities (note 6(k)) | 22,359 | 1 | 22,281 | 1 |
| 2645 | Guarantee deposits | 31,099 | 1 | 16,893 | - |
| | **Total non-current liabilities** | 54,325 | 2 | 39,620 | 1 |
| | **Total liabilities** | 2,064,665 | 45 | 1,411,994 | 37 |
| | **Equity attributable to shareholders of the Company (notes 6(l) and (m)):** | | | | |
| 3100 | Common stock | 1,008,978 | 21 | 1,008,978 | 26 |
| 3200 | Capital surplus | 358,225 | 8 | 359,203 | 10 |
| 3300 | Retained earnings | 1,250,073 | 27 | 1,086,882 | 28 |
| 3400 | Other equity | (49,321) | (1) | (30,971) | (1) |
| | **Total equity attributable to shareholders of the Company** | 2,567,955 | 55 | 2,424,092 | 63 |
| 36XX | Non-controlling interests | 185 | - | 4,443 | - |
| | **Total equity** | 2,568,140 | 55 | 2,428,535 | 63 |
| | **Total liabilities and equity** | $ 4,632,805 | 100 | 3,840,529 | 100 |

See accompanying notes to consolidated financial statements.

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

# APACER TECHNOLOGY INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

## For the years ended December 31, 2017 and 2016

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

| | | 2017 Amount | 2017 % | 2016 Amount | 2016 % |
|---|---|---|---|---|---|
| 4000 | **Net revenue (notes 6(p), 7 and 14)** | $ 10,043,476 | 100 | 6,822,226 | 100 |
| 5000 | **Cost of revenue (notes 6(d), (f), (g), (i), (j), (k), (q), 7 and 12)** | 8,744,686 | 87 | 5,665,926 | 83 |
| | **Gross profit** | 1,298,790 | 13 | 1,156,300 | 17 |
| | **Operating expenses (notes 6(c), (f), (g), (j), (k), (q), 7 and 12):** | | | | |
| 6100 | Selling expenses | 546,243 | 5 | 488,069 | 7 |
| 6200 | Administrative expenses | 178,585 | 2 | 174,398 | 3 |
| 6300 | Research and development expenses | 99,120 | 1 | 87,530 | 1 |
| 6000 | **Total operating expenses** | 823,948 | 8 | 749,997 | 11 |
| | **Operating income** | 474,842 | 5 | 406,303 | 6 |
| | **Non-operating income and loss (notes 6(e), (f), (j) and (r)):** | | | | |
| 7010 | Other income | 5,475 | - | 8,195 | - |
| 7020 | Other gains and losses－net | 6,263 | - | 17,487 | - |
| 7050 | Finance costs | (10,372) | - | (639) | - |
| 7770 | Share of losses of associates | (3,168) | - | (6,137) | - |
| | **Total non-operating income and loss** | (1,802) | - | 18,906 | - |
| | **Income before income tax** | 473,040 | 5 | 425,209 | 6 |
| 7950 | **Income tax expense (note 6(l))** | 68,083 | 1 | 75,918 | 1 |
| | **Net income** | 404,957 | 4 | 349,291 | 5 |
| | **Other comprehensive income:** | | | | |
| 8310 | **Items that will not be reclassified subsequently to profit or loss:** | | | | |
| 8311 | Remeasurements of defined benefit plans (notes 6(k)) | (87) | - | (6,688) | - |
| 8349 | Less: income tax related to items that will not be reclassified subsequently to profit or loss (note 6(l)) | 15 | - | 1,137 | - |
| | | (72) | - | (5,551) | - |
| 8360 | **Items that may be reclassified subsequently to profit or loss:** | | | | |
| 8361 | Exchange differences on translation of foreign operations (note 6 (m)) | (18,097) | - | (4,450) | - |
| 8399 | Less: income tax related to items that may be reclassified subsequently to profit or loss | - | - | - | - |
| | | (18,097) | - | (4,450) | - |
| | **Other comprehensive income for the year, net of income tax** | (18,169) | - | (10,001) | - |
| | **Total comprehensive income for the year** | $ 386,788 | 4 | 339,290 | 5 |
| | **Net income attributable to:** | | | | |
| | Shareholders of the Company | $ 405,418 | 4 | 349,467 | 5 |
| | Non-controlling interests | (461) | - | ( 176) | - |
| | | $ 404,957 | 4 | 349,291 | 5 |
| | **Total comprehensive income attributable to:** | | | | |
| | Shareholders of the Company | $ 386,996 | 4 | 339,695 | 5 |
| | Non-controlling interests | (208) | - | (405) | - |
| | | $ 386,788 | 4 | 339,290 | 5 |
| | **Earnings per share (in New Taiwan dollars) (note 6(o)) :** | | | | |
| 9750 | Basic earnings per share | $ | 4.02 | | 2.74 |
| 9850 | Diluted earnings per share | $ | 3.97 | | 2.71 |

See accompanying notes to consolidated financial statements.

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

# APACER TECHNOLOGY INC. AND SUBSIDIARIES

## Consolidated Statements of Changes in Equity

## For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

| | Attributable to shareholders of the Company: Share capital | | | Retained earnings | | | | Total other equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital collected in advance | Capital Surplus | Legal reserve | Special reserve | Unappropriated earnings | Total | Foreign currency translation differences | Unearned compensation cost arising from restricted shares of stock issued to employees | Total | Total equity of the Company | Non-controlling interests | Total equity |
| **Balance at January 1, 2016** | $ 1,515,437 | 550 | 489,941 | 209,904 | 11,277 | 709,673 | 930,854 | (26,750) | (33,550) | (60,300) | 2,876,482 | - | 2,876,482 |
| Appropriation of earnings: | | | | | | | | | | | | | |
| Legal reserve | - | - | - | 22,839 | - | (22,839) | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 15,473 | (15,473) | - | - | - | - | - | - | - |
| Cash dividends distributed to shareholders | - | - | - | - | - | (190,077) | (190,077) | - | - | - | (190,077) | - | (190,077) |
| Net income in 2016 | - | - | - | - | - | 349,467 | 349,467 | - | - | - | 349,467 | (176) | 349,291 |
| Other comprehensive income in 2016 | - | - | - | - | - | (5,551) | (5,551) | (4,221) | - | (4,221) | (9,772) | (229) | (10,001) |
| Total comprehensive income in 2016 | - | - | - | - | - | 343,916 | 343,916 | (4,221) | - | (4,221) | 339,695 | (405) | 339,290 |
| Distribution of cash dividend from capital surplus | - | - | (113,110) | - | - | - | - | - | - | - | (113,110) | - | (113,110) |
| Changes in equity of associates accounted for using equity method | - | - | 5,872 | - | - | - | - | - | - | - | 5,872 | - | 5,872 |
| Capital reduction | (496,959) | - | - | - | - | - | - | - | - | - | (496,959) | - | (496,959) |
| Issuance of common stock from exercise of employee stock options | 500 | (550) | 50 | - | - | - | - | - | - | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | 4,848 | 4,848 |
| Retirement of restricted shares of stock issued to employees | (10,000) | - | (23,550) | - | - | 2,189 | 2,189 | - | 33,550 | 33,550 | 2,189 | - | 2,189 |
| **Balance at December 31, 2016** | 1,008,978 | - | 359,203 | 232,743 | 26,750 | 827,389 | 1,086,882 | (30,971) | - | (30,971) | 2,424,092 | 4,443 | 2,428,535 |
| Appropriation of earnings: | | | | | | | | | | | | | |
| Legal reserve | - | - | - | 34,947 | - | (34,947) | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 4,221 | (4,221) | - | - | - | - | - | - | - |
| Cash dividends distributed to shareholders | - | - | - | - | - | (242,155) | (242,155) | - | - | - | (242,155) | - | (242,155) |
| Net income in 2017 | - | - | - | - | - | 405,418 | 405,418 | - | - | - | 405,418 | (461) | 404,957 |
| Other comprehensive income in 2017 | - | - | - | - | - | (72) | (72) | (18,350) | - | (18,350) | (18,422) | 253 | (18,169) |
| Total comprehensive income in 2017 | - | - | - | - | - | 405,346 | 405,346 | (18,350) | - | (18,350) | 386,996 | (208) | 386,788 |
| Changes in equity of associates accounted for using equity method | - | - | (978) | - | - | - | - | - | - | - | (978) | - | (978) |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | (4,050) | (4,050) |
| **Balance at December 31, 2017** | $ 1,008,978 | - | 358,225 | 267,690 | 30,971 | 951,412 | 1,250,073 | (49,321) | - | (49,321) | 2,567,955 | 185 | 2,568,140 |

See accompanying notes to consolidated financial statements.

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

# APACER TECHNOLOGY INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

## For the years ended December 31, 2017 and 2016

## (Expressed in Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| **Income before income taxes** | $ 473,040 | 425,209 |
| **Adjustments for:** | | |
| Depreciation | 35,419 | 30,265 |
| Amortization | 7,553 | 5,631 |
| Net loss (gain) on financial assets or liabilities at fair value through profit or loss | (6,650) | 4,725 |
| Interest expense | 10,372 | 639 |
| Interest income | (1,267) | (3,987) |
| Share of losses of associates | 3,168 | 6,137 |
| Gain on disposal of property, plant and equipment | (4,999) | (192) |
| Impairment loss on non-financial assets | 6,994 | - |
| Subtotal | 50,590 | 43,218 |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Financial assets held for trading | - | 240,000 |
| Notes and accounts receivable | (306,661) | (220,947) |
| Other receivables | (14,990) | (9,463) |
| Inventories | (318,699) | (603,140) |
| Other current assets | (13,647) | 10,560 |
| Net changes in operating assets | (653,997) | (582,990) |
| Changes in operating liabilities: | | |
| Financial liabilities held for trading | 4,205 | (4,109) |
| Notes and accounts payable | 239,781 | 226,138 |
| Other payables | 20,601 | 86,501 |
| Provisions | 164 | (422) |
| Other current liabilities | (8,468) | 15,351 |
| Net defined benefit liabilities | (9) | 16 |
| Net changes in operating liabilities | 256,274 | 323,475 |
| Total changes in operating assets and liabilities | (397,723) | (259,515) |
| Total adjustments | (347,133) | (216,297) |
| Cash provided by operations | 125,907 | 208,912 |
| Interest received | 1,263 | 4,334 |
| Interest paid | (10,267) | (561) |
| Income taxes paid | (77,694) | (75,882) |
| **Net cash provided by operating activities** | 39,209 | 136,803 |

See accompanying notes to consolidated financial statements.

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

# APACER TECHNOLOGY INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows (Continued)

## For the years ended December 31, 2017 and 2016

## (Expressed in Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from investing activities:** | | |
| Purchase of financial assets carried at cost | (5,359) | - |
| Additions to property, plant and equipment | (48,265) | (47,019) |
| Proceeds from disposal of property, plant and equipment | 4,999 | 567 |
| Increase in other financial assets－non-current | (2,149) | (1,147) |
| Additions to intangible assets | (11,520) | (6,944) |
| Increase in other non-current assets | (23,420) | - |
| **Net cash flows used in investing activities** | (85,714) | (54,543) |
| **Cash flows from financing activities:** | | |
| Increase in short-term borrowings | 363,240 | 30,525 |
| Increase in guarantee deposits | 14,206 | 15,706 |
| Cash dividends distributed to shareholders | (242,155) | (190,077) |
| Capital reduction | - | (496,959) |
| Cash dividends refund from retirement of restricted shares of stock issued to employees | - | 2,189 |
| Capital injection from non-controlling interests | - | 4,848 |
| Acquisition of subsidiary's interests from non-controlling interests | (4,050) | - |
| Distribution of cash dividend from capital surplus | - | (113,110) |
| **Net cash provided by (used in) financing activities** | 131,241 | (746,878) |
| **Effects of foreign exchange rate changes** | (17,954) | (4,844) |
| **Net increase (decrease) in cash and cash equivalents** | 66,782 | (669,462) |
| **Cash and cash equivalents at beginning of year** | 524,831 | 1,194,293 |
| **Cash and cash equivalents at end of year** | $ 591,613 | 524,831 |

See accompanying notes to consolidated financial statements.

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

**APACER TECHNOLOGY INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

## 1. Organization and business

Apacer Technology Inc. (the "Company") was incorporated on April 16, 1997 as a company limited by shares under the laws of the Republic of China ("R.O.C.") and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 1F, No.32, Zhongcheng Rd., Tucheng Dist., New Taipei City, Taiwan. The Company and its subsidiaries (collectively the "Group") are engaged in the research and development, design, manufacturing, processing, maintenance and sales of memory modules, flash memory cards and consumer electronic products.

## 2. Authorization of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the Board of Directors on February 23, 2018.

## 3. Application of new, revised or amended accounting standards and interpretations

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 " Presentation of Financial Statements－Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendments to IAS 36 " Impairment of Non-Financial assets－Recoverable Amount Disclosures for Non Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 " Financial Instruments－Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| Annual Improvements to IFRSs 2010－2012 Cycle and 2011－2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012－2014 Cycle | January 1, 2016 |

(Continued)

| | |
|---|---|
| IFRIC 21 "Levies" | January 1, 2014 |

The Group assessed that the initial application of the above IFRSs did not have any material impact on its consolidated financial statements.

(b) The impact of IFRSs endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IAS 7 "Statement of Cash Flows－Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Income Taxes－Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| Annual Improvements to IFRS Standards 2014–2016 Cycle: | |
| Amendments to IFRS 12 | January 1, 2017 |
| Amendments to IFRS 1 and Amendments to IAS 28 | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

Except for the following items, the Group assessed that the initial application of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification and measurement－Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the

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existing IAS 39 categories of held to maturity, loans and receivables and available for sale. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in a non-active market (and derivatives on such instruments) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group believes that the new classification requirements will not have any material impact on its accounting for trade receivables and investments in equity securities that are managed on a fair value basis. As of December 31,2017, the Group had equity investments classified as available-for-sale financial assets with a fair value of $12,117 and financial assets carried at cost of $5,359 that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9’s classification requirements on January 1, 2018 resulting in a decrease of $37,614 in other equity, as well as the increase of $50,000 in retained earnings.

2) Impairment－Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group chose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group assessed that the initial application of IFRS 9’s impairment requirements would not have any material impact on its financial statements.

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3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity as at January 1, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.

  – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

1) Sales of goods

For the sale of goods, revenue is currently recognized based on the individual terms of each sales agreement when the related significant risks and rewards of ownership are transferred to the customers. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group assessed that the point at which the significant risks and rewards of ownership transfer and customers obtain controls are similar and would not have any material impact on its consolidated financial statements.

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2) Transition

The Group plans to adopt IFRS 15 in its consolidated financial statements using the retrospective approach. As a result, the Group will apply the requirements of IFRS 15 for the comparative period to present and adjust its consolidated financial statements. The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the comparative reporting period, as well as the contracts that are completed at the beginning of the earliest period (January 1, 2017) presented, are not restated.

The Group's assessment indicated that application of IFRS 15 would not have any material impact on its consolidated financial statements.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The actual impacts of adopting the new standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRSs issued by IASB but not yet endorsed by the FSC

As of February 23, 2018, the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 16 "Leases" | January 1, 2019 |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |

(Continued)

Those which may be relevant to the Group are set out below:

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|---|---|---|
| January 13, 2016 | IFRS 16 "Leases" | The new standard of accounting for lease is amended as follows:<br>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.<br>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17. |

The Group is evaluating the impact on its consolidated financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

## 4. Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarised as follows and have been applied consistently to all periods presented in these financial statements.

(a) Statement of compliance

The Group's accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations") and the IFRSs, IASs, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the FSC (collectively as "Taiwan-IFRSs").

(b) Basis of preparation

(i) Basis of measurement

The accompanying consolidated financial statements have been prepared on a historical cost basis except for the following items in the balance sheets:

1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
2) Available-for-sale financial assets measured at fair value; and
3) Defined benefit liabilities are recognized as the present value of the defined benefit obligation less fair value of the plan assets and the effect of the asset ceiling mentioned in note 4(p).

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of consolidated financial statements

The accompanying consolidated financial statements incorporate the financial statements of the Company and its controlled entities (the subsidiaries). The Company controls an investee when it is exposed, or has rights, to variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized profit and loss arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, financial statements of subsidiaries are adjusted to align their accounting policies with those adopted by the Company.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the adjustment of the non-controlling interest and the fair value of the payment or receipt is recognized as equity and belongs to the Company.

(ii) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements were as follows:

| | | | Percentage of Ownership | | |
|---|---|---|---|---|---|
| **Name of Investor** | **Name of Investee** | **Main Business and Products** | **December 31, 2017** | **December 31, 2016** | **Note** |
| The Company | Apacer Memory America Inc. (AMA) | Sales of memory modules, flash memory cards and consumer eletronic products | 100.00% | 100.00% | - |
| The Company | Apacer Technology B.V. (AMH) | Sales of memory modules, flash memory cards and consumer eletronic products | 100.00% | 100.00% | - |

(Continued)

| Name of Investor | Name of Investee | Main Business and Products | Percentage of Ownership December 31, 2017 | Percentage of Ownership December 31, 2016 | Note |
|---|---|---|---|---|---|
| The Company | Apacer Technology Japan Corp. (AMJ) | Sales of memory modules, flash memory cards and consumer eletronic products | 100.00% | 100.00% | - |
| The Company | Kingdom Corp. Limited (AMK) | Sales of memory modules, flash memory cards and consumer eletronic products | 100.00% | 100.00% | - |
| The Company /ACYB | Apacer Technologies Private Limited (ATPL) | Sales of memory modules, flash memory cards and consumer eletronic products | 100.00% | 100.00% | - |
| The Company | Apacer Technology (BVI) Inc. (ACYB) | Investment holding activity | 100.00% | 100.00% | - |
| ACYB | Apacer Electronic (Shanghai) Co., Ltd. (AMC) | Sales of memory modules, flash memory cards and consumer eletronic products | 100.00% | 100.00% | - |
| AMK | Shenzhen Kylinesports Technology Co. (AMS) | Sales of gaming products and consumer eletronic products | 99.00% | 80.00% | Note1 |

Note1 : Newly established on July 2016.

(iii) List of subsidiaries which are not included in the consolidated financial statements: None.

(d) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period ( “the reporting date” ) of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in a foreign currency that are measured at historical cost are not retranslated.

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(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the presentation currency of the Group's consolidated financial statements at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency of the Group's consolidated financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

On the disposal of a foreign operation which involves a loss of control over a subsidiary or a loss of joint-control over a joint venture or a loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are entirely reclassified to profit or loss. In the case of a partial disposal that does not result in the Group losing control over a subsidiary, the proportionate share of accumulated exchange differences is reclassified to non-controlling interests. For a partial disposal of the Group's ownership interest in an associate, the proportionate share of the accumulated exchange differences in equity is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the monetary item is, in substance, a part of net investment in that foreign operation, and the related foreign exchange gains and losses thereon are recognized as other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets.

(i) It is expected to be realized, or sold or consumed in the normal operating cycle;
(ii) It is held primarily for the purpose of trading;
(iii) It is expected to be realized within twelve months after the reporting date; or
(iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

(i) It is expected to be settled in the normal operating cycle;
(ii) It is held primarily for the purpose of trading;
(iii) It is due and to be settled within twelve months after the reporting date; or
(iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

(f) Cash and cash equivalents

Cash consists of cash on hand, checking deposits, and demand deposits. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the aforesaid criteria

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and are held for meeting short-term cash commitments instead of helding for investing and other purposes are also classified as cash equivalents.

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Regular way purchases or sales of financial assets are recognized or derecognized on a trade-date basis.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling and repurchasing in the short term. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.

At initial recognition, financial assets carried at fair value through profit or loss are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value (including dividend income and interest income) are recognized in profit or loss.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a non-active market. Loans and receivables comprise accounts receivable and other receivables. At initial recognition, such assets are recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less, any impairment losses. Interest income is recognized as non-operating income in profit or loss.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these assets are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on monetary financial assets, are recognized in other comprehensive income and presented in “unrealized gain/loss from available-for-sale financial assets” in equity. When the financial asset is derecognized, the gain or loss previously accumulated in equity is reclassified to profit or loss.

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Investments in equity instruments that do not have a quoted market price in a non-active market and whose fair value cannot be reliably measured are measured at cost less impairment loss and are reported as financial assets measured at cost.

Dividends received from equity investments are recognized as non-operating income on the date of entitlement to receive dividends (usually the ex-dividend date).

4) Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for indicators of impairment at reporting date. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been affected.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If the Group determines that no objective evidence of impairment exists for an individually assessed accounts receivables, whether significant or not, such asset is included in a group of accounts receivables with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Group's collection experience in the past, an increase in delayed payments, and national or local economic conditions that correlate with overdue receivables.The Group assesses the collectability of receivables by performing the accounts receivable aging analysis and evaluating the credit quality of its customers.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

An impairment loss in respect of a financial asset measured at cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. A subsequent reversal of the impairment loss is prohibited.

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When an impairment loss is recognized for an available-for-sale asset, the cumulative gains or loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

The impairment loss and the reversal gain for accounts receivable are recognized as selling expenses, and as non-operating income and loss for financial assets other than accounts receivable.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in the non-operating income and loss of the consolidated statement of comprehensive income.

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that had been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(ii) Financial liabilities

1) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges.

At initial recognition, this type of financial liability is recognized at fair value, and the attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial liabilities are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss.

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2) Financial liabilities measured at amortized cost

Financial liabilities not classified as held for trading or not designated as at fair value through profit or loss, which comprise short-term borrowings, notes and accounts payable, and other payables, are measured at fair value plus any directly attributable transaction cost at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest expense which is not capitalized as asset is recognized in profit or loss, and included in non-operating income and loss of the consolidated statement of comprehensive income.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iii) Derivative financial instruments

Derivative financial instruments such as foregin currency forward contracts are held to hedge the Group’ s foreign currency exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and included in non-operating income and loss. If the valuation of a derivative instrument results in a positive fair value, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to the location and condition ready for sale. Fixed manufacturing overhead is allocated to finished products and work in process based on the higher of normal capacity or actual capacity; variable manufacturing overhead is allocated based on the actual capacity of machinery and equipment. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and necessary selling expenses.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint venture, over the financial and operating policies.

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Investments in associates are accounted for using the equity method and are recognized initially at cost, plus, any transaction costs. The carrying amount of the investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. When necessary, the entire carrying amount of the investment (including goodwill) will be tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized as other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate, and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the change in ownership interests of its associate as "capital surplus" in proportion to its ownership.

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the recognition of further losses is discontinued. Additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When an associate issues new shares and the Group does not subscribe to the new shares in proportion to its original ownership percentage, the Group's interest in the associate's net assets will be changed. The change in the equity interest is adjusted through the capital surplus and investment accounts. If the Group's capital surplus is insufficient to offset the adjustment to investment accounts, the difference is charged as a reduction of retained earnings. If the Group's interest in an associate is reduced due to the additional subscription to the shares of associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

Adjustments are made to associates' financial statements to conform to the accounting polices applied by the Group.

(j) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and any borrowing cost that is eligible for capitalization.

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The gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in other gains and losses－net.

(ii) Subsequent costs

Subsequent costs are capitalized only when it is probable that future economic benefits associated with the costs will flow to the Group and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized in profit or loss. All other repairs and maintenance are charged to expense as incurred.

(iii) Depreciation

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. Land is not depreciated. The depreciation is recognized in profit or loss.

The estimated useful lives for property, plant and equipment are as follows: buildings and improvements: 6 to 47 years; machinery and equipment: 2 to 11 years; transportation equipment: 4 years; and other equipment: 3 to 15 years.

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(k) Leases

(i) The Group as lessor

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as expense over the lease term on a straight-line basis.

(ii) The Group as lessee

Payments made under an operating lease (excluding insurance and maintenance expenses) are charged to expense over the lease term on a straight-line basis.

(l) Intangible assets

The Group' s intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss using the straight-line method over the following estimated useful lives: acquired computer software: 2 to 7 years; royalties for the use of patents: 13 to 17 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(m) Impairment of non-financial assets

Non-financial assets other than inventories, deferred income tax assets, and assets arising from employee benefits are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the cash-generating units ( “CGU” ) to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized in profit or loss immediately.

