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**ELAN Microelectronics Corporation**

**2017  
ANNUAL REPORT**

ELAN Microelectronics Corporation

2017 ANNUAL REPORT

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**ELAN Microelectronics Corporation**



**Chairman: YEH, I-HAU**



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## 1. LETTER TO SHAREHOLDERS

### 1. Operating results of the year 2017

Although the touch-control industry has entered into a mature period, but 2017 was still a year of growth in both revenue and profit for the Company in the touch controller industry and related application products, the main reason was its competitive edge in touch controller products at work, which led to a significant increase in the penetration rate of individual customers, leading to a significant rise in the market share of the Company's touch controller products, whether it's touch screen ICs or a touch pads, in the global market.

In the meanwhile, the company has actively engaged in the development and application of fingerprint recognition products. In 2017, the overall shipment has significantly grown by several folds from the previous year, which mainly due to the increase in orders from smart phones customers and notebook customers. Although the overall fingerprint market is highly competitive, but the Company still seeks for effective reduction of costs and future addition of encryptive function to increase added value and drive revenue and profit growth. As for the three major applications in touch controller industry, the smart phones and tablet PCs have both experienced year-over-year decline phenomenon in shipments due to market maturity, while touch-screen notebook PCs showed increase in penetration rate due to newly added customers and individual customers, resulting in a bumper year with nearly 60% growth in overall shipment performance which was significantly better than that of the previous year.

With the slowed down growth on the application side of the touch controller industry and a lot of domestic and foreign vendors, market price competition has become fierce and the average selling price of the products has declined; however, the Company is still able to effectively increase product added value and optimize products mix by virtue of its advantages in IC design engineering. Its consolidated revenue reached NT\$7.503 billion in 2017 with annual growth rate of 14%. Due to ongoing optimization in product mix and efforts in cost reduction, the consolidated gross margin maintained at a high level of 45%, which was significant better than that of the previous year, the consolidated net operating margin reached 19%, and the profit before tax reached NT\$1.262 billion.

The weakening demand in emerging markets has led to a weak growth in consumer smart terminal products. According to the latest research by TrendForce, global smartphone shipments has reached 1.46 billion units in 2017, an increase of 6.5% year-on-year. According to the TrendForce's notebook shipment report, notebook computer shipments in 2017 were 165 million units, an increase of 2.1% year-on-year. According to IDC data, global tablet shipments in 2017 dropped by 6.5% to 163 million units from the previous year.

In order to respond to the rapid changes in the overall economic situation and the continued fierce competition in the industry, the Company continued to invest a lot of R & D expenses and engineering human resources in upgrading touch controller and biometrics technologies and in the field of applications. The Company has also invested in artificial intelligence (AI) technology to strengthen product functions and continued its efforts in cost reduction. In 2017, more than 14 million touch screen notebook ICs were shipped, including primary orders of the world's major manufacturers of leading brands, with annual growth of up to 60%, market share of more than 60% and ranking first in the world; in addition, there were also more than 5 million smart phones, 3.3 million tablet ICs, and more than 7.3 million fingerprint recognition ICs shipped. The Company continues to do its best despite the strong competition in the market.

In the meanwhile, another major product, touch pad modules and ICs, currently has a global market share of more than 35%, ranking second and continues to strike for No.1 in the world. In order to enhance the competitiveness of customers in the international market, the Company continues to improve the single-chip, multifunction, low-noise and low-power consumption properties to provide the best performance IC products, of which the Company have obtained good outcome. In 2017, total shipments exceeded 57 million units with an increase of 18% year-on-year; and the touch screen ICs and touch pad module and IC products have constituted a major source of revenue and profit for the Company.

In terms of product R & D, the Company continued to deepen the R & D in various products with large market demand and responded to the development trend of the terminal market. In 2017, the R & D expenditures invested accounted for 16% of revenue; successively completed series of ICs for IoT smart appliances to support pen protocol for active stylus; completed the development of sensor ICs for low power consumption and contactless fingerprint matching smart card; completed the ICs for smoke alarm solution; completed the development of the solution for the mobile phone 21:9 integrated touch HD panel and driver IC; and completed the touch pad protocol to prevent misjudgment from palm pressure.

The Company has won multiple awards in 2017, such as "2017 Innovative Product Awards" of Hsinchu Science Park for the Simultaneous Pen and Touch Solution, and the "2017 IT Month's Top 100 Innovative

Products” award for the Fingerprint Recognition Smart Pay.

(1) 2017 operating conditions (consolidated statements):

unit: NT\$'000

Year	2017
Net Revenue	7,503,267
Operating Costs	4,156,099
Gross Income	3,347,820
Operating Expenses	1,998,038
Net Operating Profit	1,349,782
Non-Operating Income and Expenses	(87,521)
Net Profit Before Tax	1,262,261

(2) Revenues, Expenses, and Profitability Analysis (consolidated statements):

unit: NT\$'000

Unit: NT\$ 000

Items		2017	2016	
Revenues & expenses	Net Income	7,503,267	6,558,933	
	Gross Income	3,347,820	2,708,170	
	Net Income After Taxes	1,032,110	580,001	
	Net Income After Taxes attributable to owner(s) of the parent company	1,073,802	652,667	
	Net Income After Taxes attributable to non-controlling interest	(41,692)	(72,666)	
Profitability analysis	Return on Asset (%)		10.75	6.32
	Return on Equity (%)		14.52	8.29
	Proportion to paid-up capital (%)	Operating profit	31.09	17.33
		Net Profit Before Tax	29.08	16.70
	Net Profit Margin (%)		13.76	8.84
	Basic Earnings Per Share (NT\$)		2.58	1.57

2. 2018 Business Plan Summary

Based on the observation on the recent international economic situation, updated forecasting data from major forecasting agencies such as the World Bank and the International Monetary Fund show that global economy in 2018 will be better than that of the year 2017. The International Monetary Fund (IMF) also raised its forecasts for 2018 and 2019 global economic growth on the grounds that US's comprehensive tax cuts are expected to boost investment in the world's largest economy and benefit the major trading partners of the United States. The International Monetary Fund (IMF) anticipates that the global economy will grow 3.9% this year, of which the US's economy growth will be up to 2.7%, ranking No.1 among the developed countries. IMP is also optimistic in this year's economic development in mainland China, the Euro Zone and Japan.

2018 is a year full of opportunities to grow. The main growth momentum comes from the advances in the application of touch controller products. The Company expects to obtain the new 2-in-1 notebook projects from many well-known brands worldwide and higher penetration rate of the existing customers. At the same time, the Company also invests in artificial intelligence (AI) technology for facial recognition products, single-chip solution for capacitive touch screen, single-chip solution for Touch and Display (LCD) Driver Integration ICs and other new products with competitive edge.

The capacitive touch screen solution for smart phones is another product with market competitive edge born from the collaboration between the Company and Wacom, the active stylus supplier with No.1 market share in the world at present. It can provide users with more accurate handwriting function to take notes and mark key points at ease; even the professional graphic applications are also showing better performance. Due to the growing demand for smart phones with capacitive touch screen function, this will help ELAN Microelectronics enhance the effectiveness in smartphone market strategy..

The Company still has high global market share in touch screen ICs for notebook PCs, and there is a chance that this year's shipments may be more than that of the previous year. Touch pad modules and ICs, which are mainly used on notebook PCs, is another major product of the Company with a current market share of more than 35%. This year, with the prospect in dual operating systems (Window base & Chrome) and increase in customer penetration rate, the overall shipment still has an opportunity to increase and achieve the goal of surpassing 40% market share.

The Company is a professional IC design company with outsourced IC production; the smoothness in

the overall supply chain collaboration is very important. Therefore, the Company continue to maintain collaboration and partnership with major upstream and downstream IC foundries and packaging and testing vendors at home and abroad in order to obtain more cost competitiveness. In the meanwhile, it collaborates with supply chain vendors such as touch screen manufacturers, liquid-crystal display (LCD) manufacturers, smart phones and notebook assembly factories to ensure smooth shipment of products and further maintain a longer and more intimate cooperative relationship with the customers.

Furthermore, the Company's future development strategies are still subject to impact from the external competition environment, laws and regulations and overall operating environment. However, it will insist on enhancing its core technologies and integrating video, audio and entertainment to form a powerful, cost-effective and supreme IC to provide customers with world-class competitive solutions based on the concept of system integration; in the meanwhile, it will implement business strategies, establish patent nets and development blueprints, adhere to continuous investment in developing new products, enhance IC performance and quality, and leverage its own core competitive edge. It is the cornerstone for generating impressive revenue and profit.

Chairman: YEH, I-HAU

President: YEH, I-HAU

Chief Accounting Officer: CHEN, YI-LIN

## 2. COMPANY PROFILE

1. Date of Incorporation: May 5, 1994
2. Company History
  1. 1994
 

May	Formally established with nominal and paid-up capital amounting to NT\$1 billion even.
June	Hsinchu Science Park Bureau issued the Business Registration Certificate and the Company officially commence its operations.
  2. 1995
 

April	The neural network IC series and development system have received grants from Hsinchu Science Park's "Key Components and Products R & D Plan".
-------	--
  3. 1996
 

January	The high-speed computer screen controller received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".
May	The MPEG-2 video decoder received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".
May	The MPEG-2 audio decoder received grants from Hsinchu Science Park's "Innovation, Technology, Research and Development Plan".
December	Won Hsinchu Science Park's "1996 Research and Development Investment Award".
  4. 1997
 

April	Won Corporate Silver Medal in the 6 <sup>th</sup> National Invention Prize.
April	Established ELAN Microelectronics Hong Kong branch office to expand markets and marketing bases in Hong Kong and mainland China.
  5. 1998
 

June	Won the "1998 Excellent Intellectual Property Management System Award" organized by the Industrial Development Bureau, MOEA.
------	--
  6. 1999
 

December	Won Hsinchu Science Park's "1999 Research and Development Investment Award".
----------	--
  7. 2000
 

April	Authorized by the Securities and Futures Commission, Ministry of Finance to list and trade its stocks over the counter (stock code: 5433).
-------	--
  8. 2001
 

February	The ELAN Technology Building located on No. 12, Chuangxin 1st Road has completed and officially moved in.
March	Received Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award".
September	Authorized by the Securities and Futures Commission, Ministry of Finance to list and trade its stocks in the exchange market (stock code: 2458).
October	Won gold medal in the 10 <sup>th</sup> National Invention Prize.
November	Passed ISO9001 quality certification .
December	Won Hsinchu Science Park's "2001 Innovative Product Awards".
  9. 2002
 

March	Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 2 <sup>nd</sup> consecutive year.
October	Recognized by Forbes as one of the "200 Best Small Companies".
October	Entered the eastern China market and established Elan Microelectronics Shanghai, Ltd..



10. 2003
  - March Entered the European market and established ELAN's European branch office in Switzerland.
  - March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 3<sup>rd</sup> consecutive year.
  - June Entered southern China market and established ELAN Microelectronics (Shenzhen) Corporation.
  - October Authorized by the Department of Industrial Technology, MOEA to establish a forward-looking technology R & D center.
  - December Received a subsidy from the consultation program for the development of leading new products ("Leading Product") of the Industrial Development Bureau, MOEA.
  - December Won Hsinchu Science Park's First "R & D Achievement Award" .
11. 2004
  - March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 4<sup>th</sup> consecutive year.
  - May Received grants from Hsinchu Science Park's innovative technology R & D program "TFT LCD single-chip controller".
  - October Received grants from Hsinchu Science Park's innovative technology R & D program "2.45GHz RF Transceiver IC for Cordless Phones".
  - October Received Outstanding Award in the 12<sup>th</sup> "MOEA Industrial Science and Technology Development Award" from Department of Industrial Technology, MOEA.
  - October Recognized by Forbes as one of the "100 Best Small Asia-Pacific Companies" in 2003".
  - December Won Hsinchu Science Park's Second "R & D Achievement Award".
12. 2005
  - March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 5<sup>th</sup> consecutive year.
  - December Won Hsinchu Science Park's Third "R & D Achievement Award" .
13. 2006
  - March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 6<sup>th</sup> consecutive year.
  - April Received a subsidy from the consultation program for the development of leading new products ("Leading Product") of the Industrial Development Bureau, MOEA.
  - October Won Hsinchu Science Park's "2006 Innovative Product Award".
14. 2007
  - March Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award" for the 7<sup>th</sup> consecutive year.
  - September Won Contribution Award in the "2007 National Invention and Creation Award" from Ministry of Economic Affairs.
15. 2008
  - October Won Hsinchu Science Park's "2008 Innovative Product Award"
  - October ELAN Microelectronics was officially merged with Elantech Devices
16. 2009
  - June Won "Best Choice Award" in Taipei International Information Technology Show (the "COMPUTEX Taipei") for the awarded items hereinafter:  
 The "Transparent Touch pad" won the Annual Award;  
 The "Transparent Touch pad" won the Excellence Award in the peripheral and accessories category;  
 The "Smart Remote Control" won the Excellent Digital Entertainment Product Award.

- |  |           |  |
|--|-----------|--|
|  | June      | Received grants for the “Portable Soft-Film Multi-Touch Surface Capacitive Module Program” from the “Industrial Technology Development Program” of Ministry of Economic Affairs.   |
|  | September | Won Outstanding Innovation Award in the 17 <sup>th</sup> “Industrial Science and Technology Development Award” from Ministry of Economic Affairs.  |
|  | October   | The “Smart Remote Control” won the “2009 IT Month’s Outstanding Information Application and Products Award”.   |
|  | November  | Won the 10 <sup>th</sup> “Industrial Excellence Award” from Ministry of Economic Affairs.  |
|  | December  | The “Smart Remote Control” won Hsinchu Science Park’s “2009 Innovative Product Awards”;<br>Won 2009 Hsinchu Science Park’s “R & D Achievement Award”;<br>Won Hsinchu Science Park’s “2009 Promotion of International Exchange and Cooperation Award for Excellence”;<br>Won Outstanding Award in Hsinchu Science Park’s “2009 Environmental Protection Competition”. |
17. 2010
- |  |          |  |
|--|----------|--|
|  | January  | The “Smart Remote Control” won “Innovative Design and Engineering Award” in USA’s 2010 Consumer Electronics Show.  |
|  | June     | The “Capacitive Multi-Finger Touch Screen and Stylus” won the “13 <sup>th</sup> Outstanding Photonics Product Award”.  |
|  | December | Received grants for the “Optical System Integration Chip Plan With High Recognition Rate and Wide Dynamic Range” from Hsinchu Science Park’s “Research on Framework of University-Industry Collaboration for Enhancing Sustainable Growth for NSC Science Park”;<br>Won Hsinchu Science Park’s “2010 R & D Achievement Award”;<br>The “Smart-3D Remote Control” won Hsinchu Science Park’s “2010 Innovative Product Awards”. |
18. 2011
- |  |          |  |
|--|----------|--|
|  | August   | Received grants for the “Capacitive Touch Screen With Force Sensing Program” from the “Leading Program” of Ministry of Economic Affairs. |
|  | December | The “Capacitive 10-Finger Touch Screen and Stylus” won Hsinchu Science Park’s “2011 Innovative Product Awards”.                          |
19. 2012
- |  |      |   |
|--|------|---|
|  | June | The “Smart-Touchscreen™ IC” won “Golden Award” and “Best Choice of the Year” in the IC & components product category of the Best Choice Award of COMPUTEX Taipei. |
|--|------|---|
20. 2013
- |  |           |   |
|--|-----------|---|
|  | September | Received grants for “Portable Product with 3D Depth Sensor for Hand Gesture Recognition” program from the “Leading Program” of Ministry of Economic Affairs.  |
|  | October   | Won the “Corporate Standardization Award” in the “14 <sup>th</sup> National Standardization Award” of Ministry of Economic Affairs.   |
|  | November  | The “Windows 8 Single-Chip Smart Touch Screen Solution” won 2013 IT Month’s “Gold Award” and “Top 100 Innovative Product Award”.  |
|  | December  | Won Hsinchu Science Park’s “2013 R & D Achievement Award”;<br>The “Windows 8 Single-Chip Smart Touch Screen Solutions” won Hsinchu Science Park’s “2013 Innovative Product Awards”;<br>Won the “2 <sup>nd</sup> Excellent Backbone Enterprises Award” from the Industrial Development Bureau, MOEA. |
21. 2014
- |  |      |  |
|--|------|--|
|  | July | Won Hsinchu Science Park Bureau’s “Distinguished Green Landscaping Award” for the 10 <sup>th</sup> time. |
|--|------|--|

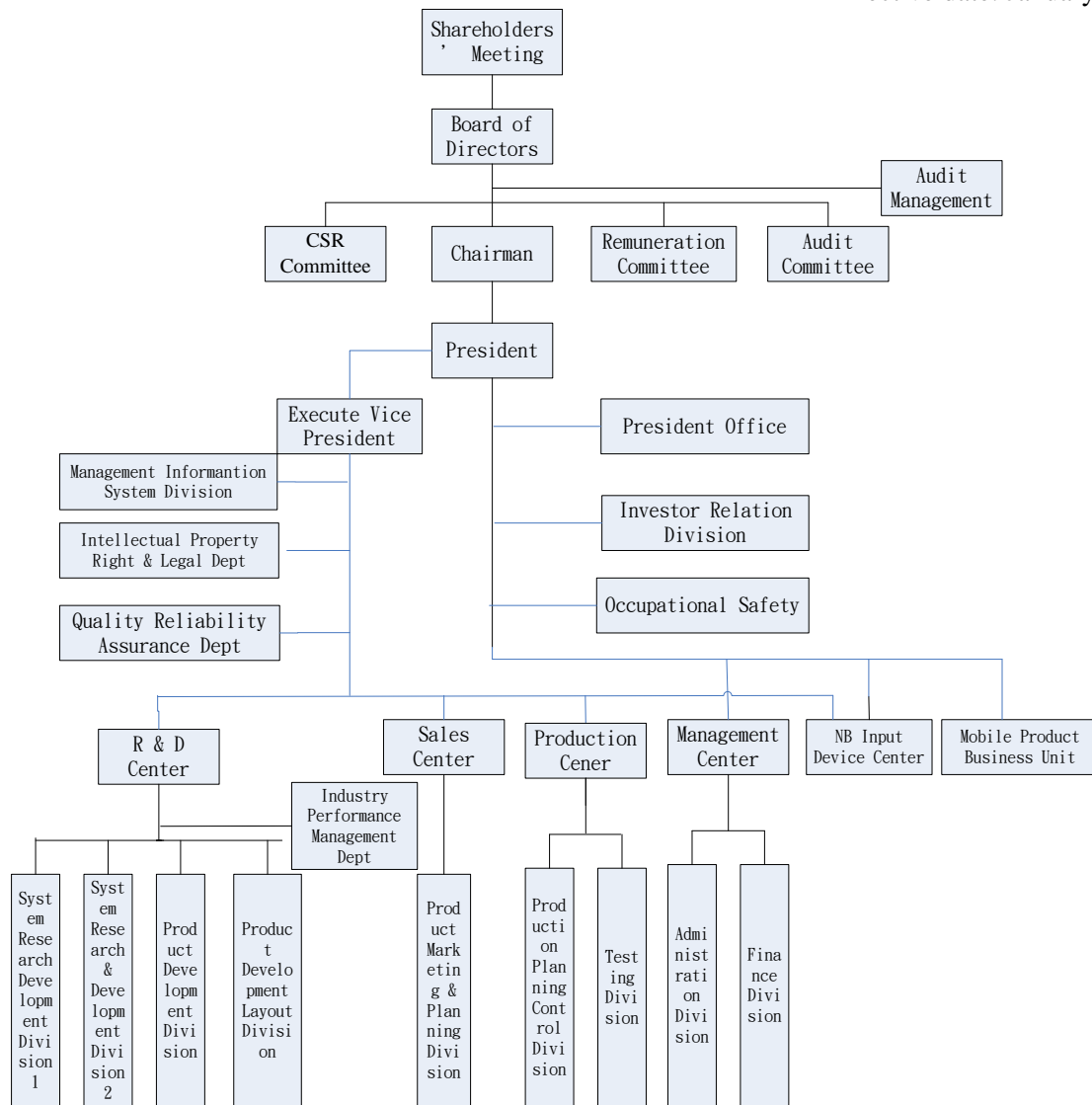
- December Won Hsinchu Science Park's "2014 R & D Achievement Award".
22. 2015  
June Obtained SGS certification for the Corporate Social Responsibility Report; passed international certifications of AA1000 AS Type 2 Moderate-Level Assurance and GRI G4.  
July Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award".  
December Won Hsinchu Science Park's "2015 R & D Achievement Award";  
The "Chromebook Smart Touch pad and Touch Screen Solution" won Hsinchu Science Park's "2015 Innovative Product Awards";  
Won the "Vitality Award" in the "Healthy Workplace Health Promotion" from the Health Promotion Administration, Ministry of Health and Welfare.
23. 2016  
July Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping Award".  
December Won Hsinchu Science Park's "2016 R & D Achievement Award";  
The "Smart-ID Solution" won Hsinchu Science Park's "2016 Innovative Product Awards".
24. 2017  
July Won Hsinchu Science Park Bureau's "Distinguished Green Landscaping and Contribution Award".  
November The "Biometric Smart Card" won "Top 100 Innovative Product Award" in the consumer electronic product category of 2017 IT Month.  
December The "Simultaneous Pen and Touch Solution" won Hsinchu Science Park's "2017 Innovative Product Awards".

### 3. CORPORATE GOVERNANCE REPORT

1. Organization
  - (1) Organizational structure

#### Organizational Chart of ELAN Microelectronics Corporation

Effective date: January 1, 2018



(2)Operations of major departments

Department	In charge of
President Office	Executing and coordinating the Company's overall business; planning and decision-making for the Operating objectives, and organize and control subordinates to achieve the task.
Audit Management	Investigate and evaluate the soundness, rationality and effectiveness of the internal control system and various management systems of the Company.
Management Information System Division	Responsible for MIS system's software assessment, system planning, program writing and maintenance.
Intellectual Property Right & Legal Dept.	Responsible for patent applications, contract formulation and review and processing of legal proceedings related matters.
Quality Reliability Assurance Dept.	Quality inspection on incoming / outgoing goods, analyze and process customer complaints, product reliability analysis.
Occupational Safety	Managing labor safety, fire-fighting and health related operations.
Investor Relation Division	Responsible for the Company's news release and the establishment and maintenance of relationship with domestic and foreign corporate bodies, media and investors.
Production Planning Control Division	Responsible for the management of raw materials, the planning and management of production schedules, procurement, import and export, customs bonds, etc.
Testing Division	Responsible for coordinating new product development, and the development of product property analysis and testing program.
Administration Division	Including Manpower Performance Management Department and Public Resources Department, which are responsible for the recruitment and management of human resources and the maintenance and operation for plant(s).
Finance Division	Comprehensive management of financial resources, and the establishment and maintenance of financial accounting, management accounting and tax filing.
Marketing & Sales Division	Responsible for the development of domestic and foreign markets, planning and implementation of marketing plans, sales of products, customer services, agent management, etc.
Industry Performance Management Dept.	Responsible for the management of new product projects, improvement of R & D processes and document management processes, management of R & D documents, proofreading of technical documents, application for various prizes and grants, promotion of corporate social responsibility and promotion of knowledge management of the Company.
System Research Development Division 1	Responsible for the planning, system integration, formulation of system specification, verification and system design for the IoT product market, and the development, design and mass production planning for the touch products and solutions.
System Research & Development Division 2	Responsible for the system development, customer service, customer analysis and product promotion of product applications related to MCU, brushless DC motors, computer peripheral products, fingerprint recognition and touch pads.
Product Development Division	Responsible for the development, design and integration of digital circuits and sensing technology for the Company's products.
Product Development Layout Division	Responsible for strategically planning and designing the product development.
NB Input Devices Center	<ol style="list-style-type: none"> <li>1. Research and develop pointing sticks and driver program for notebook PCs;</li> <li>2. Produce and manufacture notebook PCs pointing sticks;</li> <li>3. Promote notebook PCs pointing sticks;</li> <li>4. Comprehensive management of personnel management, plant operations and management accounting related issues of the Notebook Input Devices Business Center.</li> </ol>
Mobile Product Business Unit	<ol style="list-style-type: none"> <li>1. Open new markets</li> <li>2. Perform customer project opening, verification, trial production, mass production and after-sales services;</li> <li>3. Agent management;</li> <li>4. Promote new products and new technologies</li> </ol>

2. Directors, Supervisors and Management Team:  
 (1) Directors and supervisors  
 1.1. Shares held by the directors and supervisors

April 13, 2018

Chairman		job title	
Taiwan	Taiwan	nationality or country of incorporation	name
YEH, I-HAU	Yulong Investment Co., Ltd.	gender	date of appointment
male		term	initial appointment date
June 2, 2015	June 2, 2015		
3 years	3 years		
May 5, 1994	June 26, 2002		
10,621,565	9,888,656	shares held at time of appointment	
2.41%	2.24%	number of shares	shareholding ratio
5,621,565	9,888,656	number of shares	Shareholding ratio
1.29%	2.28%	number of shares	shareholding ratio
N/A	-	number of shares	shareholding ratio
N/A	-	number of shares	shareholding ratio
N/A	-	number of shares	shareholding ratio
N/A	-	number of shares	shareholding ratio
Institute of Communications Engineering; Engineer of the Industrial Technology Research Institute; Manager of Huazhan Semiconductor Co., Ltd.; Director of Hualong Microelectronics Co., Ltd.		major work (education) experiences (Note 2)	
Director of Lianding, Huading, Qiding, Jiuding, Yuanding, Fuding, Wending, Liding Venture Capital, Yiding Biotech Ventures, North Star Venture Capital, InnoBridge International, and SINOCON Industrial Standards Foundation; Chairman of ELAN (HK), Power Asia, ELAN Investment, Metanoia, Avisonic Technology, and PIXORD		Currently serving concurrently in the Company and other company	
N/A	N/A	job title	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	name	
N/A	N/A	relationship	

Director	Director	job title
Taiwan	Taiwan	nationality or country of incorporation
CHIU, TE-CHEN	YEN, KUO-LUNG	name
male	male	gender
June 2, 2015	June 2, 2015	date of appointment
3 years	3 years	term
March 30, 2000	June 14, 1997	initial appointment date
N/A	2,860,794	number of shares
N/A	0.65%	shareholding ratio
N/A	2,860,794	number of shares
N/A	0.66%	Shareholding ratio
N/A	N/A	number of shares
N/A	N/A	shareholding ratio
N/A	N/A	number of shares
N/A	N/A	Shareholding ratio
		shares held at time of appointment
		number of shares currently held
		shares currently held by spouse and/or children under 20 years of age
		shares held in the name of others
		major work (education) experiences (Note 2)
		Currently serving concurrently in the Company and other company
		Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	job title
N/A	N/A	name
N/A	N/A	relationship

Director		job title	
Taiwan	Taiwan	nationality or country of incorporation	
WEL, CHI-LIN	Zonglong Investment Co., Ltd.	name	
male		gender	
June 2, 2015	June 2, 2015	date of appointment	
3 years	3 years	term	
June 12, 2006	June 26, 2002	initial appointment date	
N/A	4,398,434	number of shares	shares held at time of appointment
N/A	1.0%	shareholding ratio	
N/A	4,398,434	number of shares	number of shares currently held
N/A	1.01%	Shareholding ratio	
N/A	N/A	number of shares	shares currently held by spouse and/or children under 20 years of age
N/A	N/A	shareholding ratio	
N/A	N/A	number of shares	shares held in the name of others
N/A	N/A	Shareholding ratio	
Paris University, Ph.D. in Economics; The Imperial College of Science, Technology and Medicine (Imperial College, London), Master of Management; Chairman of Land Bank of Taiwan; Secretary-general, Executive Yuan; Director of Internation Business, National Taiwan University	N/A		major work (education) experiences (Note 2)
Professor of Business Administration, National Taiwan Univery; Director of Achel Polytech; Director of Qiding, Huading, Yuanding Ventures; and Independent Director of Inventec Besta, Sinbon and Formosa Plastics	N/A		Currently serving concurrently in the Company and other company
N/A	N/A	job title	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	name	
N/A	N/A	relationship	



Independent Director	job title	
	nationality or country of incorporation	
Taiwan	name	
LIN, MAO-KUEI	gender	
male	date of appointment	
June 2, 2015	term	
3 years	initial appointment date	
June 2, 2015	number of shares	shares held at time of appointment
N/A	shareholding ratio	
N/A	number of shares	number of shares currently held
N/A	Shareholding ratio	
N/A	number of shares	shares currently held by spouse and/or children under 20 years of age
N/A	shareholding ratio	
N/A	number of shares	shares held in the name of others
N/A	Shareholding ratio	
Graduated from National Taipei Technical College; Executives Program, NCCU MBA Program; Honorary Doctorate, National Taipei University of Technology; Plant Manager of Lite-on Electronics Co.,Ltd.		major work (education) experiences (Note 2)
		Currently serving concurrently in the Company and other company
Vice Chairman and CEO of Chicony Electronics, Chicony Power Technology Co., Ltd.; Chairman (corporate representative) and CEO of Zhanda Communications Co., Ltd., Yokang Electronics; Vice Chairman (corporate representative) and CEO of Hipro Electronics Co., Ltd., Qunjing Power Co., Ltd., Guangsheng Investment Co., Ltd.; Vice Chairman of Chicony Electronic (Dong Guan) Co., Ltd.; Director of subsidiaries such as Chicony Overseas / Suzhou / Czech / Thailand / Maofeng / Rueyang / Guangmao / Maorue / Guangxin / Chongqing, Hipro Overseas, Chicony Power Technology (HK) Co., Ltd. / Suzhou / Chongqing / Dongguan, Chicony Power USA / Holding, International, Dongguan Trading Company, Chicony Energy Saving (Shanghai), Guangsheng Electronics (Nanchang), Wits Light and Zhanda Overseas / Suzhou, Directmax, Systemax, Jwei Auto Parts, HAD ERI IOU (Hong Kong), WitsLight Technology (Kunshan), Zhuzhou Torch Spark Plug; Director / CEO / Secretary of Chicony (USA); Director and CEO of Chicony America Group Inc.; Supervisor of Chicony (Japan); Director of Clevo Computer Manufacturing Company; Chairman of Hei Mu Investment Co., Ltd.; Corporate Representative of HAD ERI IOU Industrial Inc.; Qinguang Technology Co., Ltd., Anguo Co., Ltd., North Star Co., Ltd.; Member of Remuneration Committee and Independent Director of Bo Zhi Electronic Co., Ltd.; Director of Nien Made Enterprise		
	job title	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
	name	
N/A	relationship	
N/A		