The Group assesses at each reporting date whether there is any evidence that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(n) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(i) Warranties

A provision for warranties is recognized when the underlying products or services are sold. This provision reflects the historical warranty claim rate and the weighting of all possible outcomes against their associated probabilities.

(ii) Sales return and allowance provision

A provision for sales returns and allowance is recognized when the underlying products are sold. This provision is estimated based on historical sales return and allowance data.

(o) Revenue recognition

Revenue from the sale of goods or services is measured at the fair value of consideration received or receivable, net of returns, rebates, and other similar discounts.

(i) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of

(Continued)

revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is not recognized for the sale of key components to an original design manufacturer for manufacture or assembly as the significant risks and rewards of the ownership of materials are not transferred.

(ii) Interest income and dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

(ii) Defined benefit plans

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the term of the related pension obligation. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

When the benefits of a plan are improved, the expense related to the increased obligations resulting from the services rendered by employees in the past years are recognized in profit or loss immediately.

The remeasurements of the net defined benefit liability (asset) comprise (i) actuarial gains and losses; (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liabilities (asset) are recognized in other comprehensive income and then transferred to retained earnings.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(q) Share-based payment

Share-based payment awards granted to employees are measured at fair value at the date of grant. The fair value determined at the grant date is expensed over the period that the employees become unconditionally entitled to the awards, with a corresponding increase in equity. The compensation cost is adjusted to reflect the number of awards given to employees for which the performance and non-market conditions are expected to be met, such that the amount ultimately recognized shall be based on the number of equity instruments that eventually have vested.

(r) Income taxes

Income tax expenses include both current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

(i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future; and

(iii) Temporary differences arising from initial recognition of goodwill.

Deferred tax is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Earnings per share (“EPS”)

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the consolidated financial statements. Basic EPS is calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Group’s dilutive potential common shares are profit sharing for employees to be settled in the form of common stock.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group’s chief operating decision maker to make decisions on the allocation of resources to the segment and to assess its performance for which discrete financial information is available.

**5. Critical accounting judgments and key sources of estimation uncertainty**

The preparation of the consolidated financial statements in conformity with the Regulations and Taiwan-IFRSs requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and the future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included as follows:

(a) Valuation of inventories

Inventories are measured at the lower of cost or net realizable value. The Group estimates the net realizable value of inventory, taking into account obsolescence and unmarketable items at the reporting date, and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

Refer to note 6(d) for more details of the valuation of inventories.

(Continued)

**6. Significant account disclosures**

(a) Cash and cash equivalents

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash on hand | $ 179 | 159 |
| Demand deposits | 562,363 | 496,108 |
| Time deposits with original maturities less than three months | 29,071 | 28,564 |
| | $ 591,613 | 524,831 |

(b) Financial instruments

(i) Financial assets and liabilities at fair value through profit or loss

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Financial assets at fair value through profit or loss－current: | | |
| Foreign currency forward contracts | $ 688 | 167 |
| Financial liabilities at fair value through profit or loss－current: | | |
| Foreign currency forward contracts | $ (354) | (2,278) |

Refer to note 6(r) for the detail of the changes in fair value recognized in profit or loss.

The Group entered into derivative contracts to manage foreign currency exchange risk resulting from its operating activities. As of December 31, 2017 and 2016, the derivative financial instruments that did not conform to the criteria for hedge accounting and were classified as financial assets and liabilities held for trading consisted of the following:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Contract amount (in thousands) | | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial assets－foreign currency forward contracts | JPY | 44,300 | 86 | JPY / TWD | 2018/01/25～2018/02/23 |
| | USD | 6,500 | 602 | USD / TWD | 2018/01/03～2018/02/02 |
| | | | $ 688 | | |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Contract amount (in thousands) | | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial assets－foreign currency forward contracts | JPY | 32,597 | 167 | JPY / TWD | 2017/01/25 |

(Continued)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Contract amount (in thousands) | | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial liabilities－foreign currency forward contracts | TWD | 81,997 | (244) | TWD/ USD | 2018/01/02～2018/01/29 |
| | USD | 2,000 | (110) | USD / TWD | 2018/02/08 |
| | | | $ (354) | | |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Contract amount (in thousands) | | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial liabilities－foreign currency forward contracts | JPY | 17,000 | (77) | JPY / TWD | 2017/02/24 |
| | USD | 5,500 | (2,201) | USD / TWD | 2017/01/13～2017/02/10 |
| | | | $ (2,278) | | |

(ii) Available-for-sale financial assets－non-current

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Domestic unlisted stocks | $ 12,117 | 12,117 |

(iii) Financial assets carried at cost－non-current

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Domestic unlisted stocks | $ 5,359 | - |

To expand its business, the Group invested in OTO Photonics Inc. This investment should be classified as available-for-sale financial assets according to the Group’s intention. However, there is a wide range of estimated fair value of the abovementioned investments and the probability for each estimate of fair value cannot be reasonably determined. The Group’s management concludes that its fair value cannot be measured reliably and this investment is reported as financial assets carried at cost.

(c) Notes and accounts receivable, and other receivables

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Notes receivable | $ 1,524 | 1,616 |
| Accounts receivable | 1,295,259 | 989,019 |
| Less: allowance for doubtful receivables | (2,679) | (3,192) |
| | 1,294,104 | 987,443 |
| Other receivables | 76,614 | 50,160 |
| | $ 1,370,718 | 1,037,603 |

(Continued)

The allowance of doubtful receivables is assessed by referring to the aging analysis and historical payment behavior.

Movements of the allowance for doubtful receivables were as follows:

| | Individually assessed impairment | Collectively assessed impairment | Total |
|---|---|---|---|
| Balance at January 1, 2017 | $ 3,192 | - | 3,192 |
| Provision of impairment loss | 1,189 | - | 1,189 |
| Write-off | (1,702) | - | (1,702) |
| Balance at December 31, 2017 | $ 2,679 | - | 2,679 |

| | Individually assessed impairment | Collectively assessed impairment | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $ 4,585 | - | 4,585 |
| Reversal of impairment loss | (1,146) | - | (1,146) |
| Write-off | (242) | - | (242) |
| Effect of exchange rate changes | (5) | - | (5) |
| Balance at December 31, 2016 | $ 3,192 | - | 3,192 |

The aging analysis of notes and accounts receivable, and other receivables that are overdue but not impaired, were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Past due 1-90 days | $ 155,772 | 187,514 |
| Past due 181-365 days | - | 1,491 |
| Past due over 365 days | - | 1,822 |
| | $ 155,772 | 190,827 |

The allowance for doubtful receivables is assessed by referring to the collectability of receivables based on historical payment behavior and an analysis of specific customer credit quality and amount received in subsequent period. Notes and accounts receivable that are past due, but for which the Group has not recognized a specific allowance for doubtful receivables after the assessment, are still considered recoverable.

(d) Inventories

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials | $ 687,842 | 676,474 |
| Work in process | 86,807 | 78,299 |
| Finished goods | 655,200 | 469,128 |
| Inventories in transit | 176,017 | 63,266 |
| | $ 1,605,866 | 1,287,167 |

(Continued)

For the years ended December 31, 2017 and 2016, the amounts of inventories recognized as cost of revenue were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Cost of inventories sold | $ | 8,616,181 | 5,647,826 |
| Write-down of inventories | | 128,505 | 18,100 |
| | $ | 8,744,686 | 5,665,926 |

The above write-downs of inventories to net realizable value above were included in cost of revenue.

(e) Investments accounted for using equity method

(i) Investments in associates

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| Name of Associates | Percentage of voting rights | Carrying amount | Percentage of voting rights | Carrying amount |
| JoiiUp Technology Inc. | 17.78% | $ 1,721 | 16.42% | 5,867 |

Aggregate financial information of associates that were not individually material was summarized as follows. The financial information was included in the Group's consolidated financial statement.

| | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| The aggregate carrying amount of associates that were not individually material | $ | 1,721 | 5,867 |

| | | 2017 | 2016 |
|---|---|---|---|
| Attributable to the Group: | | | |
| Net income | $ | (3,168) | (6,137) |
| Other comprehensive income | | - | - |
| Total comprehensive income | $ | (3,168) | (6,137) |

(f) Property, plant and equipment

The movements of cost, accumulated depreciation and impairment loss of the property, plant and equipment for the years ended December 31, 2017 and 2016 were as follows:

| | | Land | Buildings | Machinery and equipment | Transportation equipment | Other equipment | Equipment to be inspected and construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| Balance at January 1, 2017 | $ | 556,498 | 274,407 | 166,153 | 1,500 | 93,603 | 8,029 | 1,100,190 |
| Additions | | - | 1,429 | 10,825 | - | 3,502 | 32,509 | 48,265 |
| Disposals | | - | - | (30,197) | (1,500) | - | - | (31,697) |
| Other reclassification and effect of exchange rate changes | | - | - | 29,785 | - | (78) | (39,697) | (9,990) |
| Balance at December 31, 2017 | $ | 556,498 | 275,836 | 176,566 | - | 97,027 | 841 | 1,106,768 |

(Continued)

| | Land | Buildings | Machinery and equipment | Transportation equipment | Other equipment | Equipment to be inspected and construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | $ 556,498 | 273,238 | 160,105 | 1,500 | 81,528 | 1,317 | 1,074,186 |
| Additions | - | 1,169 | 15,803 | - | 13,642 | 16,405 | 47,019 |
| Disposals | - | - | (17,195) | - | (139) | - | (17,334) |
| Other reclassification and effect of exchange rate changes | - | - | 7,440 | - | (1,428) | (9,693) | (3,681) |
| Balance at December 31, 2016 | $ 556,498 | 274,407 | 166,153 | 1,500 | 93,603 | 8,029 | 1,100,190 |
| Accumulated depreciation and impairment loss: | | | | | | | |
| Balance at January 1, 2017 | $ - | 20,668 | 120,869 | 1,500 | 54,202 | - | 197,239 |
| Depreciation | - | 6,823 | 16,922 | - | 11,674 | - | 35,419 |
| Disposals | - | - | (30,197) | (1,500) | - | - | (31,697) |
| Impairment loss | - | - | 6,994 | - | - | - | 6,994 |
| Other reclassification and effect of exchange rate changes | - | - | (27) | - | (547) | - | (574) |
| Balance at December 31, 2017 | $ - | 27,491 | 114,561 | - | 65,329 | - | 207,381 |
| Balance at January 1, 2016 | $ - | 14,014 | 125,548 | 1,500 | 44,164 | - | 185,226 |
| Depreciation | - | 6,654 | 12,159 | - | 11,452 | - | 30,265 |
| Disposals | - | - | (16,834) | - | (125) | - | (16,959) |
| Other reclassification and effect of exchange rate changes | - | - | (4) | - | (1,289) | - | (1,293) |
| Balance at December 31, 2016 | $ - | 20,668 | 120,869 | 1,500 | 54,202 | - | 197,239 |
| Carrying amount: | | | | | | | |
| Balance at December 31, 2017 | $ 556,498 | 248,345 | 62,005 | - | 31,698 | 841 | 899,387 |
| Balance at December 31, 2016 | $ 556,498 | 253,739 | 45,284 | - | 39,401 | 8,029 | 902,951 |

In 2017, the Group recognized an impairment loss on property, plant and equipment of $6,994, which was included in non-operating income and loss.

(g) Intangible assets

The movements of costs, accumulated amortization and impairment loss of intangible assets for the years ended December 31, 2017 and 2016 were as follows:

| | Computer software | Royalties for the use of patents | Total |
|---|---|---|---|
| Costs: | | | |
| Balance at January 1, 2017 | $ 35,752 | 763 | 36,515 |
| Additions | 8,179 | 3,341 | 11,520 |
| Derecognition | (555) | - | (555) |
| Other reclassification and effect of exchange rate changes | 9,258 | - | 9,258 |
| Balance at December 31, 2017 | $ 52,634 | 4,104 | 56,738 |
| Balance at January 1, 2016 | $ 26,764 | 763 | 27,527 |
| Additions | 6,944 | - | 6,944 |
| Other reclassification and effect of exchange rate changes | 2,044 | - | 2,044 |
| Balance at December 31, 2016 | $ 35,752 | 763 | 36,515 |

(Continued)

| | | Computer software | Royalties for the use of patents | Total |
|---|---|---|---|---|
| Accumulated amortization and impairment loss: | | | | |
| Balance at January 1, 2017 | $ | 25,006 | 386 | 25,392 |
| Amortization | | 7,443 | 110 | 7,553 |
| Derecognition | | (555) | - | (555) |
| Other reclassification and effect of exchange rate changes | | (15) | - | (15) |
| Balance at December 31, 2017 | $ | 31,879 | 496 | 32,375 |
| Balance at January 1, 2016 | $ | 19,505 | 331 | 19,836 |
| Amortization | | 5,576 | 55 | 5,631 |
| Other reclassification and effect of exchange rate changes | | (75) | - | (75) |
| Balance at December 31, 2016 | $ | 25,006 | 386 | 25,392 |
| Carrying amount: | | | | |
| Balance at December 31, 2017 | $ | 20,755 | 3,608 | 24,363 |
| Balance at December 31, 2016 | $ | 10,746 | 377 | 11,123 |

The amortization of intangible assets is included in the following line items of the consolidated statement of comprehensive income:

| | 2017 | 2016 |
|---|---|---|
| Cost of revenue | $ 714 | 251 |
| Operating expenses | $ 6,839 | 5,380 |

(h) Short-term borrowings

The details of short-term borrowings were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Unsecured bank loans | $ 492,240 | 129,000 |
| Unused credit facilities | $ 1,778,440 | 2,236,500 |
| Interest rate interval | 1.13%~2.64% | 1.88%~2.02% |

(i) Provisions

| | Warranties | Sales returns and allowances | Total |
|---|---|---|---|
| Balance at January 1, 2017 | $ 12,394 | 3,137 | 15,531 |
| Provisions made | 1,353 | 2,593 | 3,946 |
| Amount utilized | (3,782) | - | (3,782) |
| Balance at December 31, 2017 | $ 9,965 | 5,730 | 15,695 |

(Continued)

| | Warranties | Sales returns and allowances | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $ 13,455 | 2,498 | 15,953 |
| Provisions made | 3,073 | 639 | 3,712 |
| Amount utilized | (4,134) | - | (4,134) |
| Balance at December 31, 2016 | $ 12,394 | 3,137 | 15,531 |

(i) Warranties

The provision for warranties is made based on the number of units sold currently under warranty, historical rates of warranty claim on those units, and cost per claim to satisfy the warranty obligation. The Group reviews the estimation basis on an ongoing basis and revises it when appropriate.

(ii) Sales returns and allowances

Expected sales returns and allowances are estimated based on historical experience.

(j) Operating lease

(i) Lessee

Future minimum lease payments under operating leases are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Within 1 year | $ 19,052 | 11,045 |
| 1 to 5 years | 27,640 | 19,041 |
| | $ 46,692 | 30,086 |

The Group leases its offices and vehicles under operating leases. The leases typically run for a period of 1 to 3 years. Lease payments are paid based on the terms of the lease contracts.

In 2017 and 2016, the rental expense of operating leases, amounted to $23,077 and $19,229, respectively, were recognized in cost of revenue and operating expenses.

(ii) Lessor

The Group leased its offices to others under operating leases. In 2017 and 2016, the rental income both amounted to $4,208.

(Continued)

(k) Employee benefits

(i) Defined benefit plans

The reconciliations between the present value of defined benefit obligations and the net defined benefit liabilities for defined benefit plans were as follows:

| | **December 31, 2017** | **December 31, 2016** |
|---|---|---|
| Present value of defined benefit obligations | $ 56,350 | 55,758 |
| Fair value of plan assets | (33,991) | (33,477) |
| | 22,359 | 22,281 |
| Effects of the asset ceiling | - | - |
| Net defined benefit liabilities | $ 22,359 | 22,281 |

Except for the Company, there is not any other entity within the Group which has defined benefit plans. The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pension benefits for its employees upon retirement. The Company also established pension funds in accordance with the Regulations Governing the Management, Investment, and Distribution of the Employees' Retirement Fund Established by a Profit-seeking Enterprise, which are deposited monthly in the designated financial institutions. The plans entitle a retired employee to receive a payment based on years of service and average salary for the six months prior to the employee's retirement.

1) Composition of plan assets

In accordance with the requirements of the Labor Standards Law, the Company's pension fund account at Bank of Taiwan is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Funds). According to the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, minimum earnings shall be no less than the earnings attainable from two-year time deposits, with interest rates offered by local banks.

As of December 31, 2017 and 2016, the Group's labor pension fund account balance at Bank of Taiwan amounted to $33,991 and $33,477, respectively. Please refer to the website of the Bureau of Labor Funds for information on the labor pension fund assets including the asset portfolio and yield of the fund.

(Continued)

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations of the Group were as follows:

| | 2017 | 2016 |
|---|---|---|
| Defined benefit obligations at January 1 | $ 55,758 | 50,672 |
| Current service costs and interest expense | 767 | 1,033 |
| Remeasurement on the net defined benefit liabilities (assets): | | |
| －Actuarial loss arising from changes in financial assumptions | (2,408) | 4,711 |
| －Actuarial loss arising from experience adjustments | 2,361 | 1,621 |
| Benefits paid by the plan | (128) | (2,279) |
| Defined benefit obligations at December 31 | $ 56,350 | 55,758 |

3) Movements of fair value of plan assets

The movements of the fair value of plan assets of the Group were as follows:

| | 2017 | 2016 |
|---|---|---|
| Fair value of plan assets at January 1 | $ 33,477 | 35,095 |
| Interest income | 463 | 660 |
| Remeasurement on the net defined benefit liabilities (assets) | | |
| －Return on plan assets (excluding current interest expense) | (134) | (356) |
| Contributions by the employer | 313 | 357 |
| Benefits paid by the plan | (128) | (2,279) |
| Fair value of plan assets at December 31 | $ 33,991 | 33,477 |

4) Changes in the effect of the asset ceiling

There was no effect of the asset ceiling.

(Continued)

5) Expenses recognized in profit or loss

The expenses recognized in profit or loss were as follows:

| | 2017 | 2016 |
|---|---|---|
| Current service costs | $ - | 83 |
| Net interest expense on the net defined benefit liability | 304 | 290 |
| | $ 304 | 373 |
| Cost of revenue | $ 99 | 125 |
| Selling expenses | 106 | 111 |
| Administrative expenses | 61 | 90 |
| Research and development expenses | 38 | 47 |
| | $ 304 | 373 |

6) Remeasurement of the net defined benefit liabilities recognized in other comprehensive income

The remeasurement of the net defined benefit liabilities recognized in other comprehensive income were as follows:

| | 2017 | 2016 |
|---|---|---|
| Cumulative amount at January 1 | 24,050 | 17,362 |
| Recognized during the period | 87 | 6,688 |
| Cumulative amount at December 31 | $ 24,137 | 24,050 |

7) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Discount rate | 1.625% | 1.375% |
| Future salary increases rate | 3.000% | 3.000% |

The Group expects to make contribution of $306 to the defined benefit plans in the year following December 31, 2017.

The weighted average duration of the defined benefit plans is 18.25 years.

8) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions for each measurement date, including discount rates, employee turnover rates and future salary changes. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

(Continued)

The following table summarizes the impact of a change in the assumptions on the present value of the defined benefit obligation on December 31, 2017 and 2016.

| | **Increase (decrease) in present value of defined benefit obligations** | |
|---|---|---|
| | **0.25% Increase** | **0.25% Decrease** |
| December 31, 2017 | | |
| Discount rate | (2,301) | 2,435 |
| Future salary change | 2,346 | (2,249) |
| December 31, 2016 | | |
| Discount rate | (2,416) | 2,544 |
| Future salary change | 2,468 | (2,358) |

Each sensitivity analysis considers the change in one assumption at a time, leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets.

In 2017, the method and assumptions used to carry out the sensitivity analysis was the same as in the prior year.

(ii) Defined contribution plans

The Company contributes monthly an amount equal to 6% of each employee’s monthly wages to the employee’s individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Foreign subsidiaries make contributions in compliance with their respective local regulations. Under this defined contribution plan, the Group has no legal or constructive obligation to pay additional amounts after contributing a fixed amount.

For the years ended December 31, 2017 and 2016, the Group recognized pension expenses of $21,289 and $21,040, respectively, in relation to the defined contribution plans.

(Continued)

(l) Income taxes

(i) The components of income tax expense were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Current income tax expense | | | |
| Current period | $ | 118,211 | 79,299 |
| Adjustments for prior years | | (27,510) | 3,685 |
| | | 90,701 | 82,984 |
| Deferred income tax benefit | | | |
| Origination and reversal of temporary differences | | (22,618) | (7,066) |
| Income tax expense | $ | 68,083 | 75,918 |

The components of income tax benefit recognized in other comprehensive income were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit plans | $ | 15 | 1,137 |

Reconciliation of income tax expense and income before income tax was as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Income before income tax | $ | 473,040 | 425,209 |
| Income tax using the Company' s statutory tax rate | $ | 80,417 | 72,285 |
| Effect of different tax rates in foreign jurisdictions | | 10,866 | 20,686 |
| Tax-exempt income | | - | (1,757) |
| Investment tax credits | | (3,000) | (3,000) |
| Changes in unrecognized temporary differences | | (3,296) | (6,394) |
| Prior-year adjustments | | (27,510) | 3,685 |
| 10% surtax on undistributed earnings | | 6,814 | - |
| Others | | 3,792 | (9,587) |
| | $ | 68,083 | 75,918 |

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets and liabilities

| | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Unrecognized deferred income tax assets: | | | |
| Aggregate deductible temporary differences associated with investments in subsidiaries | $ | 21,206 | 23,319 |
| Deductible temporary differences | | 669 | 669 |
| | $ | 21,875 | 23,988 |

(Continued)

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Unrecognized deferred income tax liabilities: | | |
| Aggregate taxable temporary differences associated with investments in subsidiaries | $ 37,564 | 36,381 |

As the Group is able to control the timing of the reversal of the temporary differences associated with investments in its subsidiaries as of December 31, 2017 and 2016, and Management believes that it is probable that the temporary differences will not reverse in the foreseeable future, such temporary differences are not recognized as deferred income tax assets and liabilities.

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities were as follows:

Deferred income tax assets:

| | Defined benefit plans | Provision for inventory obsolescence | Warranty provision | Unrealized impairment loss on financial assets | Others | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | $ 4,898 | 18,211 | 2,107 | 8,500 | 12,550 | 46,266 |
| Recognized in profit or loss | - | 22,018 | (413) | - | 1,434 | 23,039 |
| Recognized in other comprehensive income | 15 | - | - | - | - | 15 |
| **Balance at December 31, 2017** | **$ 4,913** | **40,229** | **1,694** | **8,500** | **13,984** | **69,320** |
| **Balance at January 1, 2016** | $ 3,758 | 15,150 | 2,287 | 8,500 | 8,289 | 37,984 |
| Recognized in profit or loss | 3 | 3,061 | (180) | - | 4,261 | 7,145 |
| Recognized in other comprehensive income | 1,137 | - | - | - | - | 1,137 |
| **Balance at December 31, 2016** | **$ 4,898** | **18,211** | **2,107** | **8,500** | **12,550** | **46,266** |

Deferred income tax liabilities:

| | Others |
|---|---|
| **Balance at January 1, 2017** | $ 446 |
| Recognized in profit or loss | 421 |
| **Balance at December 31, 2017** | **$ 867** |
| **Balance at January 1, 2016** | $ 367 |
| Recognized in profit or loss | 79 |
| **Balance at December 31, 2016** | **$ 446** |

(iii) The Company's income tax returns for the years through 2015 have been examined and approved by the R.O.C. income tax authorities.

(Continued)

(iv) Information about the imputation income tax system:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Unappropriated earnings earned commencing from January 1, 1998 | $ 951,412 | 827,389 |
| Balance of imputation credit account | $ 141,209 | 155,009 |

| | 2017 (estimated) | 2016 (actual) |
|---|---|---|
| Creditable ratio for distribution of earnings to R.O.C. residents | 21.63 % | 22.91 % |

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

According to the amendments to the Income Tax Act enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation income tax system. The abovementioned estimated creditable ratio for 2017 is for reference only.