Independent Director	Independent Director	job title
Taiwan	Taiwan	nationality or country of incorporation
CHEN, HOMING	LIN, HSIEN-MING	name
male	male	gender
June 2, 2015	June 2, 2015	date of appointment
3 years	3 years	term
June 2, 2015	June 2, 2015	initial appointment date
N/A	N/A	number of shares
N/A	N/A	shareholding ratio
N/A	N/A	number of shares
N/A	N/A	Shareholding ratio
N/A	N/A	number of shares
N/A	N/A	shareholding ratio
N/A	N/A	number of shares
N/A	N/A	Shareholding ratio
Ph.D. in Marketing, Business Administration, National Taiwan University; Dean of the Commerce Development Research Institute; Dean of the College of Management, National Chung Hsing University	Bachelor in Electrical and Computer Engineering, National Chiao Tung University; CEO of Acer Inc.	major work (education) experiences (Note 2)
Independent Director of Fulltech Fiber Glass, Mytrex Health Technologies, Inc.; Director of Roo Hsing Co., Ltd.	Chairman and Chief Strategy Officer of Wistron Company; Chairman of Wistron Information Technology & Services Corporation; Director of Gamania Digital Entertainment Co., Ltd.; Independent Director of Taiwan Model Semiconductor Co., Ltd., Neo Solar Power Energy Corp.; Chairman of Wiwynn, Wistron Biotech Investment Holding Corporation, Wistron Digital Technology Holding Corporation	Currently serving concurrently in the Company and other company
N/A	N/A	Other manager(s), Director(s) or Supervisor(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship
N/A	N/A	job title
N/A	N/A	name
N/A	N/A	relationship

## 1.2. Main shareholders of corporate shareholders

April 13, 2018

name of the corporate shareholders	main shareholders of corporate shareholders	
Yulong Investment Co., Ltd.	YEH, I-HAU (100%)	
Zonglong Investment Co., Ltd.	YEH, I-HAU (100%)	

## 1.3. Independence of the Directors and Supervisors:

April 13, 2018

Qualification name	Does he/she have more than 5yrs of work experience and the following professional qualifications?			Degree of independence (Note)										Number of independent directors serving concurrently as independent director of other public companies
	Public and private universities lecturer (or above) in business, legal, financial, accounting or other fields related to the business of the Company	Judge, prosecutor, lawyer, accountants or other certified professionals and technicians in the fields related to the business of the Company	Work experience in business, legal, financial, accounting or fields related to the business of the Company	1	2	3	4	5	6	7	8	9	10	
Yulong Investment Representative YEH, I-HAU			V						V	V		V	V	
YEN, KUO-LUNG			V			V	V	V	V	V	V	V	V	
CHIU, TE-CHEN			V	V	V	V	V	V	V	V	V	V	V	2
Zonglong Investment Representative WEI, CHI-LIN	V		V	V	V	V	V	V	V	V	V	V	V	3
LIN, MAO-KUEI			V	V	V	V	V	V	V	V	V	V	V	1
LIN, HSIEN-MING			V	V	V	V	V	V	V	V	V	V	V	2
CHEN, HOMING	V		V	V	V	V	V	V	V	V	V	V	V	2

- (1) Not an employee of the Company nor its affiliates;
- (2) Not a director or supervisor of the Company's affiliate (this does not apply to the independent director established pursuant to the Act or local law of the Company or its parent company and/or subsidiary);
- (3) Not a person, or his/her spouse, or his/her children under twenty (20) years of age, or in the name of others, who holds more than 1 percent of the Company's total shares issued or a top 10 natural person shareholder;
- (4) Not the spouse, a relative by blood or marriage within second degree of kinship or relationship or a relative by blood within fifth degree of kinship of those listed in (1) – (3);
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the Company's total shares issued, nor a director, supervisor or employee of a top 5 corporate shareholder;
- (6) Not a director (council), supervisor, manager or shareholder with more than 5% shareholding of a specific company or organization having financial or business relationship with the Company;
- (7) Not a professional providing business, legal, financial, and accounting services or consultation to the Company or its affiliates; not an owner, partner, directors (council), supervisor, manager or his/her spouse of a sole proprietorships, partnership, company or institution. However, this shall not apply where a member is performing his/her authority 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) Not a spouse or a relative by blood or marriage within second degree of kinship or relationship of another director;
- (9) Not having any one of the circumstances as identified in Article 30 of the Company Act;
- (10) Not a government agency, juristic person or its proxy pursuant to Article 27 of the Company Act.

## (2) Information about the CEO and the management team:

April 13, 2018

Chief Finance and Accounting Officer	Execute Vice President	Chairman & CEO	job title (Note 1)		
			nationality	name	gender
Taiwan	Taiwan	Taiwan			
CHEN, I-LIN	YEN, KUO-LUNG	YEH, I-HAU			
male	male	male			
June 28, 2013	November 10, 2000	September 1, 1994	date of assuming the position		
0	2,860,794	5,621,565	number of shares	shareholding	
0	0.66%	1.29%	Shareholding ratio		
N/A	N/A	N/A	number of shares	shares currently held by spouse and/or children under 20 years of age	
N/A	N/A	N/A	Shareholding ratio		
N/A	N/A	N/A	number of shares	shares held in the name of others	
N/A	N/A	N/A	Shareholding ratio		
Department of Accounting and Information Technology; National Chengchi University Department of Finance; Deputy Manager of Klynveld Peat Marwick Goerdeler; Manager of Elantech Devices Corporation; Senior Manager of ELAN Microelectronics Corporation	Graduate Institute of Electrical Engineering, National Taiwan University; Engineer of the Industrial Technology Research Institute; Manager of Hualong Microelectronics Co., Ltd.	Institute of Communications Engineering; Engineer of the Industrial Technology Research Institute; Manager of Huazhan Semiconductor Co., Ltd.; Director of Hualong Microelectronics Co., Ltd.		major work (education) experiences (Note 2)	
N/A	Director of Eminent Electronic Technology; Corporate Representative of ELAN Investment, Avionic Technology, Metanoia Communications, Uniband Electronic, Lyra Semiconductor	Director of Lianding, Huading, Qiding, Jiuding, Yuanding, Fuding, Wending, Liding Venture Capital, Yiding Biotech Ventures, North Star Venture Capital, InnoBridge International, SINOCON Industrial Standards Foundation, ELAN (HK), Power Asia; Chairman of ELAN Investment, Metanoia, Avionic Technology, PIXORD		position held concurrently in other company	
N/A	N/A	N/A	job title	Manager(s) having spousal relationship or and/or a relative by blood or marriage within second degree of kinship	
N/A	N/A	N/A	name		
N/A	N/A	N/A	relationship		

Note 1: All job positions, regardless of the job title, equivalent to CEO, Vice President or Director shall be disclosed.

Note 2: If the experiences related to the current position involves serving in the firm of the auditing Certified Public Accountant or its affiliate during the prior period thereof, the job title and job descriptions therein shall be specified.

### 3.1 Directors' remuneration

unit: NT\$'000 / '000 share

\*The remuneration received by the Company's Directors for services rendered (such as serving as non-employee consultants) to all companies listed in the financial statements other than those disclosed in the schedule above: N/A

[Note 1] “Pension” referred to the pension amount contributed in 2017.

### Schedule of Remuneration

remuneration range paid to each Director of the Company	Director's name			
	total remuneration amount (A+B+C+D)		total remuneration amount (A+B+C+D+E+F+G)	
	the Company (Note 8)	all companies listed in the financial statements (Note 9) H	the Company (Note 8)	all joint venture businesses (Note 9) I
less than NT\$2,000,000	LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMING	LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMING	LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMING	WEI, CHI-LIN; LIN, MAO-KUEI; LIN, HSIEN-MING; CHEN, HOMING
NT\$2,000,000 (including) ~ NT\$5,000,000	YEN, KUO-LUNG; CHIU, TE-CHEN	YEN, KUO-LUNG; CHIU, TE-CHEN	CHIU, TE-CHEN	CHIU, TE-CHEN
NT\$5,000,000 (including) ~ NT\$10,000,000	Yulong Investment; Zonglong Investment	Yulong Investment; Zonglong Investment	Yulong Investment; Zonglong Investment	Yulong Investment; Zonglong Investment
NT\$10,000,000 (including) ~ NT\$15,000,000			YEH, I-HAU; YEN, KUO-LUNG	YEN, KUO-LUNG
NT\$15,000,000 (including) ~ NT\$30,000,000				YEH, I-HAU
NT\$30,000,000 (including) ~ NT\$50,000,000				
NT\$50,000,000 (including) ~ NT\$100,000,000				
NT\$100,000,000 or above				
total	7 seats	7 seats	8 seats	9 seats

Note 1: The names of the Directors shall be separately presented (a corporate shareholder shall list the name of the corporate shareholder and its representative separately) and disclose the amount of each payment in a consolidated manner. If a Director is serving concurrently as a CEO or Vice President, this form and form (3-1) or (3-2) hereunder shall be filled in.

Note 2: Referred to the Directors' remuneration in the last fiscal year (including Directors' salary, supervisory differential pay, termination pay, various bonuses, incentives, etc.).

Note 3: Fill in Directors' remuneration amount of the last fiscal year authorized by the Board of Directors to be distributed.

Note 4: Referred to the relevant business execution costs (including transportation allowances, special disbursements, various allowances, living quarters, assigned company cars, etc.) of the Directors incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration.

Note 5: Referred to the salary, supervisory differential pay, termination pay, various bonus, incentives, transportation allowances, special disbursements, various allowances, living quarters and assigned company cars of the Directors for serving concurrently as employee (including serving concurrently as CEO, Vice President, other manager and employee) incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration. Furthermore, salary expenses, including employee stock option certificate(s), restricted stock award(s) and participation in stock options at cash capital increase, recognized pursuant to IFRS 2 "Share-based Payment" shall also be included in the remuneration.

Note 6: The employee compensation (including shares and cash) of the Directors serving concurrently as employee (including serving concurrently as CEO, Vice President, other manager and employee) during the last fiscal year shall be disclosed upon the Board of Directors' authorization to distribute. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year and fill out the attached form 1 - 3.

Note 7: The total amount of various remunerations paid to the Company's Directors by the companies (including the Company) listed in the consolidated financial statements shall all be disclosed.

Note 8: The total amount of various remunerations paid to each Director by the Company shall be disclosed in the Schedule of Remuneration along with name of the Directors.

Note 9: The total amount of various remunerations paid to each Director by the companies listed in the consolidated financial statements shall be disclosed in the Schedule of Remuneration along with name of the Directors.

Note 10: Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 11: a) The remuneration amount received by the Company's Directors from the related nonsubsidiary joint venture business(es) shall be clearly stated in this field.

b) If the Company's Directors received remuneration from related nonsubsidiary joint venture business(es), the remuneration received by the Company's Directors from nonsubsidiary joint venture business(es) shall be consolidated in field-I of the Schedule of Remuneration and revise the field name to be "all joint venture businesses".

c) The remuneration referred to the remunerations (including employee compensation and Directors and Supervisors' remuneration) and business execution costs related compensation received by the Company's Directors for serving as Directors, Supervisors or managers in the nonsubsidiary joint venture business(es).

3.2 Supervisors' remuneration: The Company has appointed 3 Independent Directors in 2015 to establish the Audit Committee in lieu of Supervisors; therefore, there was no Supervisors' remuneration in 2017.

3.3 CEO and Vice President's remunerations:

December 31, 2017  
Unit: NT\$'000 / '000 shares

Execute Vice President		CEO	job title	
YEN, KUO-LUNG	YEH, I-HAU		name	
12,443			the Company	
16,935			all companies listed in the financial statements (Note 5)	
299			the Company	
299			all companies listed in the financial statements (Note 5)	
4,464			the Company	
5,213			all companies listed in the financial statements (Note 5)	
3,720			cash amount	the Company
0			amount in shares	
3,720			cash amount	all companies listed in the financial statements (Note 5)
0			amount in shares	
1.95%			the Company	
2.44%			all companies listed in the financial statements (Note 5)	
485				remuneration received from nonsubsidiary joint venture business (Note 9)

[Note] "Pension" referred to the pension amount contributed in 2017.

### Schedule of Remuneration

remuneration range paid to each CEO and Vice President of the Company	name of the CEO and Vice President	
	the Company (Note 6)	all joint venture businesses (Note 7) E
less than NT\$2,000,000		
NT\$2,000,000 (including) ~ NT\$5,000,000		
NT\$5,000,000 (including) ~ NT\$10,000,000	YEN, KUO-LUNG	YEN, KUO-LUNG
NT\$10,000,000 (including) ~ NT\$15,000,000	YEH, I-HAU	
NT\$15,000,000 (including) ~ NT\$30,000,000		YEH, I-HAU
NT\$30,000,000 (including) ~ NT\$50,000,000		
NT\$50,000,000 (including) ~ NT\$100,000,000		
NT\$100,000,000 or above		
total	2 persons	2 persons

Note 1: The names of the CEO and Vice President shall be separately presented and disclose the amount of each payment in a consolidated manner. If a Director is serving concurrently as a CEO or Vice President, this form and form (1-1) or (1-2) hereunder shall be filled in.

Note 2: Referred to the CEO and Vice President's remuneration in the last fiscal year (including Directors' salary, supervisory differential pay, termination pay, various bonuses, incentives, etc.).

Note 3: Fill in various bonus, incentives, transportation allowances, special disbursements, various allowances, living quarters, assigned company cars and other remuneration amount of the CEO and Vice President incurred during the last fiscal year. If house, car and other transportation or personal expenditures are provided, the nature and costs of the assets so provided, actual rent or rent at fair market value, gasoline allowances and other payments shall be disclosed. In addition, if driver(s) is provided, please specify relevant compensation of the driver(s) paid by the Company, of which shall not be included in the remuneration. Furthermore, salary expenses, including employee stock option certificate(s), restricted stock award(s) and participation in stock options at cash capital increase, recognized pursuant to IFRS 2 "Share-based Payment" shall also be included in the remuneration.

Note 4: The employee compensation (including shares and cash) of the CEO and Vice President during the last fiscal year authorized to be distributed by the Board of Directors. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year and fill out the attached form 1 – 3. Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 5: The total amount of various remunerations paid to the Company's CEO and Vice President by the companies (including the Company) listed in the consolidated financial statements shall all be disclosed.

Note 6: The total amount of various remunerations paid to each CEO and Vice President by the Company shall be disclosed in the Schedule of Remuneration along with name of the CEO and Vice President.

Note 7: The total amount of various remunerations paid to each CEO and Vice President by the companies listed in the consolidated financial statements (including the Company) shall be disclosed in the Schedule of Remuneration along with name of the CEO and Vice President.