(m) Capital and other equity

(i) Common stock

As of December 31, 2017 and 2016, the Company's authorized shares of common stock consisted of 200,000 thousand shares, of which 100,898 thousand shares were issued and outstanding. The par value of the Company's common stock is $10 (dollars) per share. The Company has reserved 15,000 thousand shares for the exercise of employee stock options.

The movements in outstanding shares of common stock were as follows (in thousands of shares):

| | Shares of Common Stock | |
|---|---|---|
| | 2017 | 2016 |
| Balance at January 1 | 100,898 | 151,544 |
| Issuance of common stock from exercise of employee stock options | - | 50 |
| Capital reduction | - | (49,696) |
| Retirement of restricted shares of stock issued to employees | - | (1,000) |
| Balance at December 31, 2017 | 100,898 | 100,898 |

1) As at January 1, 2016, the proceeds of $550 from the exercise of employee stock options was recorded as capital collected in advance. Thereafter, the related registration process has been completed and the capital collected in advance has been transferred to common stock and capital surplus.

2) In order to enrich the necessary working capital in response to develop long-term operations, the Company's temporary shareholders' meeting held on December 29, 2014 resolved to raise capital through private placement. The effective date of the capital increase was January 21, 2015, and the issuance of common stock has been registered with the government authorities on January 28, 2015. Details are summarized below:

a) Shares issued: 15,000 thousand shares of common stock

b) Issue price: $25.38 (dollars) per share

c) Total proceeds received by the Company: $380,700

d) Investor of the private placement: Phison Electronics Corporation

e) Rights and obligations: All the rights and obligations of shares of common stock through the private placement (the "Private Placement Shares") shall be the same as those of shares of common stock issued and outstanding. However, except for selling to specific investors defined in Article 43-8 of the Securities and Exchange Act, the Private Placement Shares cannot be resold during a three-year period from delivery date. After three years from delivery date, according to the Securities and Exchange Act, and Directions for Public Companies Conducting Private Placements of Securities, the Company shall obtain a letter issued by Taiwan Stock Exchange Corporation ("TWSE") acknowledging that the Private Placement Shares have met the standards for TWSE listing before it may file with FSC for retroactive handling of public issuance procedures. Thereafter, the Company can apply for listing in TWSE of Private Placement Shares.

f) Others: The Company recognized capital surplus of $230,700, resulting from the issuance price of Private Placement Shares in excess of common stock's par value.

3) In 2016, the Company recalled 1,000 thousand shares of restricted stock and the related distributed cash dividends amounting to $2,189 due to failure in meeting certain vesting conditions. On April 21, 2016, the Board of Directors approved a resolution to retire these recalled shares of restricted stock whose effective date was on the same day. The related registration process has been completed.

4) The Company resolved the capital reduction of $496,959, representing 49,696 thousand shares of outstanding shares, as approved by the Board of Directors on April 21, 2016 and the stockholders' meeting on June 3, 2016, respectively. On July 12, 2016, FSC had already approved the application of the Company for the abovemetioned capital reduction. Based on the resolution approved by stockholders, the chairman of the Company set the effective date of the capital reduction on July 15, 2016. The related registration process has been completed on July 29, 2016.

(Continued)

(ii) Capital surplus

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Paid-in capital in excess of par value | $ 331,707 | 331,707 |
| Employee stock options | 12,901 | 12,901 |
| Treasury stock transactions | 3,781 | 3,781 |
| Changes in equity of associates accounted for using equity method | 9,836 | 10,814 |
| | $ 358,225 | 359,203 |

Pursuant to the Company Act, any realized capital surplus is initially used to cover an accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed as cash dividends based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations from stockholders received by the Company. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

Based on the Company’s stockholders’ meeting held on June 3, 2016, the Company approved to distribute cash dividend from capital surplus of $113,110.

(iii) Retained earnings

1) Legal reserve

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to its shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders’ equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders’ equity are reversed in subsequent periods. Also, in accordance with Ruling No. 1010051600 issued by FSC, the Company does not have to set aside any amount as special reserve for unearned compensation cost arising from restricted shares of stock issued to employees.

(Continued)

3) Earnings distribution

The Company's Articles of Incorporation stipulate that at least 10% of annual net income, after deducting accumulated deficit, if any, must be retained as legal reserve until such retention equals the amount of paid in capital. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance, together with the unappropriated earnings from the previous years, after retaining a certain portion of it for business considerations, can be distributed as dividends to stockholders. Except for the distribution of capital surplus and legal reserve in accordance with applicable laws and regulations, the Company cannot distribute any earnings when there are no retained earnings.

Since the Company operates in an industry experiencing rapid change and development, earnings are distributed in consideration of the current year's earnings, the overall economic environment, related laws and decrees, as well as the Company's long term development and stability in its financial position. The Company has adopted a balance dividend policy, in which a cash dividend comprises at least 10% of the total dividend distribution.

The appropriation of 2016 and 2015 earnings were approved by the stockholders at the meetings on May 26, 2017 and June 3, 2016, respectively. The resolved appropriation of the dividend per share were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) | Amount |
| Dividends per share: | | | | |
| Cash dividends | $ 2.40 | 242,155 | 1.25 | 190,077 |

(iv) Other equity items (net after tax)

1) Foreign currency translation differences:

| | 2017 | 2016 |
|---|---|---|
| Balance at January 1 | $ (30,971) | (26,750) |
| Foreign exchange differences arising from translation of foreign operations | (18,350) | (4,221) |
| Balance at December 31 | $ (49,321) | (30,971) |

2) Unearned compensation cost arising from restricted shares of stock issued to employees:

| | 2017 | 2016 |
|---|---|---|
| Balance at January 1 | $ - | (33,550) |
| Unearned compensation cost arising from restricted shares of stock issued to employees | - | 33,550 |
| Balance at December 31 | $ - | - |

(Continued)

(v) Non-controlling interests:

| | 2017 | 2016 |
|---|---|---|
| Balance at January 1 | $ 4,443 | - |
| Equity attributable to non-controlling interest | | |
| Net loss | (461) | (176) |
| Foreign currency translation differences | 253 | (229) |
| Changes in non-controlling interests | (4,050) | 4,848 |
| Balance at December 31 | $ 185 | 4,443 |

(n) Share-based payment

(i) The Group had the following restricted shares of stock issued to employees:

| | Restricted shares of stock issued to employees |
|---|---|
| Grant date | 2014.08.29 |
| Number of shares granted (thousand shares) | 1,000 |
| Contract term | 2 years |
| Vesting conditions | (Note 2) |
| Qualified employees | (Note 1) |

Note 1: full-time employees who conformed to certain requirements

Note 2: the employees who were granted restricted stock are entitled to purchase the shares of restricted stock at the exercise price of $0, with the condition that the employees will continue to provide service to the Company for at least 2 years subsequent to the grant date. The restricted shares of stock will be vested based on 2-year achievement situation of the Company's and individual employee's performance conditions. The restricted stock received by the employees shall be deposited and held in an escrow account and, except for inheritance, could not be sold, pledged, transferred, gifted, or disposed of in any other forms during the vesting period; nevertheless, the rights of a shareholder, such as attendance, proposal, speaking, voting and election at the shareholders' meeting, are the same as the rights of the Company's shareholders but are executed by the custodian. The Company will take back the restricted stock from employees and retire those shares when the vesting conditions cannot be met.

The movements in number of restricted shares of stock issued (in thousands) were as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance at January 1 | - | 1,000 |
| Forfeited during the period | - | (1,000) |
| Balance at December 31 | - | - |

(Continued)

(o) Earnings per share (“EPS”)

(i) Basic earnings per share

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to shareholders of the Company | $ 405,418 | 349,467 |
| Weighted-average number of ordinary shares outstanding (in thousands) | 100,898 | 127,510 |
| Basic earnings per share (in dollars) | $ 4.02 | 2.74 |

(ii) Diluted earnings per share

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to shareholders of the Company | $ 405,418 | 349,467 |
| Weighted-average number of ordinary shares outstanding (in thousands) | 100,898 | 127,510 |
| Effect of dilutive potential common stock: | | |
| Remuneration to employees | 1,321 | 1,441 |
| Weighted-average number of ordinary shares outstanding (including effect of dilutive potential common stock) | $ 102,219 | 128,951 |
| Diluted earnings per share (in dollars) | $ 3.97 | 2.71 |

(p) Revenue

| | 2017 | 2016 |
|---|---|---|
| Revenue from sale of goods | $ 10,043,476 | 6,822,226 |

(q) Remuneration to employees, and directors and supervisors

The Company’s article of incorporation requires that earnings shall first to be offset against any deficit, then, a minimum of 4% will be distributed as remuneration to its employees and no more than 1.4% to its directors and supervisors. Employees who are entitled to receive the abovementioned employee remuneration, in shares or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

For the years ended December 31, 2017 and 2016, the Company estimated its remuneration to employees amounting to $44,818 and $37,598, respectively, and the remuneration to directors and supervisors amounting to $7,130 and $6,574, respectively. The abovementioned estimated amounts are calculated based on the net profits before tax of each period (excluding the remuneration to employees, and directors and supervisors), multiplied by a certain percentage of the remuneration to employees, and directors and supervisors. The estimations are recognized as cost of revenue or operating expenses. If the actual amounts differ from the estimated amounts, the differences shall be accounted as changes in accounting estimates and recognized as profit or loss in following year. The abovementioned estimated remuneration to employees, and directors and supervisors is the same as the amount approved by the Board of Directors and will be paid in cash. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(r) Non-operating income and loss

(i) Other income

| | 2017 | 2016 |
|---|---|---|
| Interest income from bank deposits | $ 1,267 | 3,987 |
| Rental income | 4,208 | 4,208 |
| | $ 5,475 | 8,195 |

(ii) Other gains and losses－net

| | 2017 | 2016 |
|---|---|---|
| Foreign currency exchange gain (loss) | $ (11,305) | 1,422 |
| Gain on disposal of property, plant and equipment | 4,999 | 192 |
| Gain (loss) on financial assets and liabilities at fair value through profit or loss | 6,650 | (4,725) |
| Impairment loss on non-financial assets | (6,994) | - |
| Indemnity income | - | 14,881 |
| Gain on reversal of accrued expenses | 6,000 | - |
| Others | 6,913 | 5,717 |
| | $ 6,263 | 17,487 |

(iii) Finance costs

| | 2017 | 2016 |
|---|---|---|
| Interest expense from bank loans | $ 10,372 | 639 |

(s) Financial instruments

(i) Categories of financial instruments

1) Financial assets

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Held-for-trading | $ 688 | 167 |
| Available-for-sale financial assets: | | |
| Financial assets at fair value | 12,117 | 12,117 |
| Financial assets carried at cost | 5,359 | - |
| Loans and receivables: | | |
| Cash and cash equivalents | 591,613 | 524,831 |
| Notes and accounts receivable | 1,294,104 | 987,443 |
| Other receivables | 76,614 | 50,160 |
| Other financial assets (including current and non-current) | 10,750 | 8,614 |
| Subtotal | 1,973,081 | 1,571,048 |
| Total | $ 1,991,245 | 1,583,332 |

(Continued)

2) Financial liabilities

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Financial liabilities at fair value through profit or loss: | | |
| Held-for-trading | $ 354 | 2,278 |
| Financial liabilities measured at amortized cost: | | |
| Short-term borrowings | 492,240 | 129,000 |
| Notes and accounts payable | 1,091,974 | 852,193 |
| Other payables | 136,065 | 163,995 |
| Guarantee deposits | 31,099 | 16,893 |
| Subtotal | 1,751,378 | 1,162,081 |
| Total | **$ 1,751,732** | **1,164,359** |

(ii) Fair value information

1) Financial instruments not measured at fair value

The Group considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

2) Financial instruments measured at fair value

The fair value of financial assets and liabilities at fair value through profit and loss and available-for-sale financial assets are measured on a recurring basis.

The table below analyzes financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

(Continued)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 688 | - | 688 | - | 688 |
| Available-for-sale financial assets－non-current: | | | | | |
| Unlisted stocks | $ 12,117 | - | - | 12,117 | 12,117 |
| Financial liabilities at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 354 | - | 354 | - | 354 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 167 | - | 167 | - | 167 |
| Available-for-sale financial assets－non-current: | | | | | |
| Unlisted stocks | $ 12,117 | - | - | 12,117 | 12,117 |
| Financial liabilities at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 2,278 | - | 2,278 | - | 2,278 |

(iii) Valuation techniques used in fair value measurement

1) Non-derivative financial instruments

The fair value of financial instruments traded in active liquid markets is determined with reference to quoted market prices.

Except for the abovementioned financial instruments traded in an active market, the fair value of other financial instruments are based on the valuation techniques or the quotation from counterparty. The fair value using valuation techniques refers to the current fair value of other financial instruments with similar conditions and characteristics, or using a discounted cash flow method, or other valuation techniques which include model calculating with observable market data at the reporting date.

(Continued)

The fair value of the unlisted stock held by the Group is estimated by using the market approach and is determined by reference to valuations of similar companies, net worth and recent operating activities. The significant unobservable inputs is primarily the liquidity discounts. No quantitative information is disclosed due to that the possible changes in liquidity discounts would not cause significant potential financial impact.

2) Derivative financial instruments

The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and that are readily available to the Group. The fair value of foreign currency forward contracts is computed individually by each contract using the valuation technique.

(iv) Transfers between levels of the fair value hierarchy

There were no transfers among fair value hierarchies for the years ended December 31, 2017 and 2016.

(v) Movement in financial assets included in Level 3 of fair value hierarchy (available-for-sale financial assets):

| | 2017 | 2016 |
|---|---|---|
| Balance at December 31, 2017 (Same as January 1, 2017) | $ 12,117 | 12,117 |

(t) Financial risk management

The Group is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Group has disclosed the information on exposure to the aforementioned risks and the Group's policies and procedures to measure and manage those risks as well as the quantitative information below.

The Group's management monitors and reviews financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's Board of Directors.

The Group's Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, derivative instruments, receivables from customers, and other receivables. The Group maintains cash and enters into derivative transactions with various reputable financial institutions; therefore, the exposure related to potential default by those counter-parties is not considered significant.

(Continued)

As of December 31, 2017 and 2016, the Group has insured credit insurance that cover accounts receivable amounting to $354,249 and $311,021, respectively. In consideration of the recoverable amounts under credit insurance, as of December 31, 2017 and 2016, the Group's maximum exposure to credit risk amounted to $1,672,421 and $1,303,413, respectively.

In order to reduce credit risk of accounts receivable, the Group has established a credit policy under which each customer is analyzed individually for creditworthiness for the purpose of setting the credit limit. Additionally, the Group continuously evaluates the credit quality of its customers and utilizes its insurance to minimize the credit risk.

The Group believes that there is no significant concentration of credit risk due to the Group's large number of customers and their wide geographical spread.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling its financial liabilities by delivering cash or other financial assets. The Group manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of the loan agreements. As of December 31, 2017 and 2016, the Group had unused credit facilities of $1,778,440 and $2,236,500, respectively.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

| | | Carrying amount | Contractual cash flows | Within 1 year | More than 1 year |
|---|---|---|---|---|---|
| **December 31, 2017** | | | | | |
| Non-derivative financial liabilities: | | | | | |
| Short-term borrowings | $ | 492,240 | (493,312) | (493,312) | - |
| Notes and accounts payable | | 1,091,974 | (1,091,974) | (1,091,974) | - |
| Other payables | | 136,065 | (136,065) | (136,065) | - |
| Guarantee deposits | | 31,099 | (31,099) | - | (31,099) |
| Derivative financial instruments: | | | | | |
| Foreign currency forward contracts: | | | | | |
| Inflow | | - | 141,107 | 141,107 | - |
| Outflow | | 354 | (141,461) | (141,461) | - |
| **December 31, 2016** | | | | | |
| Non-derivative financial liabilities: | | | | | |
| Short-term borrowings | $ | 129,000 | (129,320) | (129,320) | - |
| Notes and accounts payable | | 852,193 | (852,193) | (852,193) | - |
| Other payables | | 163,995 | (163,995) | (163,995) | - |
| Guarantee deposits | | 16,893 | (16,893) | - | (16,893) |
| Derivative financial instruments: | | | | | |
| Foreign currency forward contracts: | | | | | |
| Inflow | | - | 179,822 | 179,822 | - |
| Outflow | | 2,278 | (182,100) | (182,100) | - |

(Continued)

The Group does not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group utilizes derivative financial instruments to manage market risk. All such transactions are carried out within the guidelines set by the Group's Board of Directors.

1) Foreign currency risk

The Group utilizes foreign currency forward contracts to hedge its foreign currency exposure with respect to its sales and purchases. The maturity dates of derivative financial instruments the Group entered into were less than six months and did not conform to the criteria for hedge accounting. These financial instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

The Group's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable, notes and accounts payable, other receivables, other payables, and loans and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities. At the reporting date, the carrying amounts of the Group's significant monetary assets and liabilities denominated in a currency other than the respective functional currencies of the Group entities and their respective sensitivity analysis were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

(Amounts in Thousands of New Taiwan Dollars)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | **Foreign currency (in thousands)** | **Exchange rate** | **TWD (in thousands)** | **Change in magnitude** | **Pre-tax effect on profit or loss (in thousands)** |
| Financial assets | | | | | |
| USD | $ 46,499 | 29.760 | 1,383,810 | 1% | 13,838 |
| Financial liabilities | | | | | |
| USD | 41,549 | 29.760 | 1,236,498 | 1% | 12,365 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | **Foreign currency (in thousands)** | **Exchange rate** | **TWD (in thousands)** | **Change in magnitude** | **Pre-tax effect on profit or loss (in thousands)** |
| Financial assets | | | | | |
| USD | $ 28,555 | 32.250 | 920,899 | 1% | 9,209 |
| Financial liabilities | | | | | |
| USD | 23,548 | 32.250 | 759,423 | 1% | 7,594 |

(Continued)

As the Group deal in diverse foreign currencies, gains and losses on foreign exchange were summarized as a single amount. The aggregate of realized and unrealized foreign exchange gain (loss) for the years ended December 31, 2017 and 2016 were $(11,305) and $1,422, respectively.

2) Interest rate risk

The Group's bank loans carried floating interest rates. To manage the interest rate risk, the Group periodically assesses the interest rates of bank loans and maintains good relationships with financial institutions to obtain lower financing costs. The Group also strengthens the management of working capital to reduce the dependence on bank loans, as well as the risk arising from fluctuation of interest rates.

If interest rates had been 100 basis points (1%) higher/lower, with all other variables held constant, pre-tax income for the years ended December 31, 2017 and 2016 would have been $4,922 and $1,290, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

3) Other market price risk

The Group has long-term investments in unlisted stocks, which the Group does not actively participate in trading. The Group anticipates that there is no significant market risk related to the investments.

(u) Capital management

In consideration of the industry dynamics and future developments, as well as external environment factors, the Group maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development expenses, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders. The Group monitors its capital through reviewing the liability-to-equity ratio periodically.

The Group's liability-to-equity ratio at the end of each reporting period was as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Total liabilities | $ 2,064,665 | 1,411,994 |
| Total equity | $ 2,568,140 | 2,428,535 |
| Liability-to-equity ratio | 80.40% | 58.14% |

In 2017, the Group increased its bank loans to fund its working capital needs due to the growth of revenue. It also resulted in the increasing of liability-to-equity ratio.

(Continued)

**7. Related-party transactions:**

(a) Name and relationship with related parties

The following are the entities that have had transactions with the Group during the periods covered in the consolidated financial statements.

| Name of related parties | Relationship with the Group |
|---|---|
| JoiiUp Technology Inc. | The Group's associate |
| Ecolumina Technologies Inc. | The Group's other related party |
| Directors, general manager and vice general managers | The Group's key management personnel |

(b) Significant related-party transactions

(i) Revenue

| | 2017 | 2016 |
|---|---|---|
| Associates | $ 9 | - |
| Other related parties | 210 | - |
| | $ 219 | - |

The sales prices and payment terms of sales to related parties depend on the economic environment and market competition, and are not different from those with third-party customers. The payment terms for related parties and third-party are 60 days and 30～90 days, respectively, calculated from the delivery date. The Group does not receive any collateral for the receivables from related parties. The Group has not recognized a specific allowance for doubtful receivables after assessment.

(ii) Receivables

| Account | Related-party categories | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Accounts receivable | Other related parties | $ 4 | - |

(iii) Payables

| Account | Related party categories | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Other payables | Associates | $ - | 100 |

(c) Compensation for key management personnel

| | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | $ 35,823 | 33,302 |
| Post-employment benefits | 324 | 324 |
| | $ 36,147 | 33,626 |

(Continued)

**8. Pledged assets: None**

**9. Significant commitments and contingencies:**

In addition to those in note 6(j), as of December 31, 2017 and 2016, the Group had outstanding letters of guarantee amounting to $15,000 for the purpose of the payment of customs duties.

**10. Significant loss from casualty: None**

**11. Significant subsequent events:**

According to the amendments to the Income Tax Act enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return for the year 2018. This increase does not affect the amounts of the current or deferred income taxes recognized in 2017. However, this amendment will increase the Group’s income tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences recognized on December 31, 2017, the Group’s deferred tax assets and deferred tax liabilities would increase by $11,392 and $153, respectively.

**12. Others:**

Employee benefits, depreciation and amortization expenses categorized by function were as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Cost of revenue** | **Operating expenses** | **Total** | **Cost of revenue** | **Operating expenses** | **Total** |
| Employee benefits: | | | | | | |
| Salaries | 126,325 | 445,961 | 572,286 | 111,869 | 405,899 | 517,768 |
| Insurance | 11,954 | 37,553 | 49,507 | 10,722 | 33,395 | 44,117 |
| Pension | 5,115 | 16,478 | 21,593 | 4,808 | 16,605 | 21,413 |
| Others | 8,354 | 21,788 | 30,142 | 8,153 | 20,369 | 28,522 |
| Depreciation | 14,755 | 20,664 | 35,419 | 12,459 | 17,806 | 30,265 |
| Amortization | 714 | 6,839 | 7,553 | 251 | 5,380 | 5,631 |

(Continued)

## 13. Additional disclosures

(a) Information on significant transactions:

In accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Group discloses the following information on significant transactions:

(i) Financing provided to other parties: None

(ii) Guarantee and endorsement provided to other parties: None

(iii) Marketable securities held at the reporting date (excluding investments in subsidiaries and associates):

(In Thousands of Shares/Amounts in Thousands of New Taiwan Dollars)

| Investing Company | Marketable Securities Type and Name | Relationship with the Securities Issuer | Financial Statement Account | December 31, 2017 | | | | Maximum percentage of ownership during 2017 | | Note |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Shares/ Units | Carrying Value | Percentage of Ownership | Fair value | Shares/ Units | Percentage of Ownership | |
| The Company | Stock: Formosa Golf and Country Club Corp. | - | Available-for-sale financial assets－non-current | 3.6 | 12,117 | 0.01% | 12,117 | 3.6 | 0.01% | Including stocks and memberships |
| The Company | Stock: OTO Photonics Inc. | - | Financial assets carried at cost－non-current | 3,014 | 5,359 | 13.98% | 5,359 | 3,014 | 13.98% | - |

(iv) Marketable securities for which the accumulated purchase or sale amounts for the year exceed $300 million or 20% of the paid-in capital: None

(v) Acquisition of real estate which exceeds $300 million or 20% of the paid-in capital: None

(vi) Disposal of real estate which exceeds $300 million or 20% of the paid-in capital: None

(vii) Total purchases from and sales to related parties which exceed $100 million or 20% of the paid-in capital:

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Transactions with Terms Different from Others | | Notes/Accounts Receivable or (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases/ (Sales) | Amount | % of Total Purchases/ (Sales) | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total Notes/Accounts Receivable or (Payable) | |
| The Company | AMA | The Company's subsidiary | (Sales) | (2,320,652) | (24)% | OA45 | - | - | 274,484 | 20% | Note 1 |
| The Company | AMH | The Company's subsidiary | (Sales) | (505,137) | (5)% | OA60 | - | - | 33,853 | 3% | Note 1 |
| The Company | AMK | The Company's subsidiary | (Sales) | (611,022) | (6)% | OA30 | - | - | 26,484 | 2% | Note 1 |
| The Company | AMC | The Company's subsidiary | (Sales) | (240,380) | (2)% | M30 | - | - | 42,181 | 3% | Note 1 |
| The Company | AMJ | The Company's subsidiary | (Sales) | (112,548) | (1)% | M60 | - | - | 18,802 | 1% | Note 1 |
| AMA | The Company | AMA's parent company | Purchases | 2,320,652 | 98% | OA45 | - | - | (274,484) | (100)% | Note 1 |
| AMH | The Company | AMH's parent company | Purchases | 505,137 | 100% | OA60 | - | - | (33,853) | (98)% | Note 1 |
| AMK | The Company | AMK's parent company | Purchases | 611,022 | 100% | OA30 | - | - | (26,484) | (99)% | Note 1 |
| AMC | The Company | AMC's parent company | Purchases | 240,380 | 100% | M30 | - | - | (42,181) | (100)% | Note 1 |
| AMJ | The Company | AMJ's parent company | Purchases | 112,548 | 100% | M60 | - | - | (18,802) | (96)% | Note 1 |

Note 1: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(Continued)

(viii) Receivables from related parties which exceed $100 million or 20% of the paid-in capital:

(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| The Company | AMA | The Company's subsidiary | 274,484 | 14.29 | - | - | - | - |

Note: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(ix) Transactions about derivative instruments: Please refer to note 6(b)

(i) Business relationships and significant intercompany transactions:

| Number (Note 1) | Company Name | Counter party | Nature of Relationship (Note 2) | Transaction Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Account | Amount | Payment Terms | Percentage of Consolidated Operating Revenue or Total Assets |
| 0 | The Company | AMA | 1 | Sales | 2,320,652 | QA45 | 23% |
| 0 | The Company | AMH | 1 | Sales | 505,137 | OA60 | 5% |
| 0 | The Company | AMK | 1 | Sales | 611,022 | OA30 | 6% |
| 0 | The Company | AMC | 1 | Sales | 240,380 | M30 | 2% |
| 0 | The Company | AMJ | 1 | Sales | 112,548 | M60 | 1% |
| 0 | The Company | AMA | 1 | Accounts receivable | 274,484 | OA45 | 6% |
| 0 | The Company | AMH | 1 | Accounts receivable | 33,853 | OA60 | 1% |
| 0 | The Company | AMK | 1 | Accounts receivable | 26,484 | OA30 | 1% |
| 0 | The Company | AMC | 1 | Accounts receivable | 42,181 | M30 | 1% |
| 0 | The Company | AMJ | 1 | Accounts receivable | 18,802 | M60 | - |

Note 1: Parties to the intercompany transactions are identified and numbered as follows:
1. "0" represents the Company.
2. Subsidiaries are numbered from "1".