Note 8: Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 9: a) The remuneration amount received by the Company's CEO and Vice President from the related nonsubsidiary joint venture business(es) shall be clearly stated in this field.

b) If the Company's CEO and Vice President received remuneration from related nonsubsidiary joint venture business(es), the remuneration received by the Company's CEO and Vice President from nonsubsidiary joint venture business(es) shall be consolidated in field-E of the Schedule of Remuneration and revise the field name to be "all joint venture businesses".

c) The remuneration referred to the remunerations (including employee compensation and Directors and Supervisors' remuneration) and business execution costs related compensation received by the Company's CEO and Vice President for serving as Directors, Supervisors or managers in the nonsubsidiary joint venture business(es)



### 3.4 Name(s) of the manager(s) and the employee compensation distributed:

December 31, 2017  
Unit: NT\$'000 / share

	job title (Note 1)	name (Note 1)	stock bonus amount	cash bonus amount	total	Percentage of the total amount to Net Income After Taxes
managers	CEO	YEH, I-HAU	0	3,955	3,955	0.36%
	Execute Vice President	YEN, KUO-LUNG				
	Chief Finance and Accounting Officer	CHEN, I-LIN				

Note 1: The names and job title(s) of the manager(s) shall be presented and disclose the amount of profit distribution in a consolidated manner.

Note 2: The employee compensation (including shares and cash) of the manager(s) during the last fiscal year authorized to be distributed by the Board of Directors. If the amount cannot be estimated, the proposed amount to be distributed shall be based on the proportional actual distributed amount of the previous year. Net Income After Taxes referred to Net Income After Taxes of the last fiscal year; for those who have adopted the International Financial Reporting Standards, Net Income After Taxes shall be Net Income After Taxes presented on the Individual Financial Statements of last fiscal year.

Note 3: "Manager" shall, pursuant to the provisions prescribed in document number Tai-Cai-Zheng-San-Zi-0902001301 issued by the Chamber on 27 March 2003, include the following:

- (1) CEO and those assuming equivalent position;
- (2) Vice President and those assuming equivalent position;
- (3) Director and those assuming equivalent position;
- (4) Chief Financial Officer
- (5) Chief Accounting Officer
- (6) other managing personnel and signatory of the Company.

Note 4: The Director, CEO and Vice President who received employee compensation (including shares and cash) shall, in addition to filling out the attached for 1 – 2, also fill out this form.

- (4) Analysis on the percentage of total remuneration amount paid to the Company's Directors, Supervisors, CEO and Vice President by the Company and all companies listed in the consolidated financial statements to Net Income After Taxes during the past 2 years and explain the policies, standards and mix of remuneration, the procedures of setting the remuneration, and the correlation with operating performance:

Unit: NT\$'000

job title	2017				2016			
	the Company		all companies listed in the consolidated financial statements		the Company		all companies listed in the consolidated financial statements	
	total remuneration amount	Percentage to Net Income After Taxes	total remuneration amount	Percentage to Net Income After Taxes	total remuneration amount	Percentage to Net Income After Taxes	total remuneration amount	Percentage to Net Income After Taxes
Director	21,800	2.03%	21,800	2.03%	11,820	1.81%	11,820	1.81%
Supervisor	0	0%	0	0%	0	0%	0	0%
CEO and Vice President	20,926	1.95%	26,167	2.44%	18,778	2.88%	24,338	3.73%

Explanation:

- (1) The remunerations of the Company's Directors and managers are subject to provisions of the Articles of Association, which shall be reviewed by the Remuneration Committee based on each Director and manager's degree of participation and contribution in the Company's operation and submitted to the Board of Directors after taking into account the payment standard in the industry;
- (2) The 2017 Profit Distribution was the proposed distribution amount; the 2016 Profit Distribution was the actual distributed remuneration;
- (3) Since the Company has written down the beginning Retained Earnings by Treasury Stock Retired in 2016, the basis of Directors' remuneration recognized in 2017 is greater than that of in 2016, which caused the percentage of increase in Directors' remuneration to be higher than Net Profit Margin. However, in terms of distributable surplus after considering the accumulated surplus (loss) at the beginning of the period, the percentage of increase in total remuneration of the Directors was not greater than the percentage of increase of the distributable surplus.

### 3. Implementation of Corporate Governance:

#### (1) Operation of the Board of Directors:

The Board of Directors has held 6 meetings (A) during the last fiscal year, and the attendance thereof is described as follows:

job title	name	actual number of times of attendance [B]	number of times attended by a proxy	actual attendance rate (%) [B/A]	remarks
Chairman	Yulong Investment Co., Ltd. representative: YEH, I-HAU	5	1	83.3%	
Director	YEN, KUO-LUNG	6	0	100%	
Director	Zonglong Investment Co., Ltd. representative: WEI, CHI-LIN	6	0	100%	
Director	CHIU, TE-CHEN	6	0	100%	
Independent Director	LIN, MAO-KUEI	4	1	66.6%	
Independent Director	LIN, HSIEN-MING	4	2	66.6%	
Independent Director	CHEN, HOMING	5	1	83.3%	

Other items to be noted:

- In the event of any of the following circumstances concerning the operation of the Board of Directors, the date, session number, agenda of the Board meeting, all Independent Director's opinions and how the Company process the Independent Director's opinions shall be specified:
  - Matters relating to Article 14-3 of the Securities and Exchange Act: Not applicable; the Company has established the Audit Committee.
  - Other Board resolutions, except the matters mentioned above, opposed or given qualified opinion by Independent Director(s) with record(s) or written statement(s): not applicable.
- Where the Director avoided conflict of interests, specify the Director's name, agenda, reason for the avoidance of conflict of interests and participation in voting: not applicable
- The goals to strengthen the functions of the Board of Directors (such as establishing an Audit Committee, enhance information transparency, etc.) for the current year and last fiscal year and assessment on the execution: On 2 June 2015, 3 Independent Directors were appointed during the shareholders' meeting and formed an Audit Committee to improve the diversity among the Board members.

(2) Operation of the Audit Committee:

The Audit Committee has held 2 meetings (A) during the last fiscal year, and the attendance of the Independent Director is described as follows:

job title	name	actual number of times of attendance [B]	number of times attended by a proxy	actual attendance rate (%) [B/A] (Note)	remarks
Independent Director	LIN, MAO-KUEI	1	1	50%	
Independent Director	LIN, HSIEN-MING	2	0	100%	
Independent Director	CHEN, HOU-MING	2	0	100%	

Other items to be noted:

1. In the event of any of the following circumstances concerning the operation of the Audit Committee, the date, session number, agenda of the Board meeting, the Audit Committee resolution and how the Company process the Audit Committee resolution shall be specified.

(1) Matters relating to Article 14-5 of the Securities and Exchange Act;

(2) Other Board resolutions, except the matters mentioned above, passed by 2/3 (or above) of the Directors byt opposed by the Audit Committee:

Board Meeting	agenda and subsequent processes	Matters relating to Article 14-5 of the Securities and Exchange Act	Board resolutions passed by 2/3 (or above) of the Directors byt opposed by the Audit Committee
The Eighth Session No. 11 March 10, 2017	1. To discuss about the Company's 2016 self-assessed financial statements and consolidated financial statements.	V	
	2. To pass the internal control design and Statement on Internal Control.	V	
	3. To appoint accountant(s) of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2017 financial statements and tax reports.	V	
	The Audit Committee resolutions (March 10, 2017): all members of the Audit Committee have agreed to pass.		
	How the Company process the Audit Committee resolution: all attending Directors agreed to pass.		
The Eighth Session No. 14 August 10, 2017	1. To discuss about the Company's Q2 / 2016 self-assessed financial statements and consolidated financial statements	V	
	The Audit Committee resolutions (August 10, 2017): all members of the Audit Committee have agreed to pass.		
	How the Company process the Audit Committee resolution: all attending Directors agreed to pass.		

2. Where the Independent Director avoided conflict of interests, specify the Independent Director's name, agenda, reason for the avoidance of conflict of interests and participation in voting: not applicable.

3. Communication between the Independent Director and chief audit executive and accountant (include major topics, methods and results relating to the Company's financial and business status that shall be communicated): The Company's financial status, material reclassification adjustments, key audit items, newly issued accounting Auditing Standards, laws and regulations and their influence on the Company reported to the Independent Directors by the Accountant in the aforementioned 2nd Audit Committee meeting in 2017; the auditor's audit report submitted regularly to the Independent Directors pursuant to laws and regulations, and the assistance on helping the Independent Directors in understanding the Company's various business operations.

Note:

\* If an Independent Director left his/her position before the end of the year, the date he/she left the position shall be specified in the "remarks" field and the actual attendance rate (%) shall be calculated based on the number of Audit Committee meetings and his/her actual number of times of attendance during his/her term

\* If there is an independent director re-election before the end of the year, the information of both previous and new Independent Directors shall be filled in the "remarks" field specifying who is the previous Independent Director, who is the new or re-elected Independent Director and the re-election date; and the actual attendance rate (%) shall be calculated based on the number of Audit Committee meetings and his/her actual number of times of attendance during his/her term

(3) Supervisors' participation in the operation of the Board of Directors: N/A. The Company has established the Audit Committee in lieu of Supervisors in 2015.

(4) Differences between the corporate governance status and the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor:

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
1. Did the Company set and disclose the Code of Corporate Practice pursuant to the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies”?		V	Currently, the Company currently has yet set the Code of Corporate Practice.	Will be evaluated base on future conditions before determining whether it shall be set.
2. The Company’s equity structure and shareholders equity				
(1) Did the Company set and implement internal operating procedures to process shareholders’ advises, doubts, disputes and litigation matters?	V		The Company has set up Spokesperson system and legal department to process relevant issues.	N/A
(2) Did the Company master the list of the Company’s major shareholders and ultimate controllers of the major shareholders?	V		The Company has set up personnel dedicated to stocks/shares related matters and entrusted agent Masterlink Securities to process stocks/shares related affairs.	N/A
(3) Did the Company establish and execute risk management and firewall mechanisms with its affiliates?	V		The Company has formulated the “Regulations on the Operating Management of Subsidiary” as the basis for control.	N/A
(4) Did the Company set internal regulations prohibiting the Company’s staff members from using undisclosed information in securities trading?	V		The Company has formulated the “Major Internal Information Processing Procedures” and “Ethical Code of Conduct” specifications.	N/A
3. Composition and responsibilities of the Board of Directors				
(1) Did the Board of Directors formulate and implement a diversified approach for the member composition?	V		3 Independent Directors were appointed in the 2015 shareholders’ meeting pursuant to request of the competent authority to increase the diversity among the Board members.	N/A
(2) Did the Company, in addition to the establishment of the Remuneration Committee and Audit Committee by laws, voluntarily establish other types of functional committees?		V	Currently, no other functional committees has been established.	Will establish other functional committees according to the actual Operating needs of the Company.
(3) Did the Company set methods of evaluating the performances of the Board of Directors perform the evaluation regularly on a yearly basis?	V		The Company has set up Remuneration Committee to review the Directors’ performance assessment on a regular basis.	N/A
(4) Did the Company regularly evaluate the independence of the Certified Public Accountant?	V		The Company assessed the independence of the accountant on yearly basis and has submitted the results on 8 Mar 2018 to the Audit Committee and the Board of Directors for authorization before the appointment of the accountant. The Company has evaluated Accountant TSENG, MEI-YU and Accountant KAO, WEI-CHUAN of Klynveld Peat Marwick Goerdeler (KPMG) and concluded with the issuance of written statement that they	N/A

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor																								
	Yes	No	brief explanations																									
			<div>both met the Company’s independence assessment standards (Note 1) and are suitable to serve as the Company’s Certified Public Accountants and accounting firm.</div> <div>Note 1: Independence assessment standards for accountant(s)</div> <table><tr><th>assessment items</th><th>assessment results</th><th>independence</th></tr><tr><td>1.Does the Accountant has direct or major indirect financial interests with the Company?</td><td>No</td><td>Yes</td></tr><tr><td>2.Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?</td><td>No</td><td>Yes</td></tr><tr><td>3.Does the Accountant have close business relationship and potential employment relationship with the Company?</td><td>No</td><td>Yes</td></tr><tr><td>4 Did the Accountant and its audit team member currently or use to serve in the Company as a director, manager or other position having major influence on the audit work during the past 2 years?</td><td>No</td><td>Yes</td></tr><tr><td>5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?</td><td>No</td><td>Yes</td></tr><tr><td>7.Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?</td><td>No</td><td>Yes</td></tr><tr><td>8.Is the Accountant related in kinship or marriage with the Company’s Director, manager or other person having major influence on the audit work?</td><td>No</td><td>Yes</td></tr></table>	assessment items	assessment results	independence	1.Does the Accountant has direct or major indirect financial interests with the Company?	No	Yes	2.Does the Accountant have financing or guarantee behaviors with the Company or the Company’s Directors?	No	Yes	3.Does the Accountant have close business relationship and potential employment relationship with the Company?	No	Yes	4 Did the Accountant and its audit team member currently or use to serve in the Company as a director, manager or other position having major influence on the audit work during the past 2 years?	No	Yes	5. Did the Accountant provide the Company with non-audit service item that may directly affect audit the work?	No	Yes	7.Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?	No	Yes	8.Is the Accountant related in kinship or marriage with the Company’s Director, manager or other person having major influence on the audit work?	No	Yes	
assessment items	assessment results	independence																										
1.Does the Accountant has direct or major indirect financial interests with the Company?	No	Yes																										
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7.Did the Accountant ever serve as the Company’s defender or represent the Company in coordinating conflicts with other third parties?	No	Yes																										
8.Is the Accountant related in kinship or marriage with the Company’s Director, manager or other person having major influence on the audit work?	No	Yes																										
4. Did the TWSE/GTSM listed companies establish Corporate Governance Responsible Unit or personnel to be responsible for corporate governance related affairs (including but not limited to providing information required by the Directors and/or Supervisors to execute the business, and, pursuant to laws and regulation, processing the Board meeting and shareholders’ meeting	V		<div>The Company assigned the Financial Accounting Office, Administrative Management Office, Intellectual Property Compliance Office and Auditors Office to take charge of corporate governance related operations:</div> <div>1. To study and plan appropriate company system and organizational structure to promote the independence of the Board of Directors, transparency of the Company, compliance with the laws and regulations, and implementation of the internal control of internal audit.</div> <div>2. To prepare the agenda before the Board meeting and notify all Directors to attend and provide sufficient meeting materials at least 7 days before the meeting to facilitate the Directors in understanding the contents of the related topics; the interested parties shall be reminded should the contents of the issues call for their avoidance of conflict of interests.</div> <div>3. Register the date of the shareholders' meeting within the</div>	N/A																								

assessment items	operating status (Note)			Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
related matters, processing company registration and change of registration, generating minutes of the Board meetings and shareholders’ meetings, etc.)?			deadline on yearly basis pursuant to laws and regulations, generate and file the meeting notification, meeting handbook and minutes within the deadline, and register after the modification on Article of Association or re-election of the Directors.	
5. Did the Company establish communication channel with interested parties (including but not limited to shareholders, employees, customers and suppliers), set up an Interested Parties Zone on the Company’s website, and duly respond to important corporate social responsibility issues concerned by the interested parties?	V		The Company’s website has set up an Interested Parties Zone and public e-mail to safeguard the communication channel of the interested parties.	N/A
6. Did the Company appoint professional service agency to process affairs of the shareholders’ meeting?	V		The Company has entrusted professional stock agent Masterlink Securities to handle the shareholders’ meeting related affairs.	N/A
7. Information disclosure (1) Did the Company set up a website to disclose information concerning financial operations and corporate governance? (2) Did the Company adopt other means of disclosing information (such as setting up an English website, assigning someone to take charge of the collection and disclosure of the Company’s information, implementing the Spokesperson system, posting Corporate Conference process on the Company’s website)?	V  V		The Company has set up external website (URL <a href="http://www.emc.com.tw">http://www.emc.com.tw</a> ) to disclose financial operations information and corporate governance information.  Currently, the Company has a dedicated website and dedicated Spokesperson. The video/audio files and newsletter of Corporate Conference will also be posted on the Company’s website for public references.	N/A  N/A
8. Does the Company possess other important information (including but not limited to employee rights, employee care, investor relations, supplier relations, rights of the interested parties, trainings of the Directors and Supervisors, execution status of risks manage policies and risks measurement standards, execution status of customer policies, liability insurance purchased by the Company for the Directors and Supervisors, etc.) that	V		1. In addition to common benefit such as health insurance, social security, group insurance and pension, employees of the Company also enjoy benefits provided by the Company such as bonuses for the year, employee compensation, regular health checkups, established medical room to care for employees’ health, employees travel allowances and club activities. 2. The Company has set up Spokesperson, Acting Spokesperson and public e-mail as communication bridge between the Company and the investors. The Company’s external website (URL <a href="http://www.emc.com.tw">http://www.emc.com.tw</a> ) also has set up an Interested Parties Zone to present various aspects concerned by the interested parties and related means of communication and response. 3. Training status of the Directors and Supervisors:	N/A

assessment items	operating status (Note)										Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations								
can help in understanding the corporate governance operating status??											