Note 2: The relationships with counterparties are as follows:
No. "1" represents the transactions from the Company to subsidiary.
No. "2" represents the transactions from subsidiary to the Company.

Note 3: Intercompany relationships and significant intercompany transactions are disclosed only for sales and accounts receivable. The corresponding purchases and accounts payable are not disclosed.

(b) Information on investees:

(In Thousands of Shares)

| Investor | Investee | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2017 | | | Maximum percentage of Ownership during 2017 | | Net Income (Loss) of the Investee | Investment Income (Loss) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2017 | December 31, 2016 | Shares | Percentage of Ownership | Carrying Value | Shares | Percentage of Ownership | | | |
| The Company | AMA | USA | Trading of memory modules | 610 | 6 | 20 | 100.00% | 202,357 | 20 | 100.00% | 22,400 | 22,400 | Note 1 |
| The Company | ACYB | British Virgin Islands | Investment and holding activity | 18,542 | 18,5 | 2,636 | 100.00% | 16,600 | 2,636 | 100.00% | 4,177 | 4,177 | Note 1 |
| The Company | AMJ | Japan | Trading of memory modules | 2,918 | 2,9 | 0.2 | 100.00% | 14,348 | 0.2 | 100.00% | 1,504 | 1,504 | Note 1 |
| The Company | ATPL | India | Trading of memory modules | 915 | 9 | 29 | 100.00% | 1,445 | 29 | 100.00% | 125 | 125 | Note 1 |
| The Company | AMK | Hong Kong | Trading of memory modules | 20,917 | 20,9 | 5,000 | 100.00% | 13,066 | 5,000 | 100.00% | (2,271) | (2,271) | Note 1 |
| The Company | AMH | Netherlands | Trading of memory modules | 130,469 | 130,4 | 80 | 100.00% | 13,709 | 80 | 100.00% | 11,806 | 11,806 | Note 1 |

(Continued)

| | | | | Original Investment Amount | | Balance as of December 31, 2017 | | | Maximum percentage of Ownership during 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Investor** | **Investee** | **Location** | **Main Businesses and Products** | **December 31, 2017** | **December 31, 2016** | **Shares** | **Percentage of Ownership** | **Carrying Value** | **Shares** | **Percentage of Ownership** | **Net Income (Loss) of the Investee** | **Investment Income (Loss)** | **Note** |
| The Company | JoiiUp | Taiwan | Cloud services and software development | 15,000 | 15,000 | 1,500 | 17.78% | 1,721 | 1,500 | 17.78% | (19,953) | (3,168) | - |

Note: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(c) Information on investments in Mainland China

(i) Name and main businesses and products of investee companies in Mainland China:

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

| | | | | | Investment Flows | | | | | Maximum percentage of ownership during 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Investee Company Name** | **Main Businesses and Products** | **Total Amount of Paid-in Capital** | **Method of Investment** | **Accumulated Outflow of Investment from Taiwan as of January 1, 2017** | **Outflow** | **Inflow** | **Accumulated Outflow of Investment from Taiwan as of December 31, 2017** | **Net Income (Loss) of Investee** | **% of Ownership of Direct or Indirect Investment** | **Shares** | **Percentage of Ownership** | **Investment Income (Loss) (Note 2)** | **Carrying Value as of December 31, 2017** | **Accumulated Inward Remittance of Earnings as of December 31, 2017** |
| Apacer Electronic (Shanghai) Co., Ltd (AMC) | Trading of memory modules | 14,880 (USD500 thousand) | (Note 1) | 14,880 (USD500 thousand) | - | - | 14,880 (USD500 thousand) | 4,292 | 100.00 % | - | 100.00% | 4,292 | 12,960 | - |
| Shenzhen Kylinesports Technology Co. (AMS) | Trading of gaming products | 22,260 (USD748 thousand) | (Note 1) | 17,796 (USD598 thousand) | - | - | 17,796 (USD598 thousand) (Note 5) | (3,185) | 99.00 % | - | 99.00% | (2,724) | 18,343 | - |

Note 1: Indirect investment in Mainland China through a holding company established in a third country.
Note 2: Investment income or loss recognized based on the unaudited financial statements of investee companies.
Note 3: There was no shares as the Investee company is a limited liability company.
Note 4: The above amounts were translated into New Taiwan dollars at the exchange rate of US$1=NT$29.76.
Note 5: The amount of AMK reinvestments amounting to US$134 thousand were excluded.
Note 6: The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(ii) Limits on investments in Mainland China:

| **Investor** | **Accumulated Investment in Mainland China as of December 31, 2017** | **Investment Amounts Authorized by Investment Commission, MOEA** | **Upper Limit on Investment Authorized by Investment Commission, MOEA** |
|---|---|---|---|
| The Company | 32,676 (USD1,098 thousand) | 36,664 (USD1,232 thousand) | 1,540,773 |

(iii) Significant transactions with investee companies in Mainland China:

The transactions between parent and investee companies in Mainland China (the intercompany transaction) have been eliminated when preparing the consolidated financial statements. Please refer to section "Information on significant transactions" and "Business relationships and significant intercompany transactions" for detail description.

(Continued)

**14. Segment information:**

(a) General information

The Group has two reportable segments: Asia segment and America and Europe segment. The Asia segment engages in the manafacturing, maintenance, research and development, and sale of the Group' s products. The America and Europe segment engages in the sale of the Group' s products.

The Group' s reportable segments are separated by geographical segments. Each segment provides different organizational functions and marketing strategies, and thus should be managed separately.

(b) Reportable segments, profit or loss, segment assets, basis of measurement, and reconciliation

The Group uses income before income tax as the measurement for segment profit and the basis of resource allocation and performance assessment. There was no material inconsistency between the accounting policies adopted for the operating segments and the accounting policies described in note 4. The reporting amount is consistent with the report used by chief operating decision maker.

The Group' s operating segment information and reconciliation are as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | **Asia** | **America and Europe** | **Adjustments and eliminations** | **Total** |
| External revenue | 7,070,506 | 2,972,970 | - | 10,043,476 |
| Intra-group revenue | 3,801,809 | - | (3,801,809) | - |
| Total segment revenue | $ 10,872,315 | 2,972,970 | (3,801,809) | 10,043,476 |
| **Segment profit (loss)** | $ 461,561 | 49,220 | (37,741) | 473,040 |

| | 2016 | | | |
|---|---|---|---|---|
| | **Asia** | **America and Europe** | **Adjustments and eliminations** | **Total** |
| External revenue | 5,038,682 | 1,783,544 | - | 6,822,226 |
| Intra-group revenue | 2,102,561 | - | (2,102,561) | - |
| Total segment revenue | $ 7,141,243 | 1,783,544 | (2,102,561) | 6,822,226 |
| **Segment profit (loss)** | $ 409,039 | 57,998 | (41,828) | 425,209 |

(c) Product information

Revenues from external customers are detailed below:

| **Region** | **2017** | **2016** |
|---|---|---|
| Flash memory products | $ 5,308,406 | 4,417,319 |
| Memory modules | 4,734,572 | 2,400,558 |
| Others | 498 | 4,349 |
| | $ 10,043,476 | 6,822,226 |

(d) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

Revenues from external customers are detailed below:

| Region | | 2017 | 2016 |
|---|---|---|---|
| Taiwan | $ | 2,294,510 | 1,697,301 |
| Americas | | 2,416,205 | 1,025,717 |
| Hong Kong | | 1,440,715 | 492,055 |
| Japan | | 472,119 | 521,564 |
| Mainland China | | 421,879 | 422,966 |
| Others | | 2,998,048 | 2,662,623 |
| | **$** | **10,043,476** | **6,822,226** |

Non-current assets:

| Region | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Taiwan | $ | 944,179 | 910,299 |
| Japan | | - | 21 |
| Netherland | | 232 | 334 |
| Others | | 2,759 | 3,420 |
| | **$** | **947,170** | **914,074** |

Non-current assets include property, plant and equipment, intangible assets, and other assets, but do not include financial instruments and deferred income tax assets.

(e) Major customer information

| | | 2017 | 2016 |
|---|---|---|---|
| Revenue from Asia segment－Customer A | $ | 746,754 | 280,799 |
| Rrevenue from America and Europe segment－Customer B | | 592,333 | 271,959 |
| Revenue from Asia segment－Customer C | | 496,398 | 438,703 |
| | **$** | **1,835,485** | **991,461** |

(2)Parent-company-only financial report

# Independent Auditors' Report

The Board of Directors
Apacer Technology Inc.:

**Opinion**

We have audited the parent-company-only financial statements of Apacer Technology Inc. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent-company-only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent-Company-Only Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

**Key Audit Matters**

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

Key audit matters for the Company's financial statements for the year ended December 31, 2017 are stated as follows:

1. Revenue recognition

   Please refer to notes 4(o) and 6(p) for the accounting policy on "Revenue recognition" and "Revenue" for the related disclosures, respectively, of the notes to parent-company-only financial statements.

   <u>Description of key audit matter:</u>

   The Company engages primarily in the manufacturing and sales of memory modules and flash memory products, with product diversification and market channels spread globally. The Company recognizes its revenue depending on the various trade terms in each individual sale transaction and the transfer of risks and rewards of ownership of the goods, which are considered to be complex in determining the timing of revenue recognition. Consequently, the revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and testing the design and operating effectiveness of the Company's internal controls over revenue recognition; assessing whether the accounting policy of the timing of revenue recognition is appropriate through understanding the main types of revenues of the Company, and reviewing the sales contracts and the related trade terms with customers; assessing whether the accounting treatment of revenue recognition is appropriate through performing a sample test of the original documents of sales transaction; performing sample tests of sales transactions that took place before and after the balance sheet date, and reviewing the related documents to understand and analyze the reason for any identified sales returns and allowances that took place after the balance sheet date, to assess whether the revenue is recognized within the proper period.

2. Valuation of inventories

Please refer to notes 4(g), 5 and 6(d) for the inventory accounting policy, "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of inventory valuation, and "Inventories" for the related disclosures, respectively, of the notes to parent-company-only financial statements.

Description of key audit matter:

The Company's inventories are measured at the lower of cost and net realizable value. Management is required to make judgments and estimates in determining the net realizable value of inventories on the reporting date. The market prices of main raw materials of the Company, constituting the majority amount of product cost, fluctuate rapidly and the life cycle of certain products of the Company are short, which could possibly result in a price decline and obsolescence of inventories, wherein the inventories cost may exceed its net realizable value, as the Company fails to timely respond to market changes. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included obtaining and understanding the Company's accounting policy of valuation of inventories, performing a retrospective test to understand the reasonableness of estimations of allowance for inventory valuation loss with reference to actual write-off of inventories in a subsequent period, and evaluating the reasonableness of the accounting policy of valuation of inventories; as well as performing a sample test of the estimated selling price provided by Management to assess the reasonableness of the net realizable value and allowance for inventory valuation loss.

**Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements**

Management is responsible for the preparation and fair presentation of the parent-company-only financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent-company-only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including independent directors, and supervisors) are responsible for overseeing the Company's financial reporting process.

**Auditor’ s Responsibilities for the Audit of the Parent-Company-Only Financial Statements**

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

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

1. Identified and assessed the risks of material misstatement of the parent-company-only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’ s internal control.

3. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Concluded on the appropriateness of management’ s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’ s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’ s report to the related disclosures in the parent-company-only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’ s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluated the overall presentation, structure and content of the parent-company-only financial statements, including the disclosures, and whether the parent-company-only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtained sufficient and appropriate audit evidence regarding the financial information of the investees accounted for using equity method to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of the audit. We remained solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the parent-company-only financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Tzu-Chieh Tang and Mei-Yen Chen.

KPMG

Taipei, Taiwan (Republic of China)

February 23, 2018

**Notes to Readers**

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

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

(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)

# APACER TECHNOLOGY INC.
## Balance Sheets
## December 31, 2017 and 2016
## (Expressed in Thousands of New Taiwan Dollars)

| | Assets | December 31, 2017 Amount | % | December 31, 2016 Amount | % |
|---|---|---|---|---|---|
| | **Current assets:** | | | | |
| 1100 | Cash and cash equivalents (note 6(a)) | $ 387,513 | 8 | 356,15 | 10 |
| 1110 | Financial assets at fair value through profit or loss－current (note 6(b)) | 688 | - | 16 | - |
| 1170 | Notes and accounts receivable, net (note 6(c)) | 946,059 | 21 | 729,50 | 19 |
| 1180 | Accounts receivable from related parties (notes 6(c) and 7) | 395,808 | 9 | 148,04 | 4 |
| 1200 | Other receivables (note 6(c)) | 76,260 | 2 | 50,07 | 1 |
| 1310 | Inventories (note 6(d)) | 1,445,617 | 32 | 1,258,24 | 34 |
| 1470 | Other current assets | 8,736 | - | 1,61 | - |
| | **Total current assets** | 3,260,681 | 72 | 2,543,80 | 68 |
| | **Non-current assets:** | | | | |
| 1523 | Available-for-sale financial assets－non-current (note 6(b)) | 12,117 | - | 12,11 | - |
| 1543 | Financial assets carried at cost－non-current (note 6(b)) | 5,359 | - | - | - |
| 1550 | Investments accounted for using equity method (note 6(e)) | 263,246 | 6 | 254,02 | 7 |
| 1600 | Property, plant and equipment (note 6(f)) | 896,601 | 20 | 899,43 | 24 |
| 1780 | Intangible assets (note 6(g)) | 24,158 | 1 | 10,86 | - |
| 1840 | Deferred income tax assets (note 6(l)) | 66,097 | 1 | 42,57 | 1 |
| 1980 | Other financial assets－non-current | 3,308 | - | 3,21 | - |
| 1990 | Other non-current assets | 23,420 | - | - | - |
| | **Total non-current assets** | 1,294,306 | 28 | 1,222,22 | 32 |
| | **Total assets** | $ 4,554,987 | 100 | 3,766,02 | 100 |

| | Liabilities and Equity | December 31, 2017 Amount | % | December 31, 2016 Amount | % |
|---|---|---|---|---|---|
| | **Current liabilities:** | | | | |
| 2100 | Short-term borrowings (note 6(h)) | 492,240 | 11 | 129,000 | 4 |
| 2120 | Financial liabilities at fair value through profit or loss－current (note 6(b)) | 354 | - | 2,278 | - |
| 2170 | Notes and accounts payable | 1,089,675 | 24 | 851,115 | 23 |
| 2180 | Accounts payable to related parties (note 7) | 58 | - | 151 | - |
| 2200 | Other payables (notes 6(k) and (q)) | 277,193 | 6 | 238,845 | 6 |
| 2220 | Other payables to related parties (note 7) | 1,519 | - | 1,145 | - |
| 2230 | Current income tax liabilities | 64,591 | 1 | 35,132 | 1 |
| 2250 | Provisions－current (note 6(i)) | 15,695 | - | 15,531 | - |
| 2300 | Other current liabilities | 21,142 | 1 | 29,116 | 1 |
| | **Total current liabilities** | 1,962,467 | 43 | 1,302,313 | 35 |
| | **Non-current liabilities:** | | | | |
| 2570 | Deferred income tax liabilities (note 6(l)) | 867 | - | 446 | - |
| 2640 | Net defined benefit liabilities (note 6(k)) | 22,359 | 1 | 22,281 | 1 |
| 2645 | Guarantee deposits | 1,339 | - | 16,893 | - |
| | **Total non-current liabilities** | 24,565 | 1 | 39,620 | 1 |
| | **Total liabilities** | 1,987,032 | 44 | 1,341,933 | 36 |
| | **Equity (notes 6(l) and (m)):** | | | | |
| 3100 | Common stock | 1,008,978 | 22 | 1,008,978 | 27 |
| 3200 | Capital surplus | 358,225 | 8 | 359,203 | 9 |
| 3300 | Retained earnings | 1,250,073 | 27 | 1,086,882 | 29 |
| 3400 | Other equity | (49,321) | (1) | (30,971) | (1) |
| | **Total equity** | 2,567,955 | 56 | 2,424,092 | 64 |
| | **Total liabilities and equity** | $ 4,554,987 | 100 | 3,766,025 | 100 |

See accompanying notes to consolidated financial statements.

**(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)**

# APACER TECHNOLOGY INC.

## Statements of Comprehensive Income

## For the years ended December 31, 2017 and 2016

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

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | | Amount | % | Amount | % |
| 4000 | **Net revenue (notes 6(i), (p) and 7)** | $ 9,844,821 | 100 | 6,567,983 | 100 |
| 5000 | **Cost of revenue (notes 6(d), (f), (g), (i), (j), (k), (q), 7 and 12)** | 8,810,725 | 90 | 5,671,377 | 86 |
| | **Gross profit before unrealized gross profit** | 1,034,096 | 10 | 896,606 | 14 |
| 5920 | Unrealized gross profit | (6,024) | - | (1,157) | - |
| | **Gross profit** | 1,028,072 | 10 | 895,449 | 14 |
| | **Operating expenses (notes 6(c), (f), (g), (j), (k), (q), 7 and 12):** | | | | |
| 6100 | Selling expenses | 358,565 | 4 | 305,524 | 5 |
| 6200 | Administrative expenses | 144,472 | 1 | 141,358 | 2 |
| 6300 | Research and development expenses | 99,120 | 1 | 87,530 | 1 |
| 6000 | **Total operating expenses** | 602,157 | 6 | 534,412 | 8 |
| | **Operating income** | 425,915 | 4 | 361,037 | 6 |
| | **Non-operating income and loss (notes 6(e), (f), (j), (r) and 7):** | | | | |
| 7010 | Other income | 4,835 | - | 7,633 | - |
| 7020 | Other gains and losses－net | 2,389 | - | 5,792 | - |
| 7050 | Finance costs | (10,367) | - | (645) | - |
| 7070 | Share of profits of subsidiaries and associates | 34,573 | 1 | 35,691 | - |
| | **Total non-operating income and loss** | 31,430 | 1 | 48,471 | - |
| | **Income before income tax** | 457,345 | 5 | 409,508 | 6 |
| 7950 | **Income tax expense (note 6(l))** | 51,927 | 1 | 60,041 | 1 |
| | **Net income** | 405,418 | 4 | 349,467 | 5 |
| | **Other comprehensive income:** | | | | |
| 8310 | **Items that will not be reclassified subsequently to profit or loss:** | | | | |
| 8311 | Remeasurements of defined benefit plans (note 6(k)) | (87) | - | (6,688) | - |
| 8349 | Less: income tax related to items that will not be reclassified subsequently to profit or loss (note 6(l)) | 15 | - | 1,137 | - |
| | | (72) | - | (5,551) | - |
| 8360 | **Items that may be reclassified subsequently to profit or loss:** | | | | |
| 8361 | Exchange differences on translation of foreign operations (note 6 (m)) | (18,350) | - | (4,221) | - |
| 8399 | Less: income tax related to items that may be reclassified subsequently to profit or loss | - | - | - | - |
| | | (18,350) | - | (4,221) | - |
| | **Other comprehensive income for the year, net of income tax** | (18,422) | - | (9,772) | - |
| | **Total comprehensive income for the year** | **$ 386,996** | **4** | **339,695** | **5** |
| | **Earnings per share (in New Taiwan dollars) (note 6(o)) :** | | | | |
| 9750 | Basic earnings per share | **$ 4.02** | | **2.74** | |
| 9850 | Diluted earnings per share | **$ 3.97** | | **2.71** | |

See accompanying notes to consolidated financial statements.

(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)

# APACER TECHNOLOGY INC.
## Statements of Changes in Equity
## For the years ended December 31, 2017 and 2016
## (Expressed in Thousands of New Taiwan Dollars)

| | Share capital | | | Retained earnings | | | | Total other equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital collected in advance | Capital Surplus | Legal reserve | Special reserve | Unappropriated earnings | Total | Foreign currency translation differences | Unearned compensation cost arising from restricted shares of stock issued to employees | Total | Total equity |
| **Balance at January 1, 2016** | $ 1,515,437 | 550 | 489,941 | 209,904 | 11,277 | 709,673 | 930,854 | (26,750) | (33,550) | (60,300) | 2,876,482 |
| Appropriation of earnings: | | | | | | | | | | | |
| Legal reserve | - | - | - | 22,839 | - | (22,839) | - | - | - | - | - |
| Special reserve | - | - | - | - | 15,473 | (15,473) | - | - | - | - | - |
| Cash dividends distributed to shareholders | - | - | - | - | - | (190,077) | (190,077) | - | - | - | (190,077) |
| Net income in 2016 | - | - | - | - | - | 349,467 | 349,467 | - | - | - | 349,467 |
| Other comprehensive income in 2016 | - | - | - | - | - | (5,551) | (5,551) | (4,221) | - | (4,221) | (9,772) |
| Total comprehensive income in 2016 | - | - | - | - | - | 343,916 | 343,916 | (4,221) | - | (4,221) | 339,695 |
| Distribution of cash dividend from capital surplus | - | - | (113,110) | - | - | - | - | - | - | - | (113,110) |
| Changes in equity of associates accounted for using equity method | - | - | 5,872 | - | - | - | - | - | - | - | 5,872 |
| Capital reduction | (496,959) | - | - | - | - | - | - | - | - | - | (496,959) |
| Issuance of common stock from exercise of employee stock options | 500 | (550) | 50 | - | - | - | - | - | - | - | - |
| Retirement of restricted shares of stock issued to employees | (10,000) | - | (23,550) | - | - | 2,189 | 2,189 | - | 33,550 | 33,550 | 2,189 |
| **Balance at December 31, 2016** | 1,008,978 | - | 359,203 | 232,743 | 26,750 | 827,389 | 1,086,882 | (30,971) | - | (30,971) | 2,424,092 |
| Appropriation of earnings: | | | | | | | | | | | |
| Legal reserve | - | - | - | 34,947 | - | (34,947) | - | - | - | - | - |
| Special reserve | - | - | - | - | 4,221 | (4,221) | - | - | - | - | - |
| Cash dividends distributed to shareholders | - | - | - | - | - | (242,155) | (242,155) | - | - | - | (242,155) |
| Net income in 2017 | - | - | - | - | - | 405,418 | 405,418 | - | - | - | 405,418 |
| Other comprehensive income in 2017 | - | - | - | - | - | (72) | (72) | (18,350) | - | (18,350) | (18,422) |
| Total comprehensive income in 2017 | - | - | - | - | - | 405,346 | 405,346 | (18,350) | - | (18,350) | 386,996 |
| Changes in equity of associates accounted for using equity method | - | - | (978) | - | - | - | - | - | - | - | (978) |
| **Balance at December 31, 2017** | $ 1,008,978 | - | 358,225 | 267,690 | 30,971 | 951,412 | 1,250,073 | (49,321) | - | (49,321) | 2,567,955 |

Notes：For the years ended December 31, 2017 and 2016, the Company estimated its remuneration to employees amounting to $44,818 and $37,598, respectively, and the remuneration to directors and supervisors amounting to $7,130 and $6,574, respectively, recognized as cost of revenue or operating expenses in the statements of comprehensive income.