assessment items	operating status (Note)						Differentiation from the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor		
	Yes	No	brief explanations						
					Oct. 2017	Taiwan Corporate Governance Association	Legal Risks of the Company’s Directors and Management Level	3	
			Independent Director LIN, MAO-KUEI	Nov. 2017	Taiwan Corporate Governance Association	New personal taxation management concepts under the tide of global tax recovery	6		
			Independent Director CHEN, HOMING	Sep. 2017	Taiwan Corporate Governance Association	Corporate Governance and Functions of the Board of Directors	3		
			4. If the Board meeting convened by the Company involves personal interests of the Director(s) which are potentially damaging to the Company’s interests, the Director(s) shall uphold self-discipline to avoid the participation in voting or represent other Director(s) in exercising voting power.						
			5. The Company has purchased NT\$160,000,000 liability insurance for the Directors and managers, of which the related underwriting period and premiums has been reported in the Board meeting on March 10, 2017.						
9. Please state the status of improvement for issues identified in the corporate governance evaluation results issued by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the last fiscal year and propose priority enhancements and measures for those that have not yet improved. (This is not applicable for the companies not listed as a rated company:									
The issues identified in the Company’s 2017 corporate governance evaluation results that have been improved: The Company’s annual reports and the disclosure of various employees’ benefit measures, pension system and their implementation status on the website, the adaptation of electronic voting in the Company’s Annual General Meeting of Shareholders, and the adaptation of candidate nomination system stipulated in the Article of Association.									
Future priority enhancement items: Notify the meeting in English 30 days before the Annual General Meeting of Shareholders, upload the English version meeting handbook 21 days before the Annual General Meeting of Shareholders, upload the English version annual reports 7 days before the Annual General Meeting of Shareholders.									

Note: Explanations shall be specified in the “brief explanations” field regardless whether Yes or No was selected for the operating status.



(5) Information about members of the Remuneration Committee

Job title (Note 1)	Qualification  name	Does he/she have more than 5yrs of work experience and the following professional qualifications?			Degree of independence (Note 2)								Number of independent directors serving concurrently as independent director of other public companies	remarks
		Public and private universities lecturer (or above) in business, legal, financial, accounting or other fields related to the business of the Company	Judge, prosecutor, lawyer, accountants or other certified professionals and technicians in the fields related to the business of the Company	Work experience in business, legal, financial, accounting or fields related to the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	CHEN, HOMING	✓			✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	LIN, MAO-KUEI			✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	LIN, HSIEN-MING			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	

Note 1: Please fill in the job title as “Director”, “Independent Director” or “other”.

Note 2: For each director who meets the following conditions during the past two years prior to his/her appointment and during his/her term, please mark “☒” in the cell under that number

- (1) Not an employee of the Company or its affiliates;
- (2) Not a director or supervisor of the Company or its affiliates. However, this does not apply to the Independent Director established pursuant to the Act or local law of the Company or its parent company and/or subsidiary);
- (3) Not a person, or his/her spouse, or his/her children under 20 years of age, or in the name of others, who holds more than 1 percent of the Company’s total shares issued or a top 10 natural person shareholder;
- (4) Not the spouse, a relative by blood or marriage within second degree of kinship or relationship or a relative by blood within third degree of kinship of those listed in (1) – (3);
- (5) Not a director, supervisor or employee of a corporate shareholder who directly holds more than 5% of the Company’s total shares issued, nor a director, supervisor or employee of a top 5 corporate shareholder;
- (6) Not a director (council), supervisor, manager or shareholder with more than 5% shareholding of a specific company or organization having financial or business relationship with the Company;
- (7) Not a professional providing business, legal, financial, and accounting services or consultation to the Company or its affiliates; not an owner, partner, directors (council), supervisor, manager or his/her spouse of a sole proprietorships, partnership, company or institution;
- (8) Not having any one of the circumstances as identified in Article 30 of the Company Act.

(6) Operating status of the Remuneration Committee

1. The Company has a total of 3 Remuneration Committee members.
2. Term of the members of the 3<sup>rd</sup> Committee: CHEN, HOU-MING, LIN, MAO-KUEI, LIN, HSIEN-MING, June 11, 2015 to June 1, 2018. The Remuneration Committee has held 2 meetings (A) during the last fiscal year. The member eligibility and attendance status are as follows:

job title	name	actual number of times of attendance [B]	number of times attended by a proxy	actual attendance rate (%) [B/A] (Note)	remarks
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job title	name	actual number of times of attendance [B]	number of times attended by a proxy	actual attendance rate (%) [B/A] (Note)	remarks
Convener	CHEN, HOMING	2	0	100%	
Member	LIN, MAO-KUEI	1	0	50%	
Member	LIN, HSIEN-MING	2	0	100%	

Other items to be noted:

1. In the event of where the Board of Directors did not approve or correct the Remuneration Committee's propose, the date, session number, agenda of the Board meeting, the Board resolution and how the Company process the Remuneration Committee's resolution shall be specified (if the remuneration passed by the Board of Directors is better than that of proposed by the Remuneration Committee, please specify the differences and reason therefor): N/A.
2. In the event of where the Remuneration Committee's resolutions opposed or given qualified opinion by its member(s) with record(s) or written statement(s), the date, session number, agenda of the Remuneration Committee meeting, opinions of all members and how the members' opinions were processed: N/A.

Note:

- (1) If a Remuneration Committee member left his/her position before the end of the year, the date he/she left the position shall be specified in the "remarks" field and the actual attendance rate (%) shall be calculated based on the number of Remuneration Committee meetings and his/her actual number of times of attendance during his/her term.
- (2) If there is a Remuneration Committee member re-election before the end of the year, the information of both previous and new Remuneration Committee members shall be filled in the "remarks" field specifying who is the previous Remuneration Committee member, who is the new or re-elected Remuneration Committee member and the re-election date; and the actual attendance rate (%) shall be calculated based on the number of Remuneration Committee meetings and his/her actual number of times of attendance during his/her term

(7) Performance of social responsibility:

assessment items	operating status (Note 1)			Differentiation from the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons therefor
	Yes	No	brief explanations (Note 2)	
1. Implementation of corporate governance				No differences
(1) Did the Company set policies or system for corporate social responsibility and review the effectiveness of the implementation?	Yes		1) The corporate social responsibility management system and promotion plan of ELAN Microelectronics were set and effective on April 21, 2015 upon the Board of Directors' approval, which will also incorporate corporate social responsibility policies into performance indicators of each department with the effectiveness of implementation reviewed regularly in monthly quality meeting.	
(2) Did the Company regularly hold training on social responsibility?	Yes		2) The Company hold training on social responsibility regularly every year.	
(3) Did the Company establish dedicated unit to promote corporate social responsibility, which is authorized to the top management level by the Board of Directors to take charge and report the status to the Board of Directors?	Yes		3) The Company has established CSR committee; the Industrial Performance Management Office is serving concurrently as the unit for promoting corporate social responsibility, while CEO was authorized by the Board of Directors to serve as chairman of the committee to report the progress to the Board of Directors.	
(4) Did the Company set reasonable	Yes			

assessment items	operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations (Note 2)	
salary remuneration policies, combine the employee performance evaluation system with corporate social responsibility policies, and establish clear and effective reward and punishment system?			4) The Company has surveyed the market conditions and set reasonable compensation / remuneration policies to ensure that the compensation plan can meet the objectives of the organizational strategy and interests of the interested parties. The unit responsible for promoting corporate social operations was listed in the annual KPI items to combine with performance evaluation. A clear reward and punishment system was also established.	
2. Development for a sustainable environment (1) Did the Company commit to improving the efficiency in the utilization of various resources and use recycled materials that have a low impact on the environment? (2) Did the Company establish suitable environmental management system according to the nature of its industry? (3) Did the Company pay attention to the impact of climate change on operating activities, implement inspections on greenhouse gases, and formulate company-wide strategy for energy conservation, carbon reduction and greenhouse gas reduction?	Yes  Yes Yes		1) “Green Product” is the most basic requirement of ELAN Microelectronics. ELAN’s full range of products are all in compliance with RoHS, Sony GP, REACH, and halogen-free requirements, of which the customers are provided with Certificate of Non-Use of Hazardous Substances. 2) The Company has passed the ISO-14001:2014 Environmental Quality Management certification. 3) The Company has obtained OHSAS 18001 Occupational Safety and Health Management System certification in May 2016. 4) In 2014, the Corporate Social Responsibility Report was introduced, inspection on greenhouse gases was commenced, and a minimum 1% annual energy conservation and carbon reduction KPI was set. In addition, paperless operation and full-scale electronic management system were promoted.	No differences
3. Maintenance of social welfare (1) Did the Company formulate management policies and procedures in accordance with relevant laws and regulations and international Human Rights Treaties? (2) Did the Company establish mechanisms and channel for the employees to file complaints? Did the Company duly process employees complaints? (3) Did the Company provide employees with a safe and healthy work environment and regular safety and health education? (4) Did the Company establish regular communication mechanisms for its employees and notify its employees about operating changes that may have a significant impact on the employees via reasonable means? (5) Did the Company establish effective training programs to develop career ability for the employees? (6) Did the Company formulate policies and complaint filing procedures to protect consumer rights for R & D, procurement, production, operation and service processes? (7) Did the Company comply with relevant laws and regulations and	Yes  Yes Yes Yes No Yes		1) The Company has formulated work rules, such as gender equality, right to work and prohibition of discrimination, in accordance with relevant laws and regulations and international Human Rights Treaties, assessed the impact of the Company’s operating activities and internal management on human rights, and formulate relevant procedures. 2) The Company has provided effectively and appropriate complaint filing mechanisms and concise, convenient and unimpeded channel through the formulation of the “Employees’ Complaint Filing Procedures” to ensure equality and transparency in the complaint filing processes and the complaints are duly responded by dedicated personnel. 3) In the past 20 years, there have been no occupational safety accidents. In the 13th year, the Company has received “Distinguished Green Landscaping Award” from Hsinchu Science Park Bureau for providing the employees with healthy, comfortable and safe work environment. It has also implement safety and health training and health promotion activities on regular basis pursuant to relevant laws and regulations. 4) The Company has established a regular communication channel for the employees (such as monthly operation and employee / employer meeting), and reasonable means to notify its employees about operating changes that may have a significant impact on the employees and the right to express opinions. 5) The Company has created a good environment and established an effective career ability development training program for the career development of its employees. 6) The Company’s products are key components (chips and modules) that do not directly face consumers. However, the Company has a complete customer	No differences

assessment items	operating status (Note 1)			Differentiation from the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations (Note 2)	
international standards for the marketing and labeling of products and services? (8) Did the Company assess the supplier’s past records of environmental and social impact before establishing business relationship with the supplier? (9) Is it specified in the contract between the Company and its major suppliers that the contract may be terminated or rescinded if the supplier is involved in the violation of its corporate social responsibility policies and caused significant environment and social impact?	Yes  Yes		service and customer complaints system. If customers have problems with the products, the Company’s customers will respond through this system. 7) The marketing and labeling of the Company’s products and services all complied with “ISO 9001 Quality Management System”, “ISO 14001 Environmental Management System” international standards, as well as laws and regulations. 8) At present, the latest supplier management procedures are in the “Outsourcing Vendor Site Review Confirmation Form”. ISO14001 certificate and OHSAS 18001 certificate were added for review and evaluation. 9) Subsequent and new major suppliers’ contracts have already included terms that the contract may be terminated or rescinded if the supplier is involved in the violation of its corporate social responsibility policies and caused significant environment and social impact.	
4. Strengthen information disclosure (1) Did the Company disclose relevant and reliable corporate social responsibility related information on its website and Market Observation Post System?	Yes		The Company has disclosed “2016 ELAN Microelectronics’ Corporate Social Report” on external website and Market Observation Post System, which has been verified by certification bodies. The Company has set up “corporate responsibility” and “interested parties” zones on the external website to provide communication channel and questionnaire survey in order to strengthen the interaction and communication with the interested parties.	No differences
5. If the Company has its own code of corporate social responsibility based on the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”, please state the difference between its operation and the code thereof: No difference, because the “ELAN Microelectronics’ Corporate Social Responsibility Management System and Promotion Plan” are all in compliance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”.				
6. Other important information that may facilitate the understanding about the status of the Company’s social responsibility operation: In order to implement the disclosure of corporate social responsibility information, the Company has officially issued “2016 Corporate Social Responsibility Report” in Traditional and Simplified Chinese and English versions and disclosed on the Company’s external website and Market Observation Post System.				
7. If the Company’s Corporate Social Responsibility Report was verification standards by relevant certification bodies, it shall be specified: The Company’s “2016 Corporate Social Responsibility Report” was verified by the British Standards Institution (BSI) according to GRI Standards G4 Core Option’s AA1000 Accountability Assurance Standard, and, due to the nature and regionality of the industry, the Electronics Industry Code of Conduct (EICC), Taiwan’s “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies” were also referenced for social responsibility behaviors specifications. The report is annexed with BSI statement.				

Note 1: Explanations shall be specified in the “brief explanations” field regardless whether Yes or No was selected for the operating status.

Note 2: If the Company has prepared the Corporate Social Responsibility Report, “see page \_\_\_\_ of the Corporate Social Responsibility Report” can be noted in lieu of brief explanations.