See accompanying notes to consolidated financial statements.

(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)

# APACER TECHNOLOGY INC.
## Statements of Cash Flows
## For the years ended December 31, 2017 and 2016
## (Expressed in Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| **Income before income taxes** | $ 457,345 | 409,508 |
| **Adjustments for:** | | |
| Depreciation | 34,401 | 29,137 |
| Amortization | 7,509 | 5,565 |
| Net loss (gain) on financial assets and liabilities at fair value through profit or loss | (6,650) | 4,725 |
| Interest expense | 10,367 | 645 |
| Interest income | (627) | (3,425) |
| Share of profits of subsidiaries and associates | (34,573) | (35,691) |
| Gain on disposal of property, plant and equipment | (4,999) | (192) |
| Impairment loss on non-financial assets | 6,994 | - |
| Unrealized gross profit on sales to subsidiaries and associates | 6,024 | 1,157 |
| Subtotal | 18,446 | 1,921 |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Financial assets held for trading | - | 240,000 |
| Notes and accounts receivable | (216,554) | (140,492) |
| Accounts receivable from related parties | (247,768) | (57,642) |
| Other receivables | (21,089) | (8,451) |
| Inventories | (187,374) | (587,260) |
| Other current assets | (7,117) | 3,267 |
| Net changes in operating assets | (679,902) | (550,578) |
| Changes in operating liabilities: | | |
| Financial liabilities held for trading | 4,205 | (4,109) |
| Notes and accounts payable | 238,560 | 226,713 |
| Accounts payable to related parties | (93) | 151 |
| Other payables | 38,243 | 73,200 |
| Other payables to related parties | 374 | 417 |
| Provisions | 164 | (422) |
| Other current liabilities | (7,974) | 12,838 |
| Net defined benefit liabilities | (9) | 16 |
| Net changes in operating liabilities | 273,470 | 308,804 |
| Total changes in operating assets and liabilities | (406,432) | (241,774) |
| Total adjustments | (387,986) | (239,853) |
| Cash provided by operations | 69,359 | 169,655 |
| Interest received | 627 | 3,789 |
| Interest paid | (10,262) | (566) |
| Income taxes paid | (50,657) | (57,694) |
| **Net cash provided by operating activities** | 9,067 | 115,184 |

See accompanying notes to consolidated financial statements.

(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)

**APACER TECHNOLOGY INC.**

**Statements of Cash Flows (Continued)**

**For the years ended December 31, 2017 and 2016**

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

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from investing activities:** | | |
| Purchase of financial assets carried at cost | (5,359) | - |
| Purchase of investments accounted for using equity method | - | (20,474) |
| Additions to property, plant and equipment | (47,844) | (43,947) |
| Proceeds from disposal of property, plant and equipment | 4,999 | 553 |
| Increase in refundable deposits | (95) | (775) |
| Additions to intangible assets | (11,520) | (8,816) |
| Increase in other non-current assets | (23,420) | - |
| **Net cash flows used in investing activities** | (83,239) | (73,459) |
| **Cash flows from financing activities:** | | |
| Increase in short-term borrowings | 363,240 | 30,525 |
| Increase (decrease) in guarantee deposits | (15,554) | 15,706 |
| Cash dividends distributed to shareholders | (242,155) | (190,077) |
| Capital reduction | - | (496,959) |
| Cash dividends refund from retirement of restricted shares of stock issued to employees | - | 2,189 |
| Distribution of cash dividend from capital surplus | - | (113,110) |
| **Net cash provided by (used in) financing activities** | 105,531 | (751,726) |
| **Net increase (decrease) in cash and cash equivalents** | 31,359 | (710,001) |
| **Cash and cash equivalents at beginning of year** | 356,154 | 1,066,155 |
| **Cash and cash equivalents at end of year** | $ 387,513 | 356,154 |

(Continued)

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

## 1. Organization and business

Apacer Technology Inc. (the "Company") was incorporated on April 16, 1997, as a company limited by shares under the laws of the Republic of China ("R.O.C.") and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 1F, No.32, Zhongcheng Rd., Tucheng Dist., New Taipei City, Taiwan. The Company is engaged in the research and development, design, manufacturing, processing, maintenance and sales of memory modules, flash memory cards and consumer electronic products.

## 2. Authorization of financial statements

These parent-company-only financial statements were authorized for issuance by the Board of Directors on February 23, 2018.

## 3. Application of new, revised or amended accounting standards and interpretations

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Presentation of Financial Statements－Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendments to IAS 36 " Impairment of Non-Financial assets－Recoverable Amount Disclosures for Non Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 " Financial Instruments－Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| Annual Improvements to IFRSs 2010－2012 Cycle and 2011－2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012－2014 Cycle | January 1, 2016 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Continued)

The Company assessed that the initial application of the above IFRSs did not have any material impact on its parent-company-only financial statements.

(b) The impact of IFRSs endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IAS 7 "Statement of Cash Flows－Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Income Taxes－Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| Annual Improvements to IFRS Standards 2014–2016 Cycle: | |
| Amendments to IFRS 12 | January 1, 2017 |
| Amendments to IFRS 1 and Amendments to IAS 28 | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

Except for the following items, the Company assessed that the initial application of the above IFRSs would not have any material impact on its parent-company-only financial statements. The extent and impact of changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

(Continued)

1) Classification and measurement－Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in a non-active market (and derivatives on such instruments) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Company believes that the new classification requirements will not have any material impact on its accounting for trade receivables and investments in equity securities that are managed on a fair value basis. As of December 31, 2017, the Company had equity investments classified as available-for-sale financial assets with a fair value of $12,117 and financial assets carried at cost of $5,359 that are held for long-term strategic purposes. At initial application of IFRS 9, the Company has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Company estimated the application of IFRS 9’s classification requirements on January 1, 2018 resulting in a decrease of $37,614 in other equity, as well as the increase of $50,000 in retained earnings.

2) Impairment－Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

・12-month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and

・Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

(Continued)

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Company chose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company assessed that the initial application of IFRS 9's impairment requirements would not have any material impact on its financial statements.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity as at January 1, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.

  – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The Company has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements.

1) Sales of goods

For the sale of goods, revenue is currently recognized based on the individual terms of each sales agreement when the related significant risks and rewards of ownership are transferred to the customers. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Company assessed that the point at which the significant risks and rewards of ownership transfer and customers obtain controls are similar and would not have any material impact on its financial statements.

2) Transition

The Company plans to adopt IFRS 15 in its parent-company-only financial statements using the retrospective approach. As a result, the Company will apply the requirements of IFRS 15 for the comparative period to present and adjust its financial statements. The Company plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the comparative reporting period, as well as the contracts that are completed at the beginning of the earliest period (January 1, 2017) presented, are not restated.

The Company’s assessment indicated that application of IFRS 15 would not have any material impact on the financial statements.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The actual impacts of adopting the new standards may change depending on the economic conditions and events which may occur in the future.

(Continued)

(c) The impact of IFRSs issued by IASB but not yet endorsed by the FSC

As of February 23, 2018, the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 16 "Leases" | January 1, 2019 |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |

Those which may be relevant to the Company are set out below:

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|---|---|---|
| January 13, 2016 | IFRS 16 "Leases" | The new standard of accounting for lease is amended as follows:<br>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.<br>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17. |

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

(Continued)

**4. Summary of significant accounting policies:**

The significant accounting policies presented in the parent-company-only financial statements are summarised as follows and have been applied consistently to all periods presented in these financial statements.

(a) Statement of compliance

The Company's accompanying parent-company-only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

(b) Basis of preparation

(i) Basis of measurement

The accompanying parent-company-only financial statements have been prepared on a historical cost basis except for the following items in the balance sheets:

1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
2) Available-for-sale financial assets measured at fair value; and
3) Defined benefit liabilities are recognized as the present value of the defined benefit obligation less fair value of the plan assets and the effect of the asset ceiling mentioned in note 4(p).

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The Company's parent-company-only financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period ("the reporting date") of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in a foreign currency that are measured at historical cost are not retranslated.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the presentation currency of the Company's parent-company-only financial statements at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency of the Company's parent-company-only financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

On the disposal of a foreign operation which involves a loss of control over a subsidiary or a loss of joint-control over a joint venture or a loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are entirely reclassified to profit or loss. In the case of a partial disposal that does not result in the Company losing control over a subsidiary, the proportionate share of accumulated exchange differences is reclassified to non-controlling interests. For a partial disposal of the Company's ownership interest in an associate, the proportionate share of the accumulated exchange differences in equity is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the monetary item is, in substance, a part of net investment in that foreign operation, and the related foreign exchange gains and losses thereon are recognized as other comprehensive income.

(d) Classification of current and non-current assets and liabilities

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets.

(i) It is expected to be realized, or sold or consumed in the normal operating cycle;
(ii) It is held primarily for the purpose of trading;
(iii) It is expected to be realized within twelve months after the reporting date; or
(iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

(i) It is expected to be settled in the normal operating cycle;
(ii) It is held primarily for the purpose of trading;
(iii) It is due and to be settled within twelve months after the reporting date; or
(iv) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

(Continued)

(e) Cash and cash equivalents

Cash consists of cash on hand, checking deposits, and demand deposits. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the aforesaid criteria and are held for meeting short-term cash commitments instead of helding for investing and other purposes are also classified as cash equivalents.

(f) Financial instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

(i) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Regular way purchases or sales of financial assets are recognized or derecognized on a trade-date basis.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling and repurchasing in the short term. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges.

At initial recognition, financial assets carried at fair value through profit or loss are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value (including dividend income and interest income) are recognized in profit or loss.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a non-active market. Loans and receivables comprise accounts receivable and other receivables. At initial recognition, such assets are recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less, any impairment losses. Interest income is recognized as non-operating income in profit or loss.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these assets are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on monetary financial assets, are recognized in other comprehensive

(Continued)

income and presented in "unrealized gain/loss from available-for-sale financial assets" in equity. When the financial asset is derecognized, the gain or loss previously accumulated in equity is reclassified to profit or loss.

Investments in equity instruments that do not have a quoted market price in a non-active market and whose fair value cannot be reliably measured are measured at cost less impairment loss and are reported as financial assets measured at cost.

Dividends received from equity investments are recognized as non-operating income on the date of entitlement to receive dividends (usually the ex-dividend date).

4) Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for indicators of impairment at reporting date. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been affected.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If the Company determines that no objective evidence of impairment exists for an individually assessed accounts receivables, whether significant or not, such asset is included in a group of accounts receivables with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Company's collection experience in the past, an increase in delayed payments, and national or local economic conditions that correlate with overdue receivables. The Company assesses the collectability of receivables by performing the accounts receivable aging analysis and evaluating the credit quality of its customers.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

(Continued)

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

An impairment loss in respect of a financial asset measured at cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. A subsequent reversal of the impairment loss is prohibited.

When an impairment loss is recognized for an available-for-sale asset, the cumulative gains or loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

The impairment loss and the reversal gain for accounts receivable are recognized as selling expenses, and as non-operating income and loss for financial assets other than accounts receivable.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in the non-operating income and loss of the statement of comprehensive income.

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that had been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(Continued)

(ii) Financial liabilities

1) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges.

At initial recognition, this type of financial liability is recognized at fair value, and the attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial liabilities are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss.

2) Financial liabilities measured at amortized cost

Financial liabilities not classified as held for trading or not designated as at fair value through profit or loss, which comprise short-term borrowings, notes and accounts payable, and other payables, are measured at fair value plus any directly attributable transaction cost at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Interest expense which is not capitalized as asset is recognized in profit or loss, and included in non-operating income and loss of the statement of comprehensive income.

3) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss and included in the non-operating income and loss of the statement of comprehensive income.

4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Company has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iii) Derivative financial instruments

Derivative financial instruments such as foregin currency forward contracts are held to hedge the Company' s foreign currency exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and included in non-operating income and loss. If the valuation of a derivative instrument results in a positive fair value, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(Continued)

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to the location and condition ready for sale. Fixed manufacturing overhead is allocated to finished products and work in process based on the higher of normal capacity or actual capacity; variable manufacturing overhead is allocated based on the actual capacity of machinery and equipment. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and necessary selling expenses.

(h) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint venture, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost, plus, any transaction costs. The carrying amount of the investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. When necessary, the entire carrying amount of the investment (including goodwill) will be tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized as other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate, and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes the change in ownership interests of its associate as "capital surplus" in proportion to its ownership.

Unrealized profits resulting from transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, the recognition of further losses is discontinued. Additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

When an associate issues new shares and the Company does not subscribe to the new shares in proportion to its original ownership percentage, the Company's interest in the associate's net assets will be changed. The change in the equity interest is adjusted through the capital surplus and investment accounts. If the Company's capital surplus is insufficient to offset the adjustment to investment accounts, the difference is charged as a reduction of retained earnings. If the Company's interest in an associate is reduced due to the additional subscription to the shares of associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

(Continued)

Adjustments are made to associates' financial statements to conform to the accounting polices applied by the Company.

(i) Investment in subsidiaries

When preparing the parent-company-only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using equity method. Under the equity method, the net income, other comprehensive income and equity in the parent-company-only financial statement are the same as those attributable to stockholders of the Company in the consolidated financial statements.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(j) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and any borrowing cost that is eligible for capitalization.

The gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in other gains and losses－net.

(ii) Subsequent costs

Subsequent costs are capitalized only when it is probable that future economic benefits associated with the costs will flow to the Company and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognized in profit or loss. All other repairs and maintenance are charged to expense as incurred.

(iii) Depreciation

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. Land is not depreciated. The depreciation is recognized in profit or loss.

The estimated useful lives for property, plant and equipment are as follows: buildings and improvements: 6 to 47 years; machinery and equipment: 2 to 11 years; transportation equipment: 4 years; and other equipment: 3 to 15 years.

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(Continued)

(k) Leases

(i) The Company as lessor

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as expense over the lease term on a straight-line basis.

(ii) The Company as lessee

Payments made under an operating lease (excluding insurance and maintenance expenses) are charged to expense over the lease term on a straight-line basis.

(l) Intangible assets

The Company's intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss using the straight-line method over the following estimated useful lives: acquired computer software: 2 to 7 years; royalties for the use of patents: 13 to 17 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

(m) Impairment of non-financial assets

Non-financial assets other than inventories, deferred income tax assets, and assets arising from employee benefits are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Company estimates the recoverable amount of the cash-generating units ("CGU") to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized in profit or loss immediately.

The Company assesses at each reporting date whether there is any evidence that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(n) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(i) Warranties

A provision for warranties is recognized when the underlying products or services are sold. This provision reflects the historical warranty claim rate and the weighting of all possible outcomes against their associated probabilities.

(ii) Sales return and allowance provision

A provision for sales returns and allowance is recognized when the underlying products are sold. This provision is estimated based on historical sales return and allowance data.

(o) Revenue recognition

Revenue from the sale of goods or services is measured at the fair value of consideration received or receivable, net of returns, rebates, and other similar discounts.

(i) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Company; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is not recognized for the sale of key components to an original design manufacturer for manufacture or assembly as the significant risks and rewards of the ownership of materials are not transferred.

(ii) Interest income and dividend income

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(Continued)

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

(ii) Defined benefit plans

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the term of the related pension obligation. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

When the benefits of a plan are improved, the expense related to the increased obligations resulting from the services rendered by employees in the past years are recognized in profit or loss immediately.

The remeasurements of the net defined benefit liability (asset) comprise (i) actuarial gains and losses; (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liabilities (asset) are recognized in other comprehensive income and then transferred to retained earnings.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(q) Share-based payment

Share-based payment awards granted to employees are measured at fair value at the date of grant. The fair value determined at the grant date is expensed over the period that the employees become unconditionally entitled to the awards, with a corresponding increase in equity. The compensation cost is adjusted to reflect the number of awards given to employees for which the performance and non-market conditions are expected to be met, such that the amount ultimately recognized shall be based on the number of equity instruments that eventually have vested.

(Continued)

(r) Income taxes

Income tax expenses include both current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

(i) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) Temporary differences arising from investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future; and

(iii) Temporary differences arising from initial recognition of goodwill.

Deferred tax is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(s) Earnings per share (“EPS”)

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the parent-company-only financial statements. Basic EPS is calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Company’s dilutive potential common shares are profit sharing for employees to be settled in the form of common stock.

(t) Operating segments

The Company discloses the operating segment information in the consolidated financial statements. Therefore, the Company does not disclose the operating segment information in the parent-company-only financial statements.

## 5. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the parent-company-only financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in the future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included as follows:

(a) Valuation of inventories

Inventories are measured at the lower of cost or net realizable value. The Company estimates the net realizable value of inventory, taking into account obsolescence and unmarketable items at the reporting date, and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

Refer to note 6(d) for more details of the valuation of inventories.

## 6. Significant account disclosures

(a) Cash and cash equivalents

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash on hand | $ 95 | 96 |
| Demand deposits | 362,918 | 331,558 |
| Time deposits with original maturities less than three months | 24,500 | 24,500 |
| | $ 387,513 | 356,154 |

(Continued)

(b) Financial instruments

(i) Financial assets and liabilities at fair value through profit or loss

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Financial assets at fair value through profit or loss－current: | | |
| Foreign currency forward contracts | $ 688 | 167 |
| Financial liabilities at fair value through profit or loss － current: | | |
| Foreign currency forward contracts | $ (354) | (2,278) |

Refer to note6 (r) for the detail of the changes in fair value recognized in profit or loss.

The Company entered into derivative contracts to manage foreign currency exchange risk resulting from its operating activities. As of December 31, 2017 and 2016, the derivative financial instruments that did not conform to the criteria for hedge accounting and were classified as financial assets and liabilities held for trading consisted of the following:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Contract amount (in thousands) | | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial assets－foreign currency forward contracts | JPY | 44,300 | 86 | JPY / TWD | 2018/01/25～2018/02/23 |
| | USD | 6,500 | 602 | USD / TWD | 2018/01/03～2018/02/02 |
| | | | $ 688 | | |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Contract amount (in thousands) | | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial assets－foreign currency forward contracts | JPY | 32,597 | 167 | JPY / TWD | 2017/01/25 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Contract amount (in thousands) | | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial liabilities－foreign currency forward contracts | TWD | 81,997 | (244) | TWD/ USD | 2018/01/02～2018/01/29 |
| | USD | 2,000 | (110) | USD / TWD | 2018/02/08 |
| | | | $ (354) | | |

(Continued)

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Contract amount (in thousands) | Fair value | Currency (Sell / Buy) | Maturity period |
| Financial liabilities — foreign currency forward contracts | JPY 17,000 | (77) | JPY / TWD | 2017/02/24 |
| | USD 5,500 | (2,201) | USD / TWD | 2017/01/13～2017/02/10 |
| | | $ (2,278) | | |

(ii) Available-for-sale financial assets — non-current

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Domestic unlisted stocks | $ 12,117 | 12,117 |

(iii) Financial assets carried at cost — non-current

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Domestic unlisted stocks | $ 5,359 | - |

To expand its business, the Company invested in OTO Photonics Inc. This investment should be classified as available-for-sale financial assets according to the Company's intention. However, there is a wide range of estimated fair value of the abovementioned investments and the probability for each estimate of fair value cannot be reasonably determined. The Company's management concludes that its fair value cannot be measured reliably and this investment is reported as financial assets carried at cost.

(c) Notes and accounts receivable, and other receivables

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Notes receivable | $ 1,524 | 1,616 |
| Accounts receivable | 947,214 | 731,081 |
| Less: allowance for doubtful receivables | (2,679) | (3,192) |
| | 946,059 | 729,505 |
| Accounts receivable from related parties | 395,808 | 148,040 |
| Other receivables | 76,260 | 50,073 |
| | $ 1,418,127 | 927,618 |

The allowance of doubtful receivables is assessed by referring to the aging analysis and historical payment behavior.

(Continued)

Movements of the allowance for doubtful receivables were as follows:

| | Individually assessed impairment | Collectively assessed impairment | Total |
|---|---|---|---|
| Balance at January 1, 2017 | $ 3,192 | - | 3,192 |
| Provision of impairment loss | 1,189 | - | 1,189 |
| Write-off | (1,702) | - | (1,702) |
| Balance at December 31, 2017 | **$ 2,679** | **-** | **2,679** |

| | Individually assessed impairment | Collectively assessed impairment | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $ 4,103 | - | 4,103 |
| Reversal of impairment loss | (911) | - | (911) |
| Balance at December 31, 2016 | **$ 3,192** | **-** | **3,192** |

The aging analysis of notes and accounts receivable, and other receivables that are overdue but not impaired, were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Past due 1-90 days | $ 106,974 | 126,037 |
| Past due over 365 days | - | 125 |
| | **$ 106,974** | **126,162** |

The allowance for doubtful receivables is assessed by referring to the collectability of receivables based on historical payment behavior and an analysis of specific customer credit quality and amount received in subsequent period. Notes and accounts receivable that are past due, but for which the Company has not recognized a specific allowance for doubtful receivables after the assessment, are still considered recoverable.

(d) Inventories

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Raw materials | $ 687,842 | 676,470 |
| Work in process | 86,807 | 78,299 |
| Finished goods | 598,677 | 440,233 |
| Inventories in transit | 72,291 | 63,241 |
| | **$ 1,445,617** | **1,258,243** |

(Continued)

For the years ended December 31, 2017 and 2016, the amounts of inventories recognized as cost of revenue were as follows:

| | 2017 | 2016 |
|---|---|---|
| Cost of inventories sold | $ 8,683,225 | 5,653,377 |
| Write-down of inventories | 127,500 | 18,000 |
| | $ 8,810,725 | 5,671,377 |

The above write-downs of inventories to net realizable value were included in cost of revenue.

(e) Investments accounted for using equity method

A summary of the Company' s investments accounted for using the equity method at the reporting date consisted of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Subsidiaries | $ 261,525 | 248,158 |
| Associates | 1,721 | 5,867 |
| | $ 263,246 | 254,025 |

(i) Investments in subsidiaries

Please refer to the consolidated financial statements for the year ended December 31, 2017.

(ii) Investments in associates

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| Name of Associates | Percentage of voting rights | Carrying amount | Percentage of voting rights | Carrying amount |
| JoiiUp Technology Inc. | 17.78% | $ 1,721 | 16.42% | 5,867 |

Aggregate financial information of associates that were not individually material was summarized as follows. The financial information was included in the Company' s parent-company-only financial statements.

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| The aggregate carrying amount of associates that were not individually material | $ 1,721 | 5,867 |

| | 2017 | 2016 |
|---|---|---|
| Attributable to the Company: | | |
| Net loss | $ (3,168) | (6,137) |
| Other comprehensive income | - | - |
| Total comprehensive income | $ (3,168) | (6,137) |

(Continued)

(f) Property, plant and equipment

The movements of cost, accumulated depreciation and impairment loss of the property, plant and equipment for the years ended December 31, 2017 and 2016 were as follows:

| | Land | Buildings | Machinery and equipment | Transportation equipment | Other equipment | Equipment to be inspected and construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| Balance at January 1, 2017 | $ 556,498 | 274,407 | 165,623 | 1,500 | 82,145 | 8,029 | 1,088,202 |
| Additions | - | 1,429 | 10,825 | - | 3,081 | 32,509 | 47,844 |
| Disposals | - | - | (30,197) | (1,500) | - | - | (31,697) |
| Reclassification | - | - | 29,824 | - | 594 | (39,697) | (9,279) |
| Balance at December 31, 2017 | $ 556,498 | 275,836 | 176,075 | - | 85,820 | 841 | 1,095,070 |
| Balance at January 1, 2016 | $ 556,498 | 273,238 | 159,565 | 1,500 | 69,332 | 1,317 | 1,061,450 |
| Additions | - | 1,169 | 23,253 | - | 12,813 | 6,712 | 43,947 |
| Disposals | - | - | (17,195) | - | - | - | (17,195) |
| Balance at December 31, 2016 | $ 556,498 | 274,407 | 165,623 | 1,500 | 82,145 | 8,029 | 1,088,202 |
| Accumulated depreciation and impairment loss: | | | | | | | |
| Balance at January 1, 2017 | $ - | 20,669 | 120,537 | 1,500 | 46,065 | - | 188,771 |
| Depreciation | - | 6,822 | 16,845 | - | 10,734 | - | 34,401 |
| Disposals | - | - | (30,197) | (1,500) | - | - | (31,697) |
| Impairment loss | - | - | 6,994 | - | - | - | 6,994 |
| Balance at December 31, 2017 | $ - | 27,491 | 114,179 | - | 56,799 | - | 198,469 |
| Balance at January 1, 2016 | $ - | 14,014 | 125,293 | 1,500 | 35,661 | - | 176,468 |
| Depreciation | - | 6,655 | 12,078 | - | 10,404 | - | 29,137 |
| Disposals | - | - | (16,834) | - | - | - | (16,834) |
| Balance at December 31, 2016 | $ - | 20,669 | 120,537 | 1,500 | 46,065 | - | 188,771 |
| Carrying amount: | | | | | | | |
| Balance at December 31, 2017 | $ 556,498 | 248,345 | 61,896 | - | 29,021 | 841 | 896,601 |
| Balance at December 31, 2016 | $ 556,498 | 253,738 | 45,086 | - | 36,080 | 8,029 | 899,431 |

In 2017, the Company recognized an impairment loss on property, plant and equipment of $6,994, which was included in non-operating income and loss.

(g) Intangible assets

The movements of costs, accumulated amortization and impairment loss of intangible assets for the years ended December 31, 2017 and 2016 were as follows:

| | Computer software | Royalties for the use of patents | Total |
|---|---|---|---|
| Costs: | | | |
| Balance at January 1, 2017 | $ 31,228 | 763 | 31,991 |
| Additions | 8,179 | 3,341 | 11,520 |
| Reclassification | 9,279 | - | 9,279 |
| Derecognition | (555) | - | (555) |
| Balance at December 31, 2017 | $ 48,131 | 4,104 | 52,235 |
| Balance at January 1, 2016 | $ 22,412 | 763 | 23,175 |
| Additions | 8,816 | - | 8,816 |
| Balance at December 31, 2016 | $ 31,228 | 763 | 31,991 |

(Continued)

| | | Computer software | Royalties for the use of patents | Total |
|---|---|---|---|---|
| Accumulated amortization and impairment loss: | | | | |
| Balance at January 1, 2017 | $ | 20,737 | 386 | 21,123 |
| Amortization | | 7,399 | 110 | 7,509 |
| Derecognition | | (555) | - | (555) |
| Balance at December 31, 2017 | $ | 27,581 | 496 | 28,077 |
| Balance at January 1, 2016 | $ | 15,227 | 331 | 15,558 |
| Amortization | | 5,510 | 55 | 5,565 |
| Balance at December 31, 2016 | $ | 20,737 | 386 | 21,123 |
| Carrying amount: | | | | |
| Balance at December 31, 2017 | $ | 20,550 | 3,608 | 24,158 |
| Balance at December 31, 2016 | $ | 10,491 | 377 | 10,868 |

The amortization of intangible assets is included in the following line items of the statement of comprehensive income:

| | | 2017 | 2016 |
|---|---|---|---|
| Cost of revenue | $ | 714 | 251 |
| Operating expenses | $ | 6,795 | 5,314 |

(h) Short-term borrowings

The details of short-term borrowings were as follows:

| | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Unsecured bank loans | $ | 492,240 | 129,000 |
| Unused credit facilities | $ | 1,778,440 | 2,236,500 |
| Interest rate interval | | 1.13%~2.64% | 1.88%~2.02% |

(i) Provisions

| | | Warranties | Sales returns and allowances | Total |
|---|---|---|---|---|
| Balance at January 1, 2017 | $ | 12,394 | 3,137 | 15,531 |
| Provisions made | | 1,353 | 2,593 | 3,946 |
| Amount utilized | | (3,782) | - | (3,782) |
| Balance at December 31, 2017 | $ | 9,965 | 5,730 | 15,695 |
| Balance at January 1, 2016 | $ | 13,455 | 2,498 | 15,953 |
| Provisions made | | 3,073 | 639 | 3,712 |
| Amount utilized | | (4,134) | - | (4,134) |
| Balance at December 31, 2016 | $ | 12,394 | 3,137 | 15,531 |

(Continued)

(i) Warranties

The provision for warranties is made based on the number of units sold currently under warranty, historical rates of warranty claim on those units, and cost per claim to satisfy the warranty obligation. The Company reviews the estimation basis on an ongoing basis and revises it when appropriate.

(ii) Sales returns and allowances

Expected sales returns and allowances are estimated based on historical experience.

(j) Operating lease

(i) Lessee

Future minimum lease payments under operating leases are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Within 1 year | $ 10,524 | 4,075 |
| 1 to 5 years | 10,306 | 6,316 |
| | $ 20,830 | 10,391 |

The Company leases its offices and vehicles under operating leases. The leases typically run for a period of 1 to 3 years. Lease payments are paid based on the terms of the lease contracts.

In 2017 and 2016, the rental expense of operating leases, amounted to \$11,993 and \$8,256, respectively, were recognized in cost of revenue and operating expenses.

(ii) Lessor

The Company leased its offices to others under operating leases. In 2017 and 2016, the rental income both amounted to \$4,208.

(k) Employee benefits

(i) Defined benefit plans

The reconciliations between the present value of defined benefit obligations and the net defined benefit liabilities for defined benefit plans were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Present value of defined benefit obligations | $ 56,350 | 55,758 |
| Fair value of plan assets | (33,991) | (33,477) |
| | 22,359 | 22,281 |
| Effects of the asset ceiling | - | - |
| Net defined benefit liabilities | $ 22,359 | 22,281 |

(Continued)

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pension benefits for its employees upon retirement. The Company also established pension funds in accordance with the Regulations Governing the Management, Investment, and Distribution of the Employees' Retirement Fund Established by a Profit-seeking Enterprise, which are deposited monthly in the designated financial institutions. The plans entitle a retired employee to receive a payment based on years of service and average salary for the six months prior to the employee's retirement.

1) Composition of plan assets

In accordance with the requirements of the Labor Standards Law, the Company's pension fund account at Bank of Taiwan is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Funds). According to the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, minimum earnings shall be no less than the earnings attainable from two-year time deposits, with interest rates offered by local banks.

As of December 31, 2017 and 2016, the Company's labor pension fund account balance at Bank of Taiwan amounted to $33,991 and $33,477, respectively. Please refer to the website of the Bureau of Labor Funds for information on the labor pension fund assets including the asset portfolio and yield of the fund.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations of the Company were as follows:

| | 2017 | 2016 |
|---|---|---|
| Defined benefit obligations at January 1 | $ 55,758 | 50,672 |
| Current service costs and interest expense | 767 | 1,033 |
| Remeasurement on the net defined benefit liabilities (assets): | | |
| —Actuarial loss arising from changes in financial assumptions | (2,408) | 4,711 |
| —Actuarial loss arising from experience adjustments | 2,361 | 1,621 |
| Benefits paid by the plan | (128) | (2,279) |
| Defined benefit obligations at December 31 | **$ 56,350** | **55,758** |

(Continued)

3) Movements of fair value of plan assets

The movements of the fair value of plan assets of the Company were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Fair value of plan assets at January 1 | $ | 33,477 | 35,095 |
| Interest income | | 463 | 660 |
| Remeasurement on the net defined benefit liabilities (assets) | | | |
| －Return on plan assets (excluding current interest expense) | | (134) | (356) |
| Contributions by the employer | | 313 | 357 |
| Benefits paid by the plan | | (128) | (2,279) |
| Fair value of plan assets at December 31 | **$** | **33,991** | **33,477** |

4) Changes in the effect of the asset ceiling

There was no effect of the asset ceiling.

5) Expenses recognized in profit or loss

The expenses recognized in profit or loss were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Current service costs | $ | - | 83 |
| Net interest expense on the net defined benefit liability | | 304 | 290 |
| | **$** | **304** | **373** |
| Cost of revenue | $ | 99 | 125 |
| Selling expenses | | 106 | 111 |
| Administrative expenses | | 61 | 90 |
| Research and development expenses | | 38 | 47 |
| | **$** | **304** | **373** |

6) Remeasurement of the net defined benefit liabilities recognized in other comprehensive income

The remeasurement of the net defined benefit liabilities recognized in other comprehensive income were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Cumulative amount at January 1 | $ | 24,050 | 17,362 |
| Recognized during the period | | 87 | 6,688 |
| Cumulative amount at December 31 | **$** | **24,137** | **24,050** |

(Continued)

7) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Discount rate | 1.625% | 1.375% |
| Future salary increases rate | 3.000% | 3.000% |

The Company expects to make contribution of $306 to the defined benefit plans in the year following December 31, 2017.

The weighted average duration of the defined benefit plans is 18.25 years.

8) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions for each measurement date, including discount rates, employee turnover rates and future salary changes. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

The following table summarizes the impact of a change in the assumptions on the present value of the defined benefit obligation on December 31, 2017 and 2016.

| | Increase (decrease) in present value of defined benefit obligations | |
|---|---|---|
| | 0.25% Increase | 0.25% Decrease |
| December 31, 2017 | | |
| Discount rate | (2,301) | 2,435 |
| Future salary change | 2,346 | (2,249) |
| December 31, 2016 | | |
| Discount rate | (2,416) | 2,544 |
| Future salary change | 2,468 | (2,358) |

Each sensitivity analysis considers the change in one assumption at a time, leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets.

In 2017, the method and assumptions used to carry out the sensitivity analysis was the same as in the prior year.

(Continued)

(ii) Defined contribution plans

The Company contributes monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company has no legal or constructive obligation to pay additional amounts after contributing a fixed amount to the Bureau of the Labor Insurance.

For the years ended December 31, 2017 and 2016, the Company recognized pension expenses of $15,738 and $14,785, respectively, in relation to the defined contribution plans.

(l) Income taxes

(i) The components of income tax expense were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Current income tax expense | | | |
| Current period | $ | 98,183 | 63,088 |
| Adjustments for prior years | | (23,165) | 3,994 |
| | | 75,018 | 67,082 |
| Deferred income tax benefit | | | |
| Origination and reversal of temporary differences | | (23,091) | (7,041) |
| Income tax expense | $ | 51,927 | 60,041 |

The components of income tax benefit recognized in other comprehensive income were as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit plans | $ | 15 | 1,137 |

Reconciliation of income tax expense and income before income tax was as follows:

| | | 2017 | 2016 |
|---|---|---|---|
| Income before income tax | $ | 457,345 | 409,508 |
| Income tax using the Company's statutory tax rate | $ | 77,749 | 69,616 |
| Tax-exempt income | | - | (1,757) |
| Investment tax credits | | (3,000) | (3,000) |
| Changes in unrecognized temporary differences | | (3,296) | (6,394) |
| Prior-year adjustments | | (23,165) | 3,994 |
| 10% surtax on undistributed earnings | | 6,814 | - |
| Others | | (3,175) | (2,418) |
| | $ | 51,927 | 60,041 |

(Continued)

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets and liabilities

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Unrecognized deferred income tax assets: | | |
| Aggregate deductible temporary differences associated with investments in subsidiaries | $ 21,206 | 23,319 |
| Deductible temporary differences | 669 | 669 |
| | $ 21,875 | 23,988 |

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Unrecognized deferred income tax liabilities: | | |
| Aggregate taxable temporary differences associated with investments in subsidiaries | $ 37,564 | 36,381 |

As the Company is able to control the timing of the reversal of the temporary differences associated with investments in its subsidiaries as of December 31, 2017 and 2016, and Management believes that it is probable that the temporary differences will not reverse in the foreseeable future, such temporary differences are not recognized as deferred income tax assets and liabilities.

2) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities were as follows:

Deferred income tax assets:

| | Defined benefit plans | Provision for inventory obsolescence | Warranty provision | Unrealized impairment loss on financial assets | Others | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | $ 4,898 | 18,167 | 2,107 | 8,500 | 8,898 | 42,570 |
| Recognized in profit or loss | - | 21,675 | (413) | - | 2,250 | 23,512 |
| Recognized in other comprehensive income | 15 | - | - | - | - | 15 |
| **Balance at December 31, 2017** | $ 4,913 | 39,842 | 1,694 | 8,500 | 11,148 | 66,097 |
| **Balance at January 1, 2016** | $ 3,758 | 15,107 | 2,287 | 8,500 | 4,661 | 34,313 |
| Recognized in profit or loss | 3 | 3,060 | (180) | - | 4,237 | 7,120 |
| Recognized in other comprehensive income | 1,137 | - | - | - | - | 1,137 |
| **Balance at December 31, 2016** | $ 4,898 | 18,167 | 2,107 | 8,500 | 8,898 | 42,570 |

(Continued)

Deferred income tax liabilities:

| | | Others |
|---|---|---|
| **Balance at January 1, 2017** | $ | 446 |
| Recognized in profit or loss | | 421 |
| **Balance at December 31, 2017** | **$** | **867** |
| **Balance at January 1, 2016** | $ | 367 |
| Recognized in profit or loss | | 79 |
| **Balance at December 31, 2016** | **$** | **446** |

(iii) The Company' s income tax returns for the years through 2015 have been examined and approved by the R.O.C. income tax authorities.

(iv) Information about the imputation income tax system:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Unappropriated earnings earned commencing from January 1, 1998 | $ 951,412 | 827,389 |
| Balance of imputation credit account | $ 141,209 | 155,009 |
| | **2017 (estimated)** | **2016 (actual)** |
| Creditable ratio for distribution of earnings to R.O.C. residents | 21.63 % | 22.91 % |

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

According to the amendments to the Income Tax Act enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation income tax system. The abovementioned estimated creditable ratio for 2017 is for reference only.

(m) Capital and other equity

(i) Common stock

As of December 31, 2017 and 2016, the Company' s authorized shares of common stock consisted of 200,000 thousand shares, of which 100,898 thousand shares were issued and outstanding. The par value of the Company' s common stock is $10 (dollars) per share. The Company has reserved 15,000 thousand shares for the exercise of employee stock options.

(Continued)

The movements in outstanding shares of common stock were as follows (in thousands of shares):

| | Shares of Common Stock | |
|---|---|---|
| | **2017** | **2016** |
| Balance at January 1 | 100,898 | 151,544 |
| Issuance of common stock from exercise of employee stock options | - | 50 |
| Capital reduction | - | (49,696) |
| Retirement of restricted shares of stock issued to employees | - | (1,000) |
| Balance at December 31, 2017 | **100,898** | **100,898** |

1) As at January 1, 2016, the proceeds of $550 from the exercise of employee stock options was recorded as capital collected in advance. Thereafter, the related registration process has been completed and the capital collected in advance has been transferred to common stock and capital surplus.

2) In order to enrich the necessary working capital in response to develop long-term operations, the Company’s temporary shareholders’ meeting held on December 29, 2014 resolved to raise capital through private placement. The effective date of the capital increase was January 21, 2015, and the issuance of common stock has been registered with the government authorities on January 28, 2015. Details are summarized below:

   a) Shares issued: 15,000 thousand shares of common stock

   b) Issue price: $25.38 (dollars) per share

   c) Total proceeds received by the Company: $380,700

   d) Investor of the private placement: Phison Electronics Corporation

   e) Rights and obligations: All the rights and obligations of shares of common stock through the private placement (the “Private Placement Shares”) shall be the same as those of shares of common stock issued and outstanding. However, except for selling to specific investors defined in Article 43-8 of the Securities and Exchange Act, the Private Placement Shares cannot be resold during a three-year period from delivery date. After three years from delivery date, according to the Securities and Exchange Act, and Directions for Public Companies Conducting Private Placements of Securities, the Company shall obtain a letter issued by Taiwan Stock Exchange Corporation (“TWSE”) acknowledging that the Private Placement Shares have met the standards for TWSE listing before it may file with FSC for retroactive handling of public issuance procedures. Thereafter, the Company can apply for listing in TWSE of Private Placement Shares.

   f) Others: The Company recognized capital surplus of $230,700, resulting from the issuance price of Private Placement Shares in excess of common stock’s par value.

(Continued)

3) In 2016, the Company recalled 1,000 thousand shares of restricted stock and the related distributed cash dividends amounting to $2,189 due to failure in meeting certain vesting conditions. On April 21, 2016, the Board of Directors approved a resolution to retire these recalled shares of restricted stock whose effective date was on the same day. The related registration process has been completed.

4) The Company resolved the capital reduction of $496,959, representing 49,696 thousand shares of outstanding shares, as approved by the Board of Directors on April 21, 2016 and the stockholders' meeting on June 3, 2016, respectively. On July 12, 2016, FSC had already approved the application of the Company for the abovemetioned capital reduction. Based on the resolution approved by stockholders, the chairman of the Company set the effective date of the capital reduction on July 15, 2016. The related registration process has been completed on July 29, 2016.

(ii) Capital surplus

| | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Paid-in capital in excess of par value | $ | 331,707 | 331,707 |
| Employee stock options | | 12,901 | 12,901 |
| Treasury stock transactions | | 3,781 | 3,781 |
| Changes in equity of associates accounted for using equity method | | 9,836 | 10,814 |
| | $ | 358,225 | 359,203 |

Pursuant to the Company Act, any realized capital surplus is initially used to cover an accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed as cash dividends based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations from stockholders received by the Company. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

Base on the Company's stockholders' meeting held on June 3, 2016, the Company approved to distribute cash dividend from capital surplus of $113,110.

(iii) Retained earnings

1) Legal reserve

According to the Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve to its shareholders by issuing new shares or by distributing cash for the portion in excess of 25% of the paid-in capital.

(Continued)

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods. Also, in accordance with Ruling No. 1010051600 issued by FSC, the Company does not have to set aside any amount as special reserve for unearned compensation cost arising from restricted shares of stock issued to employees.

3) Earnings distribution

The Company's Articles of Incorporation stipulate that at least 10% of annual net income, after deducting accumulated deficit, if any, must be retained as legal reserve until such retention equals the amount of paid in capital. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance, together with the unappropriated earnings from the previous years, after retaining a certain portion of it for business considerations, can be distributed as dividends to stockholders. Except for the distribution of capital surplus and legal reserve in accordance with applicable laws and regulations, the Company cannot distribute any earnings when there are no retained earnings.

Since the Company operates in an industry experiencing rapid change and development, earnings are distributed in consideration of the current year's earnings, the overall economic environment, related laws and decrees, as well as the Company's long term development and stability in its financial position. The Company has adopted a balance dividend policy, in which a cash dividend comprises at least 10% of the total dividend distribution.

The appropriation of 2016 and 2015 earnings were approved by the stockholders at the meetings on May 26, 2017 and June 3, 2016, respectively. The resolved appropriation of the dividend per share were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Dividends per share (in dollars)** | **Amount** | **Dividends per share (in dollars)** | **Amount** |
| Dividends per share: | | | | |
| Cash dividends | $ 2.40 | 242,155 | 1.25 | 190,077 |

(Continued)

(iv) Other equity items (net after tax)

1) Foreign currency translation differences:

| | | 2017 | 2016 |
|---|---|---|---|
| Balance at January 1 | $ | (30,971) | (26,750) |
| Foreign exchange differences arising from translation of foreign operations | | (18,350) | (4,221) |
| Balance at December 31 | **$** | **(49,321)** | **(30,971)** |

2) Unearned compensation cost arising from restricted shares of stock issued to employees:

| | | 2017 | 2016 |
|---|---|---|---|
| Balance at January 1 | $ | - | (33,550) |
| Unearned compensation cost arising from restricted shares of stock issued to employees | | - | 33,550 |
| Balance at December 31 | **$** | **-** | **-** |

(n) Share-based payment

(i) The Company had the following restricted shares of stock issued to employees:

| | Restricted shares of stock issued to employees |
|---|---|
| Grant date | 2014.08.29 |
| Number of shares granted (thousand shares) | 1,000 |
| Contract term | 2 years |
| Vesting conditions | (Note 2) |
| Qualified employees | (Note 1) |

Note 1: full-time employees who conformed to certain requirements

Note 2: the employees who were granted restricted stock are entitled to purchase the shares of restricted stock at the exercise price of $0, with the condition that the employees will continue to provide service to the Company for at least 2 years subsequent to the grant date. The restricted shares of stock will be vested based on 2-year achievement situation of the Company's and individual employee's performance conditions. The restricted stock received by the employees shall be deposited and held in an escrow account and, except for inheritance, could not be sold, pledged, transferred, gifted, or disposed of in any other forms during the vesting period; nevertheless, the rights of a shareholder, such as attendance, proposal, speaking, voting and election at the shareholders' meeting, are the same as the rights of the Company's shareholders but are executed by the custodian. The Company will take back the restricted stock from employees and retire those shares when the vesting conditions cannot be met.