(8) The Company’s performance of ethical management and the measures adopted:

assessment items	operating status (Note 1)			Differentiation from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
1. Set ethical operation policies and plans (1) Did the Company specify ethical operating policies and and the commitment of the	Yes		1) The Company has set “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice	No differences

assessment items	operating status (Note 1)			Differentiation from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
<p>Board of Directors and management level to actively implement operating policies practices in Articles of Association and external documents?</p> <p>(2) Did the Company set plans to prevent unethical conducts, stipulate operating procedures, code of conduct, punishment for violation and complaint filing system in various plans, and implement accordingly?</p> <p>(3) Did the Company adopt preventive measures for the operating activities that have higher risks of unethical conduct in businesses identified in Paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” or other scope of business?</p>	Yes		<p>Procedures and Code of Conduct”, which were authorized by the Board of Directors; the management level actively implemented the ethical operating policies based on fair, honest, trustworthy and transparent principles of engaging operating activities.</p> <p>2) The Company set plans to prevent unethical conducts, stipulate operating procedures, code of conduct, punishment for violation and complaint filing system in various plans, and implement accordingly.</p> <p>3) The Company has set “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice Procedures and Code of Conduct” to prevent operating activities that have higher risks of unethical conduct within its scope of business.</p>	
<p>2. Implementation of ethical operation</p> <p>(1) Did the Company evaluate ethical records of the counterparties, and specify provision of ethical conduct in the contract it entered into with its transaction counterparties?</p> <p>(2) Did the Company establish dedicated unit under the Board of Directors to promote corporate ethical operation, of which regularly report its execution status to the Board of Directors?</p> <p>(3) Did the Company formulate, provide and implement policies to prevent conflict of interests and suitable channel to express opinion / statement?</p> <p>(4) Did the Company establish effectively accounting system and internal control system to implement ethical operations and be regularly audited by internal audit unit or outsourced accountant(s)?</p> <p>(5) Did the Company regularly hold internal and/or external training on ethical operation?</p>	Yes	No	<p>1) The Company fully understood counterparties’ ethical operating conditions when entering into contract with others, and specified in the contract that the contract may be unconditionally terminated or rescind if the operating activities involve unethical conduct.</p> <p>2) The Company has assigned HR Department as the dedicated unit to promote corporate ethical operation, of which would report unusual operating conditions and business adjustments to the Board of Directors.</p> <p>3) In the event when Company’s staff member performed the Company’s business found that there is a conflict with the interests of his/her own or the juristic person it represents, or may result in the obtaining of unproperty interests by him/herself or him/herself spouse, parent(s), children or interested parties, he/she shall report the matter to his/her direct superior and the Company’s dedicated unit, and the direct superior shall provide adequate guidance.</p> <p>4) The Company has established effectively accounting system and internal control system; external accounts or secret account(s) are prohibited, and review were conducted to ensure that the design and implementation of the system continues to be effective. The internal audit unit regularly check compliance of the relevant systems according to the audit plan.</p> <p>5) The Company has promoted full understanding on the Company’s ethical operating policies to the Directors, Supervisors, managers and employee on as need basis, while the business unit promoted the same to counterparties of the Company’s business behaviors.</p>	No differences
<p>3. Operating status of the Company’s system for reporting allegations</p> <p>(1) Did the Company set specific reporting allegations and reward system, establish convenient reporting allegations channel, and assign appropriate dedicated personnel to process the allegations?</p> <p>(2) Did the Company set standards operating procedures and related confidentiality</p>	Yes		<p>1) The Company has set specific reporting allegations and reward system, of which the employee may report to the Supervisors, managers, internal audit unit or other appropriate personnel when violation of laws and regulations or Ethical Code of Conduct is suspected or found.</p> <p>2) The Company has set standards operating procedures and related confidentiality</p>	No differences

assessment items	operating status (Note 1)			Differentiation from the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons therefor
	Yes	No	brief explanations	
mechanisms to process allegations? (3) Did the Company adopt measures to protect those who reported allegations from improper treatment due to the allegations?			mechanisms. The Intellectual Property Compliance Office was established as the dedicated unit for processing business secrets, responsible for formulating and implementing the Company’s business secrets management, storage and safeguarding procedures to ensure continued effectiveness of the operating procedures. 3) The Company will do its best to protect safety of who reported allegations from improper treatment due to the allegations.	
4. Strengthen information disclosure (1) Did the Company disclose its set Ethical Corporate Management Best Practice Principles contents and effectiveness in promotion on its website and Market Observation Post System?	Yes		The Company has disclosed its “Ethical Corporate Management Best Practice Principles” and “Ethical Corporate Management Best Practice Procedures and Code of Conduct” on its website and Market Observation Post System.	No differences
5. Where the Company has formulated its own Ethical Corporate Management Best Practice Principles based on the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, please specify the differences between the two: No differences				
6. Other important information that may facilitate the understanding about the status of the Company’s ethical operation: (such as: the Company’s review and modify its own Ethical Corporate Management Best Practice Principles): N/A				

Note 1: Explanations shall be specified in the “brief explanations” field regardless whether Yes or No was selected for the operating status.

- (9) If the Company has set corporate governance code and related regulations, it shall disclose the enquiry methods: N/A.
- (10) Other important information that may facilitate the understanding about the implementation status of the corporate governance operation shall also be disclosed: There are regulation concerning corporate governance under “corporate responsibility” in the Company’s external webpage.
- (11) disclosure about the implementation of internal control system shall include the following items:
1. Statement on Internal Control: (please see page 206)
  2. Where there is ad hoc audit on internal control system by outsourced accountant(s), the Accountant’s audit report shall be disclosed: N/A.
- (12) Where, during the last fiscal year and until the publishing date of the annual report, the Company and its staff members were sanctioned by law and/or the Company applied punitive measures on its staff members who violated provisions of the internal control system, the major deficiencies and improvement thereof: N/A.
- (13) Important resolution adopted by shareholders’ meeting and the Board meeting during the last fiscal year and until the publishing date of the annual report:

meeting date	meeting	important resolutions adopted by a the shareholders’ meeting	execution status
June 20, 2017	2017 Annual General Meeting of Shareholders	Acknowledgement:	
		(1) Pass and acknowledge 2016 Business Report and financial statements	Proceed as per resolutions.
		(2) Pass and acknowledge 2016 profit distribution proposal	Set August 9, 2017 as the reference date of the distribution of rights, and August 31, 2017 as the cash dividends pay day (cash dividend distributed per share was NT\$0.998).
		Discussions (2):	
		(1) To authorize capital surplus distribution by cash;	Set August 9, 2017 as the reference date of the distribution of rights, and August 31, 2017 as the cash dividends pay day (cash dividend distributed per share was NT\$0.572)
		(2) To approve the modification on Articles of Association	Obtained Hsinchu Science Park Bureau’s approval to register on June 27, 2017 and announced on the Company’s website.
		(3) To approve the modification on “asset acquisition or disposal procedures”	proceed as per resolutions
		(4) Pass the modification on the “Methods of Electing the Directors”	proceed as per resolutions

The Board resolutions:

meeting date	nature of the meeting	important resolution adopted by a the shareholders' meeting
March 10, 2017	Board meeting	<ol style="list-style-type: none"> <li>1. Remuneration Committee's proposal: Directors, Supervisors and managers' bonus and remuneration planner;</li> <li>2. Remuneration Committee's proposal: Payment of managers' 2016 performance bonus;</li> <li>3. Remuneration Committee's proposal: Discussion about the distribution of employee compensation and Directors' remuneration;</li> <li>4. Discussion about the Company's 2016 self-assessed financial statements and consolidated financial statements;</li> <li>5. Discussion about the Company's profit distribution for the year 2016;</li> <li>6. Discussion about the Company's capital surplus distribution;</li> <li>7. Audit Committee's proposal: Modify the asset acquisition or disposal procedures;</li> <li>8. Modify Articles of Association</li> <li>9. Discussion about the date and venue for holding the Company's 2017 Annual General Meeting of Shareholders;</li> <li>10. Set the period and location for receiving and processing shareholders' proposal;</li> <li>11. Passing Audit Committee's proposal: Internal control design and the Statement on Internal Control;</li> <li>12. Passing Audit Committee's proposal: Appointing Accountants of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2017 financial statements and tax reports;</li> <li>13. Discussion about modifying Directors' election procedures.</li> </ol>
May 4, 2017	Board meeting	Reporting the Q1 / 2017 self-assessed consolidated financial statements.
July 12, 2017	Board meeting	Setting of the target cash dividend distribution date and dividend pay day.
August 10, 2017	Board meeting	<p>Reporting the Q2 / 2017 self-assessed consolidated financial statements.</p> <ol style="list-style-type: none"> <li>1. Remuneration Committee's proposal: Distribution of 2016 Directors' remuneration;</li> <li>2. Remuneration Committee's proposal: Managers' salary adjustments</li> <li>3. Remuneration Committee's proposal: Payment of managers' 2015 employee compensation</li> </ol>
November 7, 2017	Board meeting	Reporting the Q3 / 2017 self-assessed consolidated financial statements
December 29, 2017	Board meeting	<ol style="list-style-type: none"> <li>1. Set the 2018 audit plan</li> </ol>
March 8, 2017	Board meeting	<ol style="list-style-type: none"> <li>1. Remuneration Committee's proposal: Directors, Supervisors and managers' bonus and remuneration planner;</li> <li>2. Remuneration Committee's proposal: Payment of managers' 2016 performance bonus;</li> <li>3. Remuneration Committee's proposal: Distribution of employee compensation and Directors' remuneration;</li> <li>4. Modify rules and procedures of the Board meeting;</li> <li>5. Modify how the Audit Committee should exercise its authority;</li> <li>6. Discussion about the Company's 2017 self-assessed financial statements and consolidated financial statements;</li> <li>7. Discussion about the Company's profit distribution for the year 2017;</li> <li>8. Discussion about the Company's capital surplus distribution;</li> <li>9. Proposal for the re-election of the Company's 9<sup>th</sup> Board of Directors;</li> <li>10. List of nominated candidates of Directors and Independent Directors;</li> <li>11. Lifting the prohibition of competition restriction on the Directors;</li> <li>12. Discussion about the date and venue for holding the Company's 2018 Annual General Meeting of Shareholders;</li> <li>13. Set the period and location for receiving and processing shareholders' proposal;</li> <li>14. Audit Committee's proposal: Internal control design and the Statement on Internal Control;</li> <li>15. Audit Committee's proposal: Appointing Accountants of Klynveld Peat Marwick Goerdeler (KPMG) to audit and certify the Company's 2018 financial statements and tax reports.</li> </ol>

- (12) Where there are recorded or written statements during the last fiscal year and until the publishing date of the annual report regarding the Directors or Supervisors' opposing on important Board resolution(s), its main contents are: N/A.
- (13) Summary of resignation and dismissal of financial statements related staff members (including Chairman, CEO, Chief Accounting Officer, Chief Financing Officer, Chief Audit Executive and Chief R & D Officer, etc.) during the last fiscal year and until the publishing date of the annual report: N/A.



#### 4. Audit Fee Information:

Range of Audit fee (please check-mark the corresponding range or fill in the amount):

name of the accountant firm	accountant's name		audit period	remarks
Klynveld Peat Marwick Goerdeler (KPMG)	KAO, WEI-CHUAN	TSENG, MEI-YU	2017	

Note: If the Company changes its Accountant or accounting firm during the current year, please list their audit periods separately and explain the reasons for the replacement in the "remark" field.

Unit: NT\$'000

range	items	auditing fees	non-auditing fees	Total
1	less than NT\$2,000,000		V	
2	NT\$2,000,000 (including) ~ NT\$4,000,000			
3	NT\$4,000,000 (including) ~ NT\$6,000,000	V		V
4	NT\$6,000,000 (including) ~ NT\$8,000,000			
5	NT\$8,000,000 (including) ~ NT\$10,000,000			
6	NT\$10,000,000 or above			

Unit: NT\$'000

name of the accounting firm	Accountant's name	auditing fees	non-auditing fees					accountant audit period	remarks
			system design	business registration	HR	other (Note 2)	subtotal		
KPMG	GAU, WEI-CHUAN	4,300	-	-	-	262	4,562	2017	offshore investment company maintenance fees, tax consultation service charges, traveling expenses
	TSENG, MEI-YU								

Note 1: If the company changes its accountant or accounting firm in the current year, please list their audit periods separately and explain the reasons for replacement in the "remark" field. Please disclose the auditing and non-auditing fees in sequence.

Note 2: Please list the non-auditing fees separately according to the service items. If the "others" non-auditing fees amount to 25% of the total non-auditing fees, its service content shall be listed in the remark field:

- (1) If the non-auditing fees for the Certified Public Accountant and his/her firm and its affiliate(s) are more than one quarter of the auditing fees: N/A.
- (2) Nature of the non-auditing fees: i.e. the offshore investment company maintenance fees.
- (3) If there is a change in accounting firm and the auditing fees in the year of such change is less than the auditing fees in the previous year: No change.
- (4) If the auditing fees was decrease by more than 15% comparing to that of in the previous year: N/A.

#### 5. Information Regarding the Change of Accountant: N/A

#### 6. The Company's Chairman, CEO, chief financial officer or chief accounting officer who has worked for the CPA's firm or its affiliates during the last fiscal year: N/A

#### 7. Any transfer of shareholdings and changes in equity pledge from the directors, managers and shareholder(s) holding more than 10% of the shares during the last fiscal year and until the publishing date of the annual report:

- (1) Changes in equity among the directors, manager and large shareholder(s):

job title	name	2017		Financial information as of March 31, 2018	
		Increase (decrease) in number of shareholding	Increase (decrease) in number of pledged shares	Increase (decrease) in number of shareholding	Increase (decrease) in number of pledged shares
Director	Yulong Investment Co., Ltd.	-	-	-	-
Chairman and CEO	YEH, I-HAU	-	-	-	-
Director	YEN, KUO-LUNG	-	-	-	-
Director	CHIU, TE-CHENG	-	-	-	-
Director	Zonglong Investment Co., Ltd.	-	-	-	-
Independent Director	LIN, MAO-KUEI	-	-	-	-
Independent Director	LIN, HSIEN-MING	-	-	-	-

Independent Director	CHEN, HOU-MING	-	-	-	-
Manager	CHEN, I-LIN	-	-	-	-

- (2) The counterparty of an equity pledge who is also a related party shall disclose name of the counterparty, the relationship with the Company, Director, Supervisor, and/or shareholder holding more than 10% of the shares and number of shares obtained or pledged:

2.1 Equity transfer information:

Not applicable, because it is traded freely in the exchange market.

2.2. Equity pledge information: not applicable.

## 8. Information Regarding the Relationship Between the Related Parties and the Top 10 Shareholders:

name	own held shares		shares currently held by spouse and/or children under 20 years of age		total shares held in the name of others		Where the relationship among the top 10 shareholders is a related party, spouse, and/or a relative by blood or marriage within second degree of kinship or relationship, please specify the name and relationship (Note 3)		remarks
	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	name	relationship	
iShares IV Co., Ltd. Investment Account entrusted to the Business Department of Standard Chartered	13,224,447	3.04%	N/A	N/A	N/A	N/A	—	—	
Morgan Stanley & Co International PLC entrusted to HSBC Bank (Taiwan)	10,201,155	2.34%	N/A	N/A	N/A	N/A	—	—	
Yulong Investment Co., Ltd. representative: YEH, I-MING	9,888,656	2.28%	N/A	N/A	N/A	N/A	YEH, I-HAU	the Company's major shareholder	
	0	0%	N/A	N/A	N/A	N/A	YEH, I-HAU	second degree of kinship or relationship	
Mercuries Life Insurance Inc. Responsible person: CHEN, HSIANG-CHIEH	8,332,000	1.91%	N/A	N/A	N/A	N/A	—	—	
	0	-	N/A	N/A	N/A	N/A	—	—	
Credit Suisse Investment Account entrusted in Standard Chartered	8,110,000	1.86%	N/A	N/A	N/A	N/A	—	—	
China Life Insurance Co., Ltd. Responsible person: WANG, MING-YANG	7,941,000	1.82%	N/A	N/A	N/A	N/A	—	—	
	0	-	N/A	N/A	N/A	N/A	—	—	
Robeco Capital Growth Funds Investment Account entrusted in HSBC Bank	7,235,000	1.66%	N/A	N/A	N/A	N/A	—	—	
Vanguard Emerging Markets Stock Index Fund Account entrusted in Standard Chartered	6,601,000	1.52%	N/A	N/A	N/A	N/A	—	—	
Norges Bank Investment Account entrusted in Citibank Taiwan	5,733,290	1.32%	N/A	N/A	N/A	N/A	—	—	
PGIA Progressive Total International Stock Index entrusted in Chase Bank	5,710,000	1.31%	N/A	N/A	N/A	N/A	—	—	

Note 1: The top ten shareholders shall be listed in full; corporate shareholder shall list its name and the names of its representative separately;

Note 2: The calculation of the shareholding percentage referred to the percentage of shares held in his/her/its own name, or under the name of his/her/its spouse, children under 20 years of age, or others;

Note 3: The relationship between above-listed juristic person shareholders and natural person shareholders shall be disclosed pursuant to the regulations governing the preparation of financial statements of the issuer.