The movements in number of restricted shares of stock issued (in thousands) were as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance at January 1 | - | 1,000 |
| Forfeited during the period | - | (1,000) |
| Balance at December 31 | - | - |

(o) Earnings per share (“EPS”)

(i) Basic earnings per share

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to shareholders of the Company | $ 405,418 | 349,467 |
| Weighted-average number of ordinary shares outstanding (in thousands) | 100,898 | 127,510 |
| Basic earnings per share (in dollars) | $ 4.02 | 2.74 |

(ii) Diluted earnings per share

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to shareholders of the Company | $ 405,418 | 349,467 |
| Weighted-average number of ordinary shares outstanding (in thousands) | 100,898 | 127,510 |
| Effect of dilutive potential common stock: | | |
| Remuneration to employees | 1,321 | 1,441 |
| Weighted-average number of ordinary shares outstanding (including effect of dilutive potential common stock) | 102,219 | 128,951 |
| Diluted earnings per share (in dollars) | $ 3.97 | 2.71 |

(p) Revenue

| | 2017 | 2016 |
|---|---|---|
| Revenue from sale of goods | $ 9,844,821 | 6,567,983 |

(q) Remuneration to employees, and directors and supervisors

The Company’s article of incorporation requires that earnings shall first to be offset against any deficit, then, a minimum of 4% will be distributed as remuneration to employees and no more than 1.4% to directors and supervisors. Employees who are entitled to receive the abovementioned employee remuneration, in shares or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

(Continued)

For the years ended December 31, 2017 and 2016, the Company estimated its remuneration to employees amounting to $44,818 and $37,598, respectively, and the remuneration to directors and supervisors amounting to $7,130 and $6,574, respectively. The abovementioned estimated amounts are calculated based on the net profits before tax of each period (excluding the remuneration to employees, and directors and supervisors), multiplied by a certain percentage of the remuneration to employees, and directors and supervisors. The estimations are recognized as cost of revenue or operating expenses. If the actual amounts differ from the estimated amounts, the differences shall be accounted as changes in accounting estimates and recognized as profit or loss in following year. The abovementioned estimated remuneration to employees, and directors and supervisors is the same as the amount approved by the Board of Directors and will be paid in cash. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(r) Non-operating income and loss

(i) Other income

| | 2017 | 2016 |
|---|---|---|
| Interest income from bank deposits | $ 627 | 3,425 |
| Rental income | 4,208 | 4,208 |
| | $ 4,835 | 7,633 |

(ii) Other gains and losses－net

| | 2017 | 2016 |
|---|---|---|
| Foreign currency exchange gain (loss) | $ (13,471) | 5,102 |
| Gains on disposal of property, plant and equipment | 4,999 | 192 |
| Gain (loss) on financial assets and liabilities at fair value through profit or loss | 6,650 | (4,725) |
| Impairment loss on non-financial assets | (6,994) | - |
| Gain on reversal of accrued expenses | 6,000 | - |
| Others | 5,205 | 5,223 |
| | $ 2,389 | 5,792 |

(iii) Finance costs

| | 2017 | 2016 |
|---|---|---|
| Interest expense from bank loans | $ 10,367 | 645 |

(Continued)

(s) Financial instruments

(i) Categories of financial instruments

1) Financial assets

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Financial assets at fair value through profit or loss: | | |
| Held-for-trading | $ 688 | 167 |
| Available-for-sale financial assets: | | |
| Financial assets at fair value | 12,117 | 12,117 |
| Financial assets carried at cost | 5,359 | - |
| Loans and receivables: | | |
| Cash and cash equivalents | 387,513 | 356,154 |
| Notes and accounts receivable (including related parties) | 1,341,867 | 877,545 |
| Other receivables | 76,260 | 50,073 |
| Other financial assets－non-current | 3,308 | 3,213 |
| Subtotal | 1,808,948 | 1,286,985 |
| Total | **$ 1,827,112** | **1,299,269** |

2) Financial liabilities

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Financial liabilities at fair value through profit or loss: | | |
| Held-for-trading | $ 354 | 2,278 |
| Financial liabilities measured at amortized cost: | | |
| Short-term borrowings | 492,240 | 129,000 |
| Notes and accounts payable (including related parties) | 1,089,733 | 851,266 |
| Other payables (including related parties) | 105,006 | 117,278 |
| Guarantee deposits | 1,339 | 16,893 |
| Subtotal | 1,688,318 | 1,114,437 |
| Total | **$ 1,688,672** | **1,116,715** |

(Continued)

(ii) Fair value information

1) Financial instruments not measured at fair value

The Company considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

2) Financial instruments measured at fair value

The fair value of financial assets and liabilities at fair value through profit and loss and available-for-sale financial assets are measured on a recurring basis.

The table below analyzes financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

| | **December 31, 2017** | | | | |
|---|---|---|---|---|---|
| | | **Fair Value** | | | |
| | **Carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 688 | - | 688 | - | 688 |
| Available-for-sale financial assets－non-current: | | | | | |
| Unlisted stocks | $ 12,117 | - | - | 12,117 | 12,117 |
| Financial liabilities at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 354 | - | 354 | - | 354 |

(Continued)

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 167 | - | 167 | - | 167 |
| Available-for-sale financial assets－non-current: | | | | | |
| Unlisted stocks | $ 12,117 | - | - | 12,117 | 12,117 |
| Financial liabilities at fair value through profit or loss－current: | | | | | |
| Foreign currency forward contracts | $ 2,278 | - | 2,278 | - | 2,278 |

(iii) Valuation techniques used in fair value measurement

1) Non-derivative financial instruments

The fair value of financial instruments traded in active liquid markets is determined with reference to quoted market prices.

Except for the abovementioned financial instruments traded in an active market, the fair value of other financial instruments are based on the valuation techniques or the quotation from counterparty. The fair value using valuation techniques refers to the current fair value of other financial instruments with similar conditions and characteristics, or using a discounted cash flow method, or other valuation techniques which include model calculating with observable market data at the reporting date.

The fair value of the unlisted stock held by the Company is estimated by using the market approach and is determined by reference to valuations of similar companies, net worth and recent operating activities. The significant unobservable inputs is primarily the liquidity discounts. No quantitative information is disclosed due to that the possible changes in liquidity discounts would not cause significant potential financial impact.

2) Derivative financial instruments

The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and that are readily available to the Company. The fair value of foreign currency forward contracts is computed individually by each contract using the valuation technique.

(iv) Transfers between levels of the fair value hierarchy

There were no transfers among fair value hierarchies for the years ended December 31, 2017 and 2016.

(Continued)

(v) Movement in financial assets included in Level 3 of fair value hierarchy (available-for-sale financial assets):

| | 2017 | 2016 |
|---|---|---|
| Balance at December 31, 2017 (Same as January 1, 2017) | $ 12,117 | 12,117 |

(t) Financial risk management

The Company is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Company has disclosed the information on exposure to the aforementioned risks and the Company's policies and procedures to measure and manage those risks as well as the quantitative information below.

The Company's management monitors and reviews financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's Board of Directors.

The Company's Board of Directors is responsible for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's operations.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, derivative instruments, receivables from customers, and other receivables. The Company maintains cash and enters into derivative transactions with various reputable financial institutions; therefore, the exposure related to potential default by those counter-parties is not considered significant.

As of December 31, 2017 and 2016, the Company has insured credit insurance that cover accounts receivable amounting to $201,252 and $177,504, respectively. In consideration of the recoverable amounts under credit insurance, as of December 31, 2017 and 2016, the Company's maximum exposure to credit risk amounted to $1,645,985 and $1,139,515, respectively.

In order to reduce credit risk of accounts receivable, the Company has established a credit policy under which each customer is analyzed individually for creditworthiness for the purpose of setting the credit limit. Additionally, the Company continuously evaluates the credit quality of its customers and utilizes its insurance to minimize the credit risk.

The Company believes that there is no significant concentration of credit risk due to the Company's large number of customers and their wide geographical spread.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in settling its financial liabilities by delivering cash or other financial assets. The Company manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of the loan agreements. As of December 31, 2017 and 2016, the Company had unused credit facilities of $1,778,440 and $2,236,500, respectively.

The table below summarizes the maturity profile of the Company' s financial liabilities based on contractual undiscounted payments.

| | | Carrying amount | Contractual cash flows | Within 1 year | More than 1 year |
|---|---|---|---|---|---|
| **December 31, 2017** | | | | | |
| Non-derivative financial liabilities: | | | | | |
| Short-term borrowings | $ | 492,240 | (493,312) | (493,312) | - |
| Notes and accounts payable (including related parties) | | 1,089,733 | (1,089,733) | (1,089,733) | - |
| Other payables (including related parties) | | 105,006 | (105,006) | (105,006) | - |
| Guarantee deposits | | 1,339 | (1,339) | - | (1,339) |
| Derivative financial instruments: | | | | | |
| Foreign currency forward contracts: | | | | | |
| Inflow | | - | 141,107 | 141,107 | - |
| Outflow | | 354 | (141,461) | (141,461) | - |
| **December 31, 2016** | | | | | |
| Non-derivative financial liabilities: | | | | | |
| Short-term borrowings | $ | 129,000 | (129,320) | (129,320) | - |
| Notes and accounts payable (including related parties) | | 851,266 | (851,266) | (851,266) | - |
| Other payables (including related parties) | | 117,278 | (117,278) | (117,278) | - |
| Guarantee deposits | | 16,893 | (16,893) | - | (16,893) |
| Derivative financial instruments: | | | | | |
| Foreign currency forward contracts: | | | | | |
| Inflow | | - | 179,822 | 179,822 | - |
| Outflow | | 2,278 | (182,100) | (182,100) | - |

The Company does not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Company' s income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(Continued)

The Company utilizes derivative financial instruments to manage market risk. All such transactions are carried out within the guidelines set by the Company's Board of Directors.

1) Foreign currency risk

The Company utilizes foreign currency forward contracts to hedge its foreign currency exposure with respect to its sales and purchases. The maturity dates of derivative financial instruments the Company entered into were less than six months and did not conform to the criteria for hedge accounting. These financial instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

The Company's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable, notes and accounts payable, other receivables, other payables, and loans and borrowings that are denominated in a currency other than the functional currency of the Company. At the reporting date, the carrying amounts of the Company's significant monetary assets and liabilities denominated in a currency other than the functional currency of the Company and their respective sensitivity analysis were as follows:

(Amounts in Thousands of New Taiwan Dollars)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | Foreign currency (in thousands) | Exchange rate | TWD (in thousands) | Change in magnitude | Pre-tax effect on profit or loss (in thousands) |
| Financial assets | | | | | | |
| USD | $ | 46,499 | 29.760 | 1,383,810 | 1% | 13,838 |
| Financial liabilities | | | | | | |
| USD | | 41,549 | 29.760 | 1,236,498 | 1% | 12,365 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | Foreign currency (in thousands) | Exchange rate | TWD (in thousands) | Change in magnitude | Pre-tax effect on profit or loss (in thousands) |
| Financial assets | | | | | | |
| USD | $ | 28,555 | 32.250 | 920,899 | 1% | 9,209 |
| Financial liabilities | | | | | | |
| USD | | 23,548 | 32.250 | 759,423 | 1% | 7,594 |

As the Company deal in diverse foreign currencies, gains and losses on foreign exchange were summarized as a single amount. The aggregate of realized and unrealized foreign exchange gain (loss) for the years ended December 31, 2017 and 2016 were $(13,471) and $5,102, respectively.

(Continued)

2) Interest rate risk

The Company's bank loans carried floating interest rates. To manage the interest rate risk, the Company periodically assesses the interest rates of bank loans and maintains good relationships with financial institutions to obtain lower financing costs. The Company also strengthens the management of working capital to reduce the dependence on bank loans, as well as the risk arising from fluctuation of interest rates.

If interest rates had been 100 basis points (1%) higher/lower, with all other variables held constant, pre-tax income for the years ended December 31, 2017 and 2016 would have been $4,922 and $1,290, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

3) Other market price risk

The Company has long-term investments in unlisted stocks, which the Company does not actively participate in trading. The Company anticipates that there is no significant market risk related to the investments.

(u) Capital management

In consideration of the industry dynamics and future developments, as well as external environment factors, the Company maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development expenses, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders. The Company monitors its capital through reviewing the liability-to-equity ratio periodically.

The Company's liability-to-equity ratio at the end of each reporting period was as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Total liabilities | $ 1,987,032 | 1,341,933 |
| Total equity | $ 2,567,955 | 2,424,092 |
| Liability-to-equity ratio | 77.38% | 55.36% |

In 2017, the Company increased its bank loans to fund its working capital needs due to the growth of revenue. It also resulted in the increasing of liability-to-equity ratio.

## 7. Related-party transactions:

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Company and subsidiaries.

(Continued)

(b) Name and relationship with related parties

The following are the entities that have had transactions with the Company during the periods covered in the parent-company-only financial statements and the Company' s subsidiaries.

| Name of related parties | Relationship with the Company |
|---|---|
| Apacer Memory America Inc. (AMA) | The Company's subsidiary |
| Apacer Technology B.V. (AMH) | The Company's subsidiary |
| Kingdom Corp. Limited (AMK) | The Company's subsidiary |
| Apacer Technology Japan Corp. (AMJ) | The Company's subsidiary |
| Apacer Technologies Private Limited (ATPL) | The Company's subsidiary |
| Apacer Technology (BVI) Inc. (ACYB) | The Company's subsidiary |
| Apacer Electronic (Shanghai) Co., Ltd (AMC) | ACYB's subsidiary |
| Shenzhen Kylinesports Technology Co. (AMS) | AMK's subsidiary |
| JoiiUp Technology Inc. | The Company's associate |
| Ecolumina Technologies Inc. | The Company's other related party |
| Directors, general manager and vice general managers | The Company's key management personnel |

(c) Significant related-party transactions

(i) Revenue

| | 2017 | 2016 |
|---|---|---|
| Subsidiaries: | | |
| AMA | $ 2,320,652 | 1,168,960 |
| Others | 1,469,087 | 919,305 |
| Associates | 9 | - |
| Other related parties | 210 | - |
| | $ 3,789,958 | 2,088,265 |

The sales prices and payment terms of sales to related parties depend on the economic environment and market competition, and are not different from those with third-party customers. The payment terms for related parties and third-party are 30～120 days and 30～90 days, respectively, calculated from the delivery date. The Company does not receive any collateral for the receivables from related parties. The Company has not recognized a specific allowance for doubtful receivables after assessment.

(ii) Purchases

| | 2017 | 2016 |
|---|---|---|
| Subsidiaries | $ 5,841 | 9,354 |

(Continued)

There were no significant differences between the purchase prices for related parties and those for third-party vendors. The payment terms of 1~60 days showed no significant difference between related parties and third-party vendors.

(iii) Receivables

| Account | Related-party categories | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|---|
| Accounts receivable | Subsidiaries: | | | |
| | AMA | $ | 274,484 | 50,414 |
| | Others | | 121,320 | 97,626 |
| Accounts receivable | Other related parties | | 4 | - |
| | | $ | 395,808 | 148,040 |

(iv) Payables

| Account | Related-party categories | | December 31, 2017 | December 31, 2016 |
|---|---|---|---|---|
| Accounts payable | Subsidiaries | $ | 58 | 151 |
| Other payables | Subsidiaries | | 1,519 | 1,045 |
| Other payables | Associates | | - | 100 |
| | | $ | 1,577 | 1,296 |

(v) Operating expenses

The operating expenses related to consulting service for market development and business promotion provided by the Company's subsidiaries were as follows:

| Account | Related party categories | | 2017 | 2016 |
|---|---|---|---|---|
| Operating expenses | Subsidiaries | $ | 6,749 | 2,716 |

(d) Compensation for key management personnel

| | | 2017 | 2016 |
|---|---|---|---|
| Short-term employee benefits | $ | 35,823 | 33,302 |
| Post-employment benefits | | 324 | 324 |
| | $ | 36,147 | 33,626 |

**8. Pledged assets: None**

(Continued)

**9. Significant commitments and contingencies:**

In addition to those in note 6(j), as of December 31, 2017 and 2016, the Company had outstanding letters of guarantee amounting to $15,000 for the purpose of the payment of customs duties.

**10. Significant loss from casualty: None**

**11. Significant subsequent events:**

According to the amendments to the Income Tax Act enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return for the year 2018. This increase does not affect the amounts of the current or deferred income taxes recognized in 2017. However, this amendment will increase the Company's income tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences recognized on December 31, 2017, the Company's deferred tax assets and deferred tax liabilities would increase by $11,392 and $153, respectively.

**12. Others:**

Employee benefits, depreciation and amortization expenses categorized by function were as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Cost of revenue** | **Operating expenses** | **Total** | **Cost of revenue** | **Operating expenses** | **Total** |
| Employee benefits: | | | | | | |
| Salaries | 126,325 | 322,897 | 449,222 | 111,869 | 285,744 | 397,613 |
| Insurance | 11,954 | 20,419 | 32,373 | 10,722 | 17,113 | 27,835 |
| Pension | 5,115 | 10,927 | 16,042 | 4,808 | 10,350 | 15,158 |
| Others | 8,354 | 10,967 | 19,321 | 8,153 | 10,265 | 18,418 |
| Depreciation | 14,755 | 19,646 | 34,401 | 12,459 | 16,678 | 29,137 |
| Amortization | 714 | 6,795 | 7,509 | 251 | 5,314 | 5,565 |

As of December 31, 2017 and 2016, the number of employees of the Company was 477 and 449, respectively.

(Continued)

## 13. Additional disclosures

(a) Information on significant transactions:

In accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Company discloses the following information on significant transactions:

(i) Financing provided to other parties: None

(ii) Guarantee and endorsement provided to other parties: None

(iii) Marketable securities held at the reporting date (excluding investments in subsidiaries and associates):

(In Thousands of Shares/Amounts in Thousands of New Taiwan Dollars)

| Investing Company | Marketable Securities Type and Name | Relationship with the Securities Issuer | Financial Statement Account | December 31, 2017 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares/ Units | Carrying Value | Percentage of Ownership | Fair value | |
| The Company | Stock: Formosa Golf and Country Club Corp. | - | Available-for-sale financial assets－non-current | 3.6 | 12,117 | 0.01% | 12,117 | Including stocks and memberships |
| The Company | Stock: OTO Photonics Inc. | - | Financial assets carried at cost－non-current | 3,014 | 5,359 | 13.98% | 5,359 | - |

(iv) Marketable securities for which the accumulated purchase or sale amounts for the year exceed $300 million or 20% of the paid-in capital: None

(v) Acquisition of real estate which exceeds $300 million or 20% of the paid-in capital: None

(vi) Disposal of real estate which exceeds $300 million or 20% of the paid-in capital: None

(vii) Total purchases from and sales to related parties which exceed $100 million or 20% of the paid-in capital:

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Transactions with Terms Different from Others | | Notes/Accounts Receivable or (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases/ (Sales) | Amount | % of Total Purchases/ (Sales) | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total Notes/Accounts Receivable or (Payable) | |
| The Company | AMA | The Company's subsidiary | (Sales) | (2,320,652) | (24)% | OA45 | - | - | 274,484 | 20% | |
| The Company | AMH | The Company's subsidiary | (Sales) | (505,137) | (5)% | OA60 | - | - | 33,853 | 3% | |
| The Company | AMK | The Company's subsidiary | (Sales) | (611,022) | (6)% | OA30 | - | - | 26,484 | 2% | |
| The Company | AMC | The Company's subsidiary | (Sales) | (240,380) | (2)% | M30 | - | - | 42,181 | 3% | |
| The Company | AMJ | The Company's subsidiary | (Sales) | (112,548) | (1)% | M60 | - | - | 18,802 | 1% | |
| AMA | The Company | AMA's parent company | Purchases | 2,320,652 | 98% | OA45 | - | - | (274,484) | (100)% | |
| AMH | The Company | AMH's parent company | Purchases | 505,137 | 100% | OA60 | - | - | (33,853) | (98)% | |
| AMK | The Company | AMK's parent company | Purchases | 611,022 | 100% | OA30 | - | - | (26,484) | (99)% | |
| AMC | The Company | AMC's parent company | Purchases | 240,380 | 100% | M30 | - | - | (42,181) | (100)% | |
| AMJ | The Company | AMJ's parent company | Purchases | 112,548 | 100% | M60 | - | - | (18,802) | (96)% | |

(viii) Receivables from related parties which exceed $100 million or 20% of the paid-in capital:

(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| The Company | AMA | The Company's subsidiary | 274,484 | 14.29 | - | - | - | - |

(Continued)

(ix) Transactions about derivative instruments: Please refer to note 6(b)

(b) Information on investees:

(In Thousands of Shares)

| Investor | Investee | Location | Main Businesses and Products | Original Investment Amount December 31, 2017 | Original Investment Amount December 31, 2016 | Balance as of December 31, 2017 Shares | Balance as of December 31, 2017 Percentage of Ownership | Balance as of December 31, 2017 Carrying Value | Net Income (Loss) of the Investee | Investment Income (Loss) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| The Company | AMA | USA | Trading of memory modules | 610 | 610 | 20 | 100.00% | 202,357 | 22,400 | 22,400 | |
| The Company | ACYB | British Virgin Islands | Investment and holding activity | 18,542 | 18,542 | 2,636 | 100.00% | 16,600 | 4,177 | 4,177 | |
| The Company | AMJ | Japan | Trading of memory modules | 2,918 | 2,918 | 0.2 | 100.00% | 14,348 | 1,504 | 1,504 | |
| The Company | ATPL | India | Trading of memory modules | 915 | 915 | 29 | 100.00% | 1,445 | 125 | 125 | |
| The Company | AMK | Hong Kong | Trading of memory modules | 20,917 | 20,917 | 5,000 | 100.00% | 13,066 | (2,271) | (2,271) | |
| The Company | AMH | Netherlands | Trading of memory modules | 130,469 | 130,469 | 80 | 100.00% | 13,709 | 11,806 | 11,806 | |
| The Company | JoiiUp | Taiwan | Cloud services and software development | 15,000 | 15,000 | 1,500 | 17.78% | 1,721 | (19,953) | (3,168) | |

(c) Information on investments in Mainland China

(i) Name and main businesses and products of investee companies in Mainland China:

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

| Investee Company Name | Main Businesses and Products | Total Amount of Paid-in Capital | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2017 | Investment Flows Outflow | Investment Flows Inflow | Accumulated Outflow of Investment from Taiwan as of December 31, 2017 | Net Income (Loss) of Investee | % of Ownership of Direct or Indirect Investment | Investment Income (Loss) (Note 2) | Carrying Value as of December 31, 2017 | Accumulated Inward Remittance of Earnings as of December 31, 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Apacer Electronic (Shanghai) Co., Ltd (AMC) | Trading of memory modules | 14,880 (USD500, thousand) | (Note 1) | 14,880 (USD500 thousand) | - | - | 14,880 (USD500 thousand) | 4,292 | 100.00 % | 4,292 | 12,960 | - |
| Shenzhen Kylinesports Technology Co. (AMS) | Trading of gaming products | 22,260 (USD748 thousand) | (Note 1) | 17,796 (USD598 thousand) | - | - | 17,796 (USD598 thousand) (Note 4) | (3,185) | 99.00 % | (2,724) | 18,343 | - |

Note 1: Indirect investment in Mainland China through a holding company established in a third country.

Note 2: Investment income or loss recognized based on the unaudited financial statements of investee companies.

Note 3: The above amounts were translated into New Taiwan dollars at the exchange rate of US$1=NT$29.76.

Note 4: The amount of AMK reinvestments amounting to US$134 thousand was excluded.

(ii) Limits on investments in Mainland China:

| Investor | Accumulated Investment in Mainland China as of December 31, 2017 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Authorized by Investment Commission, MOEA |
|---|---|---|---|
| The Company | 32,676 (USD1,098 thousand) | 36,664 (USD1,232 thousand) | 1,540,773 |

(iii) Significant transactions with investee companies in Mainland China:

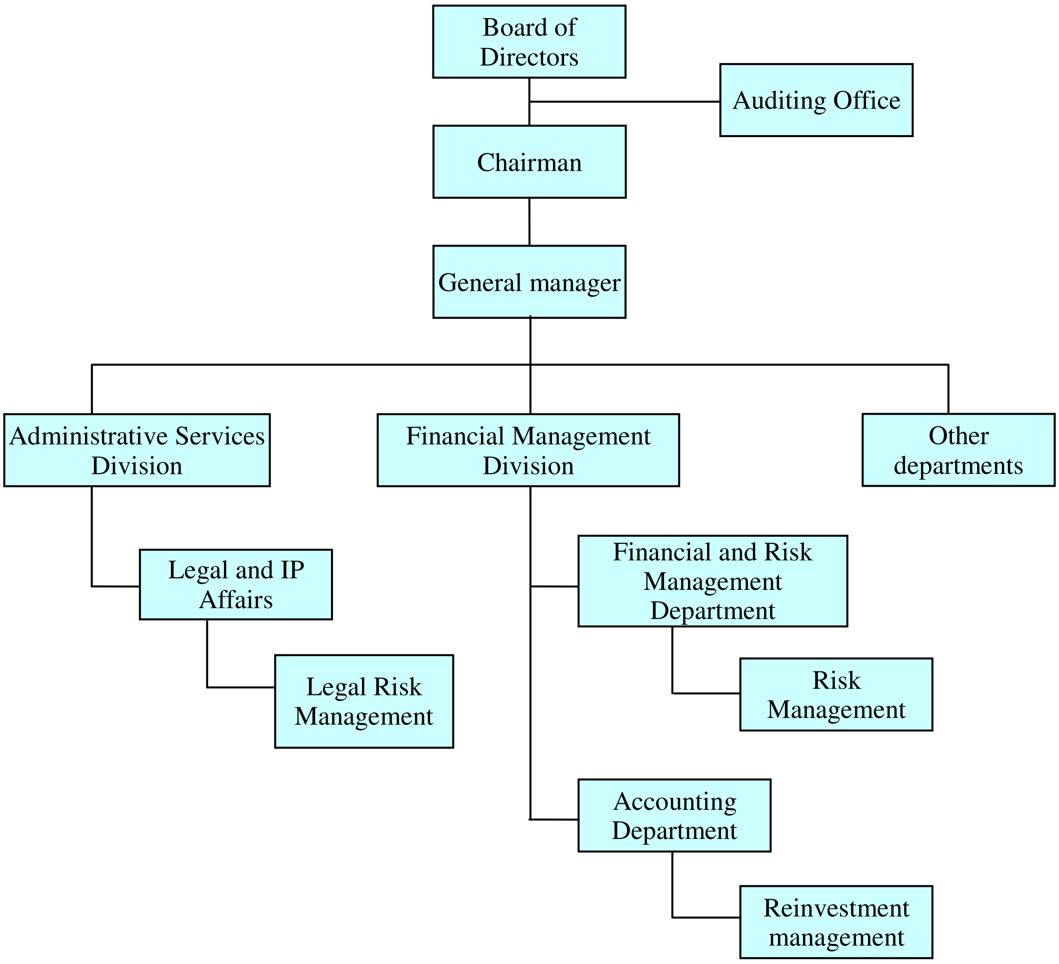
Please refer to section "Information on significant transactions" for detail description.