**9. The number of shares held by the company, the company’ s directors, supervisors, managers, and businesses directly or indirectly controlled by the Company in the same joint venture, and the combined shareholding percentage.**

Unit: ‘000 shares; %

joint ventures (Note)	Investments of the Company		Investments of the directors, supervisors, managers and their investment in business which they have direct or indirect control of.		Comprehensive investements	
	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage	number of shares (shares)	shareholding percentage
Elan (HK)	29,328	100.00%			29,328	100.00%
Elan Investment Co., Ltd.	50,000	100.00%			50,000	100.00%
Elan Information	65	100.00%			65	100.00%
JPUP Electronic Co., Ltd	784	49.00%			784	49.00%
Metanoia Communications Inc.	54,057	63.60%	3,626	4.27%	57,683	67.93%
Avisonic Technology Corporation	21,816	76.44%	14	0.05%	21,830	76.49%
Tongfu Investment Co., Ltd.	3,000	46.73%			3,000	46.73%
Lighting Device Technologies Corp	1,805	45.07%			1,805	45.07%
PiXORD Corporation Co., Ltd.	36,547	96.38%	220	0.58%	36,767	96.96%
Eminent Electronic Technology Co., Ltd.	6,202	29.89%			6,202	29.89%
Wending Venture Capital Co., Ltd.	24,000	30.00%			24,000	30.00%
Fong Yue Co., Ltd.	3,000	100.00%			3,000	100.00%
Uniband Electronic Corporation	8,000	24.62%			8,000	24.62%
Finger Pro. Incorporation	600	23.08%			600	23.08%

Note: Equity method long-term equity investments of the Company.

## 4. Capital Overview

### 1. Capital and Shares:

#### (1) Source of capital stock

Date	issue price	authorized capital stock		paid-up capital		Notes		
		number of shares ('000 shares)	amount (NT\$'000)	number of shares ('000 shares)	amount (NT\$'000)	Source of capital stock (NT\$'000)	Offset stock subscription price by non-cash property	other
May 1994	10	100,000	1,000,000	100,000	1,000,000	Established	N/A	N/A
Aug. 1997	10	110,600	1,106,000	110,600	1,106,000	Retained Earnings Transferred to Capital 100,000 Employee bonus 6,000	N/A	Document No. (86)Tai-Cai-Zheng(1)-52750 issued on July 5, 1997
Jul. 1998	10	147,140	1,471,400	147,140	1,471,400	Retained Earnings Transferred to Capital 331,800 Employee bonus 33,600	N/A	Document No. (87)Tai-Cai-Zheng(1)-52941 issued on June 18, 1998
Sep. 1999	10	164,854	1,648,540	164,854	1,648,540	Retained Earnings Transferred to Capital 147,140 Employee bonus 30,000	N/A	Document No. (88)Tai-Cai-Zheng-63446 issued on July 12, 1999
Jun. 2000	10	220,810	2,208,102	220,810	2,208,102	Retained Earnings Transferred to Capital 494,562 Employee bonus 65,000	N/A	Document No. (89)Tai-Cai-Zheng-35156 issued on May 2, 2000
Jul. 2001	10	450,000	4,500,000	295,038	2,950,383	Retained Earnings Transferred to Capital 662,431 Employee bonus 79,850	N/A	Document No. (90)Tai-Cai-Zheng(1)-43780 issued on May 2, 2001
Jul. 2002	10	450,000	4,500,000	329,239	3,292,391	Retained Earnings Transferred to Capital 295,038 Employee bonus 46,970	N/A	Document No. (91)Tai-Cai-Zheng-Yi-Zi-0910137334 issued on July 8, 2002
Jul. 2003	10	450,000	4,500,000	330,792	3,307,923	convert corporate bonds to shares 15,532	N/A	Document No. Yuan-Shang-Zi-0920020871 issued on July 30, 2003
Oct. 2003	10	450,000	4,500,000	335,307	3,353,071	convert corporate bonds to shares 45,148	N/A	Document No. Yuan-Shang-Zi-0920029312 issued on October 21, 2003
Jan. 2004	10	450,000	4,500,000	338,311	3,383,114	convert corporate bonds to shares 30,043	N/A	Document No. Yuan-Shang-Zi-0930001801 issued on January 29, 2004
Apr. 2004	10	450,000	4,500,000	338,903	3,389,028	convert corporate bonds to shares 5,914	N/A	Document No. Yuan-Shang-Zi-0930010383 issued on April 21, 2004
Jul. 2004	10	450,000	4,500,000	343,235	3,432,348	convert corporate bonds to shares 43,319	N/A	Document No. Yuan-Shang-Zi-09300199753 issued on July 27, 2004
Sep. 2004	10	450,000	4,500,000	355,684	3,556,841	Retained Earnings Transferred to Capital 101,493 Employee bonus	N/A	Document No. Yuan-Shang-Zi-0930025813 issued on September 21, 2004

						23,000		
Jan. 2005	10	450,000	4,500,000	364,625	3,646,253	convert corporate bonds to shares 89,412	N/A	Document No. Yuan-Shang-Zi-09400 01655 issued on January 20, 2005
Apr. 2005	10	450,000	4,500,000	359,625	3,596,253	Capital reduction by Treasury Stock Retired (50,000)	N/A	Document No. Yuan-Shang-Zi-09400 11303 issued on April 28, 2005
Oct. 2005	10	450,000	4,500,000	367,876	3,678,760	Retained Earnings Transferred to Capital 67,507 Employee bonus 15,000	N/A	Document No. Yuan-Shang-Zi-09400 26465 issued on October 5, 2005
Aug. 2006	10	450,000	4,500,000	366,876	3,668,760	Capital reduction by Treasury Stock Retired (10,000)	N/A	Document No. Yuan-Shang-Zi-09500 22570 issued on August 23, 2006
Oct. 2006	10	450,000	4,500,000	371,755	3,717,548	Retained Earnings Transferred to Capital 36,788 Employee bonus 12,000	N/A	Document No. Yuan-Shang-Zi-09500 25887 issued on October 2, 2006
Nov. 2006	10	450,000	4,500,000	361,785	3,617,848	Capital reduction by Treasury Stock Retired (99,700)	N/A	Document No. Yuan-Shang-Zi-09500 29921 issued on November 15, 2006
Oct. 2008	10	480,000	4,800,000	410,670	4,106,698	Capital addition from merger 488,850	N/A	Document No. Yuan-Shang-Zi-09700 29807 issued on October 21, 2008
Aug. 2009	10	480,000	4,800,000	415,936	4,159,360	Employee stock option executed 11,480 Retained Earnings Transferred to Capital 41,182	N/A	Document No. Yuan-Shang-Zi-09800 23343 issued on August 26, 2009
Jul. 2010	10	480,000	4,800,000	416,094	4,160,936	Employee stock option executed 1,576	N/A	Document No. Yuan-Shang-Zi-09900 20694 issued on July 19, 2010
Jul. 2011	10	480,000	4,800,000	416,343	4,163,428	Employee stock option executed 2,492	N/A	Document No. Yuan-Shang-Zi-21017 issued on July 21, 2011
Oct. 2012	10	480,000	4,800,000	418,245	4,182,445	Employee stock option executed 19,017	N/A	Document No. Yuan-Shang-Zi-32156 issued on October 17, 2012
Jan. 2013	10	480,000	4,800,000	418,938	4,189,381	Employee stock option executed 6,936	N/A	Document No. Yuan-Shang-Zi-1954 issued on January 17, 2013
Apr. 2013	10	480,000	4,800,000	428,228	4,282,277	Employee stock option executed 92,896	N/A	Document No. Yuan-Shang-Zi-10200 10764 issued on April 16, 2013
Jul. 2013	10	480,000	4,800,000	432,599	4,325,985	Employee stock option executed 43,708	N/A	Document No. Yuan-Shang-Zi-10200 20794 issued on July 15, 2013
Oct. 2013	10	480,000	4,800,000	433,215	4,332,125	Employee stock option executed 6,140	N/A	Document No. Yuan-Shang-Zi-10200 31608 issued on October 18, 2013
Apr. 2014	10	480,000	4,800,000	435,121	4,351,214	Employee stock option executed 19,089	N/A	Document No. Zhu-Shang-Zi-103001 0997 issued on April 18, 2014

May 2014	10	480,000	4,800,000	438,598	4,385,978	Employee stock option executed 34,764	N/A	Document No. Zhu-Shang-Zi-1030014030 issued on May 19, 2014
Oct. 2014	10	480,000	4,800,000	439,335	4,393,348	Capital addition by employee stock option 7,370	N/A	Document No. Zhu-Shang-Zi-1030030508 issued on October 20, 2014
Dec. 2014	10	480,000	4,800,000	441,145	4,411,448	Employee stock option executed 18,100	N/A	Document No. Zhu-Shang-Zi-1030038314 issued on December 26, 2014
Aug. 2016	10	480,000	4,800,000	434,115	4,341,148	Capital reduction by Treasury Stock Retired (70,300)	N/A	Document No. Zhu-Shang-Zi-1050023250 issued on August 16, 2016

Type of share:

Unit: share

type of share	authorized capital stock			remark
	common shares outstanding (stock of the listed company)	stock of the unlisted company	total	
registered common shares	434,114,845	45,885,155	480,000,000	—

## (2) Shareholders structure

April 13, 2018

shareholders numbers	Government Agency	Financial Institution	Other legal persons	Personal	Foreign institution and foreigner	Total
Number of persons	-	6	220	60,013	200	60,439
Number of shares held	-	18,976,000	58,344,591	234,800,855	121,993,399	434,114,845
Shareholding ratio	-	4.37%	13.44%	54.09%	28.10%	100%
Note: The Company has no mainland China shareholders.						

Note: The primary listing (OTC) company and listed company at emerging market shall disclose the percentage of shareholding funded by mainland China investment; “mainland China investment” shall, as identified in Article 3 of the “Regulations Governing the Permission for People from the Mainland Area to Invest in Taiwan”, refer to the individuals, juristic person, group, other agencies or the company it invested in the third region.

## (3) Stock dispersion

April 13, 2018

Shareholding ranges	Number of persons	Number of shares held	Shareholding ratio (%)
1 to 999	23,943	1,126,419	0.26
1,000 to 5,000	28,573	59,049,466	13.60
5,001 to 10,000	4,301	33,842,749	7.80
10,001 to 15,000	1,230	15,479,326	3.57
15,001 to 20,000	813	15,070,599	3.47
20,001 to 30,000	546	13,977,230	3.22
30,001 to 50,000	466	18,671,138	4.29
50,001 to 100,000	280	20,298,905	4.68
100,001 to 200,000	136	19,049,053	4.39
200,001 to 400,000	56	15,774,797	3.63
400,001 to 600,000	20	10,578,234	2.44
600,001 to 800,000	17	11,946,166	2.75
800,001 to 1,000,000	13	11,667,450	2.69
1,000,001 and above	45	187,583,313	43.21
Total	60,439	434,114,845	100

(4) Major shareholders list

April 13, 2018

major shareholders' names	shareholding	number of shares held	shareholding percentage (%)
iShares IV Co., Ltd. Investment Account entrusted to the Business Department of Standard Chartered		13,224,447	3.04%
Morgan Stanley & Co International PLC entrusted to HSBC Bank (Taiwan)		10,201,155	2.34%
Yulong Investment Co., Ltd.		9,888,656	2.27%
Mercuries Life Insurance Inc.		8,332,000	1.91%
Credit Suisse Investment Account entrusted in Standard Chartered		8,110,000	1.86%
China Life Insurance Co., Ltd.		7,941,000	1.82%
Robeco Capital Growth Funds Investment Account entrusted in HSBC Bank		7,235,000	1.66%
Vanguard Emerging Markets Stock Index Fund Account entrusted in Standard Chartered		6,601,000	1.52%
Norges Bank Investment Account entrusted in Citibank Taiwan		5,733,290	1.32%
PGIA Progressive Total International Stock Index entrusted in Chase Bank		5,710,000	1.31%

(5) Market price, net value, earnings and dividends per share in the past 2 years:

Unit: NT\$

items		Year	2016	2017	Financial information as of March 31, 2018 Note (8)
market price per share Note (1)	highest		46.5	54.9	48.1
	lowest		30.9	33.8	41.7
	average		36.97	42.65	45.21
net value per share Note (2)	before distribution		15.89	16.87	17.48
	after distribution		14.32	14.29	14.690
earnings per share	weighted-average number of shares ('000 shares)		416,360	416,360	416,360
	earnings per share (Note 3)	before retroactive adjustments	1.57	2.58	0.63
		after retroactive adjustments	—	—	—
dividends per share (Note 9)	cash dividends		1.57	2.58	—
	stock grants	surplus distribution	—	—	—
		capital surplus distribution	—	—	—
	accumulated outstanding dividends (Note 4)		—	—	—
investment yield analysis	P/E ratio (Note 5)		23.55	16.53	—
	dividend ratio (Note 6)		23.55	16.53	—
	cash dividends yield (Note 7)		4.25%	6.05%	—

Note 1: List the highest and lowest market prices of each year and calculate average market price base on trading value and trading volume of each year.

Note 2: Please fill in the number of shares that have been issued as of the end of the year according to the distribution decided by the shareholders meeting.

Note 3: If there are retrospective adjustments due to circumstances such as stock grants, both pre-adjustment and post-adjustment earnings per share shall be listed.

Note 4: If the equity securities issuance conditions stipulated that dividends that have not been paid in the current year can be accumulated to be paid in the surplus year, the accumulated unpaid dividends as of the current year shall be separately disclosed.

Note 5: P/E ratio = average closing price per share of the year / earnings per share.

Note 6: Dividend ratio = average closing price per share of the year / cash dividends per share.

Note 7: Cash dividends yield = cash dividend per share / average closing price per share of the year.

Note 8: Shall fill in information of the year as of the publishing date of the annual reports.

Note 9: Dividend per share shall be filled in according to profit distribution of the year and the distribution resolution to be adopted by a shareholders' meeting in the following year.