## 14. Segment information:

Please refer to the consolidated financial statements for the years ended December 31, 2017 and 2016 for disclosure of segment information.

# VII. Review and analysis of the financial status and financial performance and risk issues

Risk management organization structure:




- The Board of Directors reviews and supervises the implementation of risk management and control
- The General Manager and other senior executives are in charge of supervising the implementation of risk management decisions, and regularly controlling and evaluating the effectiveness of the risk management implementation.
- The Auditing Office regularly review and supervise the actual implementation of internal control processes and annual audit programs
- The Legal and IP Affairs Office is in charge of legal risk management, contract reviews, and litigation to reduce legal risks
- The Finance and Risk Management Department is in charge of financial hedge planning and hedging transactions
- The Accounting Department is responsible for the confirmation of the hedging transactions and the checking related accounts to ensure the accuracy of the transactions and the reliability of the financial statements.

I. Financial status

Unit: TWD 1,000

| Item \ Year | 2017 | 2016 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Current assets | 3,589,477 | 2,856,713 | 732,764 | 25.65 |
| Long-term investment | 19,197 | 17,984 | 1,213 | 6.74 |
| Property, plant and equipment | 899,387 | 902,951 | (3,564) | (0.39) |
| Intangible assets | 24,363 | 11,123 | 13,240 | 119.03 |
| Other assets | 100,381 | 51,758 | 48,623 | 93.94 |
| Total assets | 4,632,805 | 3,840,529 | 792,276 | 20.63 |
| Current liabilities | 2,010,340 | 1,372,374 | 637,966 | 46.49 |
| Non-current liabilities | 54,325 | 39,620 | 14,705 | 37.12 |
| Total liabilities | 2,064,665 | 1,411,994 | 652,671 | 46.22 |
| Share capital | 1,008,978 | 1,008,978 | 0 | 0.00 |
| Capital reserve | 358,225 | 359,203 | (978) | (0.27) |
| Reserve surplus | 1,250,073 | 1,086,882 | 163,191 | 15.01 |
| Other equities | (49,321) | (30,971) | (18,350) | 59.25 |
| Treasury shares | - | - | - | - |
| Attributed to stockholders of the company | 2,567,955 | 2,424,092 | 143,863 | 5.93 |
| Non-controlling interests | 185 | 4,443 | (4,258) | (95.84) |
| Total equity | 2,568,140 | 2,428,535 | 139,605 | 5.75 |

Changes of more than 20% or more than TWD 10 million are described below:

1. The increase in "Current assets" is due to an increase in accounts receivable and inventory levels from growth in revenues.
2. The increase in "Intangible assets" is due to the purchase of software.
3. The increase in "Additional assets" is due to an increase in deferred income tax and advance payments for software.
4. The increase in "current liabilities" is due to an increase in short-term loans and accounts payable arising from revenue growth.
5. The increase in "Non-current liabilities" is due to an increase in deposits.
6. The increase in "Other equities" is due to the recognition of foreign currency translation diffeerence of overseas business entities.

II. Financial performance

I. Analysis of financial performance over the past two years

Unit: TWD 1,000

| Item \ Year | 2017 | 2016 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Operating revenue | 10,043,476 | 6,822,226 | 3,221,250 | 47.22 |
| Gross operating profit | 1,298,790 | 1,156,300 | 142,490 | 12.32 |
| Operating income | 474,842 | 406,303 | 68,539 | 16.87 |
| Non-operating income and expenses | (1,802) | 18,906 | (20,708) | (109.53) |
| Net income before tax | 473,040 | 425,209 | 47,831 | 11.25 |
| Net income for the current period | 404,957 | 349,291 | 55,666 | 15.94 |
| Other comprehensive income for the current period (net of tax) | (18,097) | (10,001) | (8,096) | 80.95 |
| Total comprehensive income for the current period | 386,788 | 339,290 | 47,498 | 14.00 |
| Changes of more than 20% or more than TWD 10 million are described below:<br>1. The increase in "Operating income" is due to an adjustment in the sales portfolio and an increase in market prices.<br>2. "The decrease in Non-operating income and expenses" is due to increased financial cost from borrowings in 2017, and incidental income from insurance compensation in 2016. | | | | |

II. The main factors influencing the expected sales volume in the coming year and the main factors for our company's expected continued growth or decline of our sales volme:

Our company is rooted in core technologies for storage and focuses on vertical industry applications, grasps consumer market trends, and develops an integrated ecosystem for services around information storage, reception, analysis, control, and sharing. We lead in the continuous development of solutions for the cloud and the Internet of Things. On the basis of our solid production and marketing mechanisms and a comprehensive distribution system that serves regional markets with a full range of and diversified products and services, our company expects to achieve its sales target for 2018.

III. Cash flow

(I) Analysis of changes in cash flow over the past two years (consolidated):

Unit: TWD 1,000

| Item / Year | 2017 | 2016 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Operating activity | 39,209 | 136,803 | (97,594) | (71.34) |
| Investment activity | (85,714) | (54,543) | (31,171) | 57.15 |
| Financing activity | 131,241 | (746,878) | 878,119 | (117.57) |

Changes of more than 20% or more than TWD 10 million are described below:

1. The decrease in net cash inflow from operating activity is due to an increase in accounts receivable.
2. The increase in net cash outflow from investing activity is due to an increase in purchasing software.
3. The decrease in net cash outflow from financing activity is due to a reduction of capital in 2016, and distribution of capital surplus in cash.

(II) Improvement plan for lack of liquidity: None.

(III) Cash flow analysis for the coming year:

Unit: TWD 1,000

| Cash balance at beginning of period | All year from business net cash flow from activities | All year cash inflow | Cash surplus (insufficient) amount | Remedy for cash shortage | |
|---|---|---|---|---|---|
| | | | | Investment plan | Financial plan |
| 591,613 | 599,773 | (440,987) | 750,399 | - | - |

IV. Impacts on financial operations from major capital expenditures for the past year: None.

V. The reinvestment policy of the past year, reasons for profits or losses, the improvement plan and investment plan for the coming year:

(I) The reinvestment policy of the past year: Our company's reinvestment policy mainly aimed to increase revenue and profit.

(II) Reasons for the major losses on the investments: Our subsidiaries have already demonstrated their profitability, but due to rapid changes in the market and fierce competition, the current business growth rate of these reinvestments has slowed down. In the future, we will exert tighter control on certain processes to ensure higher profits.

(III) Investment plan for the coming year: Our company will leverage its accumulated advantages of deep R&D in core technologies to develop potential applications in information reception, analysis, control, and sharing, and integrate these high-tech information services into an ecosystem to seize early opportunities in cloud business and the Internet of Things.

## VI. Risk matters requiring analysis and evaluation

(I) The effects of changes in interest rates and exchange rates and inflation on the profit and loss of the company as well as future countermeasures

(1) Changes in interest rates

Our company's liquidity is adequate, and short-term bank borrowings are used for operational turnover. Interest rate fluctuations have a limited impact on our company. Short-term investments are mainly in time deposits, and short-term commercial papers are used to increase revenue and reduce risk.

If the annual interest rate on bank borrowings increases or decreases by 1%, ceteris paribus, the company’s consolidated income before tax of 2017 would be reduced or increased by TWD 4,922,000.

(2) Changes in exchange rates

The foreign exchange positions of our company are mainly in US Dollar. Exchange rate risks stem from commercial transactions, and recognized assets and liabilities. We will maintain our consistent and stable strategy and actively avoid foreign exchange risks to reduce the impact of exchange rate fluctuations on our company's income.

Units: TWD 1,000; %

| Year / Item | 2017 |
|---|---|
| Consolidated net operating revenue (A) | 10,043,476 |
| Consolidated net operating income (B) | 474,842 |
| Consolidated foreign exchange gains(losses),net (C) | (11,305) |
| (C)/(A) | (0.11%) |
| (C)/(B) | (2.38%) |

3. Inflation

The operating status of our company last year and this year to the date has not been significantly affected by inflation.

(II) Policies on high-risk, high-leverage investments, loan to other parties, endorsements and guarantees, and derivative transactions, and the main reasons for profits or losses from these and future response measures

I. Our company engagement in high-risk, high-leverage investments: None.

II. Loan to other parties, endorsements and guarantees: Our company has not lent out, endorsed, or guaranteed any third-party funding.

III. Derivative transactions: Our transactions in derivative products are mainly hedging transactions, which are handled in accordance with the provisions regarding trading procedures for derivative financial products in the "Criteria for Handling Acquisition and Disposal of Assets".

(III) Future R&D projects and expected R&D expenses

I. Our research and developmentplan for 2018 covers the following:

(1) Technology for high speed transmission

This year we will continue to invest in the development of solid-state hard-drives for PCI-Express (PCIe) high-speed transmission interfaces. We expect PCIe to become the next-generation of high-speed memory interfaces and the mainstream standard for transmission interfaces. The development of this solid-state hard-disk storage firmware architecture will be crucial in this development, which is why we will continue to invest in R&D for this technology. We plan to invest TWD 20 million in R&D in this area in 2018.

(2) Flash memory products for industrial applications

Based on our technologies for solid-state hard-disk storage products, we research and develop embedded SATA, PCIe and USB products and related value-added application software and hardware. The main use of these industrial storage modules is to replace traditional hard disks to ensure high reliability of data transmission and provide value-added applications. We continuously develop solid-state hard disk application technologies and products geared to customer and market needs. We plan to invest TWD 10 million in R&D in this area in 2018.

(3) Random dynamic memory storage devices

In response to the era of big data analysis and the server storage market, the demand for high-speed data access will increase, which is why we invest research and development of random dynamic memory storage devices. We plan to invest TWD 5 million in R&D in this area in 2018.

(4) Local Area Network Transmission Technology and IoT Architecture Technology

In response to the development of Industry 4.0 era and the Internet of Things, wired and wireless transmission technologies and applications will continue to expand. Thus we will continue to research and develop transmission interface technologies for application in industrial modules. Among these, we will focus on further developing the CANBus transmission technology, specifically CANBUS OBDII for vehicle systems and CAN OPEN for industrial equipment system transmission modules. We will also invest in research and development in connection technologies such as IoT architecture technology, from terminal signal collection to wired and wireless transmission to back-end database server technology. We plan to invest TWD 6 million in R&D in this area in 2018.

II. Estimated investments in research and development

Our company is a specialized manufacturer of dynamic random access memory modules and a leading provider of embedded digital storage and related applications. Our research and development expenses in 2017 were TWD 99,120,000. We plan to invest TWD 123,545,000 in research and development in 2018. Competition in the market for consumer and embedded storage and application products is fierce. To keep our products competitive and stay ahead in the industry, we have become a manufacturer that continuously launches innovative products. We intend to annually increase our R&D expenditures as a proportion of total revenue as one of our key expenditures.

Looking into the future, our company, while continuing to invest in research and development of consumer products, will develop a stronger focus on the rapidly increasing demand from the industrial control market. We have served the industrial control market for many years and have a deep understanding of cutomer needs there. Thus we will aggressively develop our R&D capabilities in embedded solid-state hard disk storage modules and industrial IoT architecture technologies, gradually increase collaborations in these core technologies, hire more R&D engineers specialized in firmware, software, and hardware, annually increase our R&D investments including R&D personnel, tools, and testing hardware and software. This will enable us to develop and provide the industrial control market with diverse applications and customized services that are competitive, differentiated, and optimized.

III. The main factors affecting the success of R&D in the future

(1) Mastery and R&D of core technologies

(2) R&D personnel experienced in software, hardware, system and system architecture.

(3) Electromechanical integration capabilities for firmware, hardware, mechanisms, and systems

(4) Capabilities in storage testing and verification technologies

(IV) Changes in important policies and laws in Taiwan and abroad impacting our finances, and response measures

Our company has not been affected by changes in important policies and laws in Taiwan or abroad last year that have affected our finances or business. Our main sales markets are in Asia, Europe, and the Americas. The European region consists mostly of developed countries, whose laws and major policies are more stable than other regions, while the Americas are dominated by the United States, which in the short term should have no military or political risks. Therefore we do not expect that our company will be adversely impacted by changes in important policies and laws in Taiwan or abroad in the future.

(V) Impacts from changes in technology and the industry, and countermeasures

Our company closely follows changes and developments in technologies in our industry. Thus over the past year there was no significant impact on our company's finances or business arising from changes in technology or the industry.

(VI) Impacts from changes in corporate or corporate crisis management, and response measures

For many years our company has taken great care of maintaining a good corporate image and complying with statutory requirements. In the event of any situation that may affect our corporate image or legal compliance, a task force will be set up to formulate response measures. To date, there have been no incidents that could affect the corporate image.

(VII) Expected benefits and potential risks from a merger or acquisition: None.

(VIII) Expected benefits and potential risks from expanding our plant:

Our company has completed the integration of the management of our factory in Tucheng and the headquarters of our company. We have established company milestones and objectives for our company's sustainable business. As of the printing date of this annual report, our company has no plans to expand the factory.

(IX) Risks of concentrated procurement of or sales of goods, and response measures: None.

(X) Impacts and risks from large transfers of shares held by our company’s directors, supervisors, and large shareholders holding more than 10% of shares, and response measures: None.

(XI) Impacts and risks from changes our company’s operating rights, and response measures: None.

(XII) Litigation and non-litigious events

1.Outcomes of major litigious, non-litigious, or administrative disputes last year or this year to date that have been determined or are still proceeding and that may have serious impact on shareholder income or share prices: None.

2.Outcomes of major litigious, non-litigious, or administrative disputes last year or this year to date involving our company’s directors, supervisors, and large shareholders holding more than 10% of shares, that have been resolved or are still proceeding and that may have serious impact on shareholder income or share prices: None.

(XIII) Other major risks and response measures: None.

VII. Other important issues: None.

# VIII. Special items

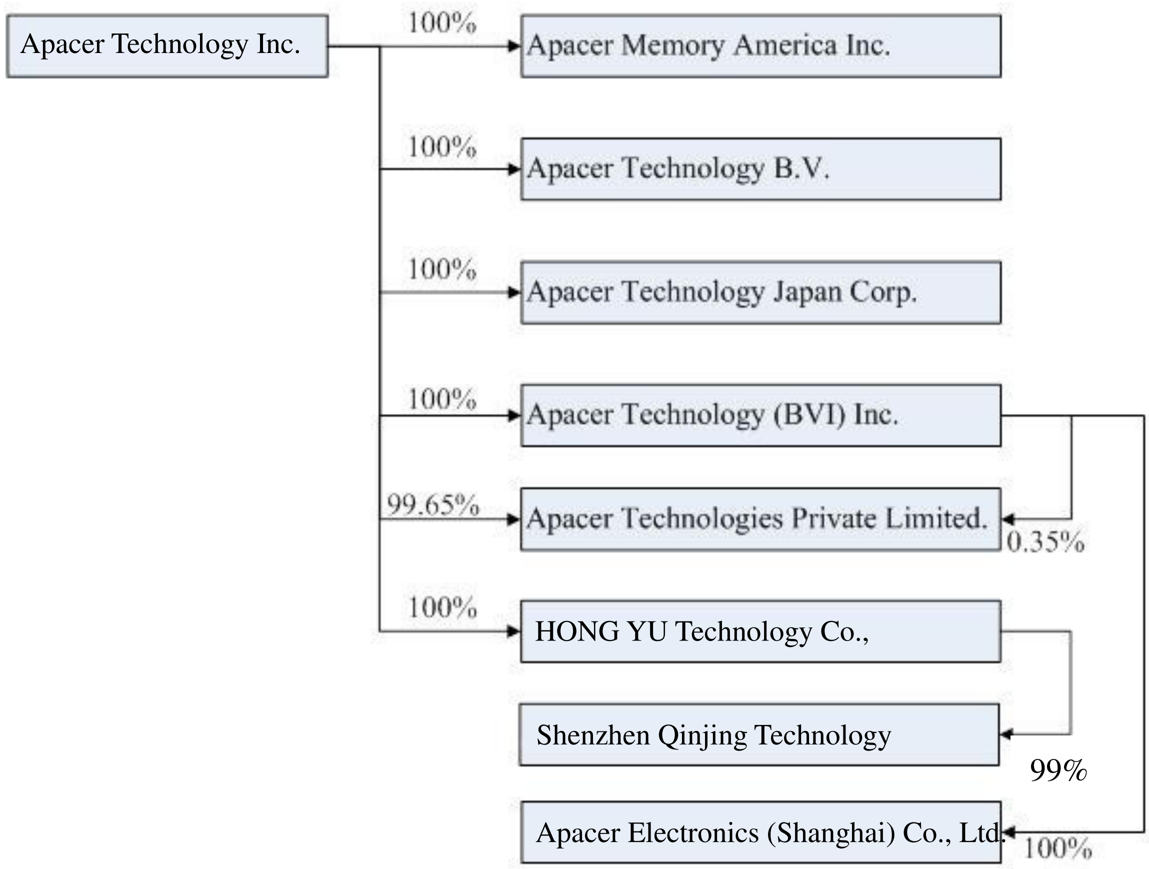
I. Information on affiliated enterprises

(I) Consolidated business report of affiliated enterprises

1. Overview of affiliated enterprises

(1) Organization chart of affiliated enterprises

31 December 2017



(2) Basic information of each enterprise

31 December 2017

| Company Name | Date of establishment | Address | Actual amount of capital | Main business items |
|---|---|---|---|---|
| Apacer Technology (BVI) Inc. | 86.02.17 | 3rd Floor, J & C Building, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands | USD 550,000 (USD:TWD=1:33.71) | Investment holding |
| Apacer Memory America Inc. | 86.10.14 | 46732 Lakeview Blvd., Fremont, CA 94538 | USD 20,000 (USD:TWD=1:30.50) | Memory modules and small storage memory cards |
| Apacer Technology B.V. | 87.02.17 | Science Park Eindhoven 5051 5692 EB Son en Breugel The Netherlands | USD 79,513 (USD:TWD=1:32.44) | Memory modules and small storage memory cards |
| Apacer Technology Japan Corp. | 89.07.21 | 5F, Matsura Bldg., 1-9-6 Shiba, Minato-Ku, Tokyo, 105-0014, Japan | JPY 10,000,000 (JPY:TWD=1:0.292) | Memory modules and small storage memory cards |
| HONG YU Technology Co., Ltd. | 90.01.02 | Room 901, Yip Fung Building, No. 2-12, D'Aguilar Street, Cnetral, Hong Kong. | HKD 5,000,000 (HKD:TWD=1:4.18) | Memory modules and small storage memory cards |
| Apacer Electronics (Shanghai) Co., Ltd. | 90.10.16 | Room 207, No.80 Xinling Road, Shanghai Pilot Free Trade Zone, China | USD 500,000 (USD:TWD=1:33.61) | Memory modules and small storage memory cards |
| Apacer Technologies Private Limited | 96.02.06 | No.201, "Brigade Corner", 7th Block Jayanagar, Yediyur Circle, Bangalore-560082,India | INR 1,387,022 (INR:TWD=1:0.66) | Memory modules and small storage memory cards |
| Shenzhen Qijing Technology Co., Ltd. | 105.06.03 | Room 2505, Block A, World Trade Plaza, Fuhong Road, Futian Avenue, Futian District, Shenzhen, China | RMB 5,000,000 (RMB:TWD=1:4.85) | Trade in gaming products |

(3) Information on the same shareholders involved with or controlling affiliated enterprises: None.

(4) Operating activity of the affiliated enterprises

Our company's main business activities are the manufacture and sale of memory modules and small storage memory cards. The main business activities of our reinvested companies are the purchase and sale of memory modules and small storage memory cards.

(5) Information on directors, supervisors, and general managers of the affiliated enterprises

31 December 2017

| Company Name | Title | Name or representative | Holding shares | |
|---|---|---|---|---|
| | | | Number of shares | Shareholding ratio |
| Apacer Technology (BVI) Inc. | Director | Apacer Technology Inc. Representative: Austin Chen | 2,635,775 shares | 100% |
| Apacer Memory America Inc. | Director | Apacer Technology Inc. Representative: Xu Qin-Yi | 20,000 shares | 100% |
| Apacer Technology B.V. | Director | Apacer Technology Inc. Representatives: Chang Chia-Kun and Zheng Cui-Wen | 79,513 shares | 100% |
| Apacer Technology Japan Corp. | Director | Apacer Technology Inc. Representatives: Chang Chia-Kun, Luo Rong-Fa, Lin Xia-Yun | 200 shares | 100% |
| HONG YU Technology Co., Ltd. | Director | Apacer Technology Inc. Representatives: Connie Lai, Luo Xue Ru | 100,000 shares | 100% |
| Apacer Electronics (Shanghai) Co., Ltd. | Director | Apacer Technology Inc. Representatives: Chang Chia-Kun, Connie Lai, Quan Sen-Yu | Contribution USD 500,000 | 100% |
| Apacer Technologies Private Limited | Director | Apacer Technology Inc. Representatives: Lin Wan-Yuan, Chen Zhu-Ming,Naveen | 28,799 shares | 100% |
| Shenzhen Qinjing Technology Co., Ltd. | Director | Apacer Technology Inc. Representative: Luo Xue-Ru | Contribution RMB 4,985,714 | 99% |

2. Business status of the affiliated enterprises

Unit: TWD 1,000

| Company name | Capital amount | Total assets | Total liabilities | Net worth | Operating revenue | Operating income | Income for the current period (after tax) | Earnings per share (TWD) |
|---|---|---|---|---|---|---|---|---|
| Apacer Technology (BVI) Inc. | 18,542 | 17,635 | 0 | 17,635 | 0 | (58) | (2,092) | (0.79) |
| Apacer Memory America Inc. | 610 | 505,343 | 296,246 | 209,097 | 2,403,414 | 36,333 | 22,399 | 1,119.97 |
| Apacer Technology B.V. | 130,469 | 64,624 | 50,135 | 14,489 | 569,557 | 10,184 | 11,806 | 148.48 |
| Apacer Technology Japan Corp. | 2,918 | 37,877 | 23,014 | 14,864 | 126,679 | 1,828 | 1,505 | 7,522.59 |
| HONG YU Technology Co., Ltd. | 20,917 | 70,425 | 57,359 | 13,066 | 220,861 | 732 | (369) | (0.07) |
| Apacer Electronics (Shanghai) Co., Ltd. | 14,880 | 60,568 | 47,608 | 12,960 | 212,450 | 2,074 | 4,283 | - |
| Apacer Technologies Private Limited | 915 | 1,725 | 280 | 1,445 | 2,604 | 166 | 125 | 4.33 |
| Shenzhen Qinjing Technology Co., Ltd. | 22,260 | 18,900 | 371 | 18,529 | 1,075 | (2,335) | (3,178) | - |

(II) Consolidated financial statements of the affiliated enterprises: Please refer to pages 137 - 198.

(III) Affiliates reports: Not applicable.

II. Private equity securities transactions during last year and this year to date:

None.

III. Shares of this (parent) company held or handled by subsidiaries:

None.

IV. Other necessary additional statements:

None.

V. Matters that have a significant impact on shareholders' income or securities prices as set forth in Article 36, paragraph 3, subparagraph 2 of the Securities and Exchange Act during last year and this year to date:

None.

Apacer Technology Inc.

Chairman of the board: Austin Chen

Date of publication: 26 April 2018

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