(6) The Company's dividend policies and implementation status

(1) Dividend policies:

The Company's dividends policies, taking into consideration the future demand of funds, overall internal and external environmental changes and shareholders' cash inflow

demand, stipulated that if there is a surplus after the annual closing, 10% statutory surplus reserve will be contributed first, in addition to pay the profit-seeking enterprise income tax make up for previous annual losses pursuant to the laws, and the decreased shareholders equity amount of the year will be recognized in special reserve. Any remaining, together with the accumulated undistributed earnings carrying forward from the previous year, will be subject to resolution to be adopted by a shareholders' meeting for the distribution proposal adopted by the Board of Directors. The distribution ratio is as follows:

The amount of surplus to be distributed for the current year shall not be less than 50% of the cumulative distributable surplus; considering the funding demand for future expansion plan and investment, the cash dividend shall not be less than 10% of total dividends.

- (2) Distribution of dividends proposed at the shareholders' meeting:

The Company's 2017 profit distribution proposal was authorized in 2018 by the 8<sup>th</sup> Board of Directors' 17<sup>th</sup> Board meeting, of which shareholders' bonus of NT\$998,464,144 was proposed to be appropriated from the available surplus as cash dividends at NT\$2.3 per share; in addition, cash dividends of NT\$121,552,157 was proposed to be appropriated from capital surplus, which is "the income derived from the issuance of new shares at a premium" pursuant to Article 241 of the Company Act (i.e. the capital surplus distributed from the issuance of common shares at a premium), as cash dividends at NT\$0.28 per share. The aforementioned dividend distributions are subject to the target dividend distribution date to be set by the Board of Directors upon resolutions adopted by the Annual General Meeting of Shareholders of this year.

- (3) Any anticipated material changes in dividend policies shall be explained: N/A.

- (7) The impact of stock grants to be proposed at the shareholders' meeting on the Company's business performance and earnings per share:

Not applicable, because the Company did not disclose 2017 financial forecast information pursuant to document number Tai-Cai-Zheng(1)-OO371 issued on 1 February 2000, provided that the Company is not required to disclose such information.

- (8) Employee compensation and Directors and Supervisors' remuneration:

1. The employee compensation and the Directors and Supervisors' remuneration pay scale stipulated in the Articles of Association:

The Company shall, if there is any surplus upon annual closing, pay taxes and make up for accumulated losses first before appropriating 10% as statutory surplus reserve. However, this is not applicable if the statutory surplus reserve has reached the same amount as the Company's paid-up capital. In addition, special reserve shall be recognized according to the Company's Operating requirements and statutory provisions. Any remaining, together with the accumulated undistributed earnings carrying forward from the previous year, will be subject to resolution to be adopted by a shareholders' meeting for the distribution proposal prepared by the Board of Directors. The dividend distribution ratio is as follows: The amount of surplus to be distributed for the current year shall not be less than 50% of the cumulative distributable surplus; the cash dividend shall not be less than 10% of total dividends.

The Company shall, if there surplus of the year, contribute no less than 10% as employees compensation and no more than 2% as Directors' remuneration, provided that, if the Company still has accumulated loss, the amount for making up the previous losses shall be reserved first.

2. Accounting treatment for the basis of listing the estimated amount of employees compensation and the Directors and Supervisors remuneration of the period, the basis of calculating the number of shares distributed as employees compensation, and when the actual distribution amount is different from the estimated amount: For this period, the



Company relied on the Articles of Association and past references of actual Directors and Supervisors' remuneration payment to estimate possible payment amount for the employee compensation and Directors' remuneration. Any difference between the actual payment amount and the estimated amount will be treated according to "Changes in Accounting Estimates" and listed as profit or loss of the following year.

3. Remuneration distribution authorized by the Board of Directors:

The Company has passed the 2017 profit distribution proposal by Board resolutions on 8 March 2018, but has yet authorized by the shareholders' meeting. the proposed distribution is as follows:

Unit: NT\$'000;'000 shares

items	amount	cash distribution	share distribution			remuneration	Any difference with the recognized estimated expenses of the year?
			amount	number of shares	Proportion to the sum of Net Income After Taxes plus employee compensation		
employee compensation		155,000	0	0	0	0	No differences
Directors' remuneration		0	0	0	0	20,000	

4. Actual distribution of employee compensation and Directors and Supervisors' remunerations of the previous fiscal year:

The Company has passed the 2016 profit distribution proposal by Board resolutions on 10 March 2017 and authorized by Annual General Meeting of Shareholders on June 20, 2017. The actual distributed employees compensation and Directors Supervisors remunerations are the same as that of adopted resolutions. The actual distribution is as follows:

Unit: NT\$'000;'000 shares

items	amount	cash distribution	share distribution			remuneration	Differences between the expenses recognized with the original amount proposed by the Board of Directors
			amount	number of shares	proportion to profit transferred		
employee bonus		73,000	0	0	0	0	No differences
Directors and Supervisors' remuneration		0	0	0	0	9,500	

(9) The Company's repurchase of company shares:

May 31, 2018

number of time of repurchase	Session No. 10	Session No. 11	Session No. 12
Purpose of the repurchase	transfer shares to employees	transfer shares to employees	transfer shares to employees
Repurchase period	March 17, 2011 to May 16, 2011	July 15, 2011 to September 14, 2011	August 7, 2013 to October 6, 2013
Repurchase price range	24.70 ~ 63.00	18.20 ~ 49.90	40 ~ 65
type and number of share repurchased	7,578,000 common shares	4,110,000 common shares	7,030,000 common shares
share amount repurchased	NT\$290,410,356	NT\$118,551,219	NT\$362,293,814
number of share sold and transferred	7,578,000 shares	4,110,000 shares	7,030,000 shares
accumulated number of shares held by the Company	0 common shares	0 common shares	0 common shares
proportion of accumulated number of shares held by the Company to total number of shares issued (%)	0%	0%	0%

2. Corporate Bond: N/A.

- 3. Preference Share: N/A.**
- 4. Issuance of overseas depositary receipt: N/A.**
- 5. Employee Stock Option Certificates:**
  - (1) The progress of the Company's outstanding employee stock option certificates as of the publishing date of the annual reports and its impact on shareholders' equity shall be disclosed: The Company has no outstanding employee stock option certificate.
  - (2) Name of the managers who acquired employee stock option certificates and top 10 employees who acquired stock option certificates, and the detailed of the employee stock option certificates acquisition as of the publishing date of the annual reports: N/A.
  - (3) Status of restricted stock awards: N/A.
- 6. Status of New Shares Issuance in Connection with Mergers and Acquisitions: N/A.**
- 7. Financing Plans and Implementation: N/A.**

## 5. Operating Highlights

### 1. Operating activities

#### (1) Scope of business:

##### (1) Major business operations:

Research, development, production, manufacture and sales of the following products:

- (a) Neural network and fuzzy processor
- (b) digital signal processor.
- (c) 8-bits RISC Microprocessor.
- (d) Application-specific integrated circuit.
- (e) Import and export trading business related with the Company's business.

##### (2) Major business operations in 2017 and its sales proportion:

Operating activities	revenue (NT\$'000)	sales proportion (%)
consumer touch controller IC	2,906,958	38.75
notebook input devices module	4,427,178	59.00
network communication IC	67,077	0.89
video process IC	69,999	0.93
safety monitoring module	32,055	0.43
Total	7,503,267	100.00

##### (3) Planned new product development:

New products that the Company planned to develop include:

- Development of facial recognition IC;
- Development of 2-in-1 network fire alarm control IC;
- Development of IC with 2-in-1 functions of touch pad and touch points;
- Completing the solution for the mobile phone 21:9 integrated touch HD panel and driver IC;
- Development of fingerprint recognition protocol capable of supporting NB encryption function;
- Development of low power consumption contactless computing IC for biometric smart cards;
- Development of gaming mouse IC.

#### (2) Industry overview

##### (1) Industry status:

Looking back at the development trend of the global semiconductor industry in 2017, global semiconductor output value has, according to the research institute Gartner's statistics, reached US\$411.1 billion in 2017, which was 19.7% higher than that of in 2016. This is the strongest growth since the global recovery from the financial crisis in 2010 and global semiconductor revenue increased by 31.8%. The main force driving the growth of semiconductors is memory, including DRAM & Flash. The average unit price and number of bits in the two memories both show double-digit growth.

Looking forward to 2018, Gartner predicted that semiconductors will grow another 4% to reach US\$427.4 billion. Trendforce, the global market research organization, pointed out that the compound annual growth rate of semiconductors is expected to be 3.1% from 2018 to 2022, and AI will play a major growth momentum for semiconductors. The IEK observation from ITRI also pointed out that the trend of design innovation and intelligentization of electronic system products continues to push the global semiconductor industry forward. With the advent of AI generations, the semiconductor industry is also

advancing toward AI-related IC design, production, and packaging and testing fields, accelerating market demand-oriented innovation in semiconductor applications.

Looking back at Taiwan, the performance of Taiwan's semiconductor industry in 2017 was relatively not outstanding, mainly because the main character of the semiconductor industry in 2017 was memory, and Taiwan has faded out on this part already. According to the data published by the IEK of ITRI, the production output of Taiwan's IC industry (including design, manufacturing, packaging, and testing) reached NT\$2.4604 trillion in 2017, which represents a growth of 0.5% from 2016. The added value exceeds NT\$1 trillion; accounted for 7% of the GDP; the number of employees in the industry is 230,000; the output value ranked third in the world; the output value of IC design ranked second in the world; the output value of wafer foundry ranked first in the world.

Observed from the aspect of industrial structure, Taiwan's semiconductor industry is still based on wafer foundry with output value of NT\$1.1926 trillion accounting for 48.5%; the output value of IC design industry was NT\$622.8 billion accounting for 25.3%; the output value of IC packaging industry was NT\$333.2 billion accounting for 13.5%; the output value of IC testing industry was NT\$143.8 billion accounting for 5.8%. IEK predicted that the output value of Taiwan's semiconductor industry will have the opportunity to exceed the NT\$3 trillion by 2020.

In the meanwhile, observing the development of the semiconductor industry in mainland China, the development of industrial technology has been effective under the support of policies. In 2016, the output value of the IC design industry was RMB 164.4 billion. The output value of the IC design industry in 2017 is expected to reach RMB 200.6 billion. The output value accounts for 38.76% of China's semiconductor industry chain.

From the above relevant data, it is found that the gap between the output value of the semiconductor industry across the Taiwan Strait is accelerating. The mainland China is benefitting from the extensive domestic market demands and the full support from the policies, who actively merges companies and technologies and recruits specialized engineering talents, intending to build up the overall industrial landscape of semiconductor industry through various efforts. Their ambition is strong and is an intense rival to Taiwan's semiconductor industry. At the same time, it can be seen that its various industries are now growing at a double-digit rate. In addition, the output value of its IC design industry is greater than that of its manufacture, packaging and testing industries, which is different from the industrial cluster formation in other advanced semiconductor countries, while the amount of imported semiconductors dropped. This means that the policies supporting the local semiconductor industry continues to strengthen.

The research institutions estimate that the global semiconductor industry will still grow between 2% and 4% annually. IEK of ITRI believed that Taiwan's semiconductor industry growth rate will be 7.1% in 2018 and demonstrate Taiwan's competitive edge in the global market of semiconductor industry once again. Overall speaking, the development of the semiconductor industry this year is still worth the wait.

(2) The relationship between upstream, midstream and downstream industries

Total output value of Taiwan's semiconductor industry ranked third in the world in 2017. The overall development ranked a key position in the world. The most important feature is

the professional division of work, which is also the most important basis driving Taiwan's semiconductor development for the past 40 years. The semiconductor wafer foundry manufacturing industry is a capital and technology-intensive industry. Currently, it has entered the era of mature 8-inch wafers and advanced 12-inch wafers. The construction of plants and equipments that cost tens of billions of Taiwan dollars has become a basic requirement. Taiwan Semiconductor Manufacturing Co., Ltd., a global IC foundry company, has commenced the mass production of 7 nm process nodes and planned for 5 nm mass production by 2020, while conducting R & D for 3 nm, introducing more advanced process nodes, leading continued growth of Taiwan's wafer foundry industry, and contributing to the overall development of Taiwan's semiconductor industry.

The wafer foundry industry in Taiwan ranks among the most important behind-the-scenes heroic characters in the world. In 2017, Taiwan's foundry output value was NT\$1.1926 trillion, a 3.8% increase from 2016, and the manufacturers' overall market share exceeded 67%, which also drove the overall industrial competitiveness in related industrial chain such as the packaging and testing, photomasks, and IC design industries and created a mutual co-prosperity relationship. Comparing with the integration of upstream, midstream and downstream IC industries in the United States, Japan, South Korea, and other countries, Taiwan has adopted a highly specialized division of work; any of the IC design, photomask manufacturing, wafer manufacturing, cutting, packaging, and testing industries can be an independent industry. The vertical division of work in Taiwan's IC industry has become increasingly integrated over the years, making the semiconductor industry cluster increasingly profitable, and the semiconductor industry has now exceeded NT\$2 trillion under the specialization approach of concentrating resources in a single industry, making it not only Taiwan's important economic lifeline, but also puts it at an unassailable position in the global 3C industry and market.

### (3) Product development trend and status of competition

Biometrics has become a standard feature of smart phones. In 2017, the penetration rate of fingerprint recognition ICs used in mobile phones has become increasingly mature. Due to fierce market competition and high penetration rate in the mobile phone market, the market has gradually shifted toward the development of diversified biometric products. Facial recognition, iris recognition, optical recognition, ultrasonic identification and other different biometrics have emerged to provide users with more diversified choices.

As the penetration rate of smart phones has been high and there are many biometric manufacturers competing in the mobile phone market, therefore, ICs that provide additional functions such as heartbeat, blood pressure, encryption, and other different functions have been introduced. The Company has responded to the rapid development of the fingerprint recognition market and completed a variety of different sizes of fingerprint recognition IC and facial recognition products applicable to smart phones, tablet computers, notebook computers and smart cards. The overall performance of this year is expected to be better than that of last year.

Secondly, the Company has long invested in the development and application of touch controller technology and has patents in the United States, Japan, mainland China, and Taiwan. In general, the touch controller ICs that the Company successfully developed and mass produced are applicable in touch panels of various large, medium, and small sizes, coupled with fully integrated terminal pre-sales and after-sales services for smart phones,

tablet computers and notebooks. The Company will continue to provide customers with an overall solution that is more competitive in the international market.

The Company is at a key market position while facing global rivals in the touch controller IC industry, among which the touch controller ICs for notebook accounted for more than half of global market share and the touch pad modules also accounted for more than 30% market share. The competitors that the Company is currently facing include many IC design companies at home and abroad such as US manufacturer Synaptics and Microchip, Alps of Japan, and Goodix of China. The increasingly fierce competition has also led to a decline in IC prices, therefore, effective improvement in IC performance, reduction of IC production costs, establishing competitive technical thresholds and sales channels are the goals of the Company's continuous efforts in 2018.

Current product lines of ELAN Microelectronics and affiliates:

**The Company currently has two major products categories and five major product lines:**

The two major product categories are touch and non-touch-controller categories, respectively. The revenue of touch controller category is the main driving force of the business for 2017. Touch screen ICs and touch pad module accounted for more than 60% of last year's revenue. The five major product lines include touch screen ICs, touch pad module, fingerprint recognition ICs under touch controller category, and MCU and under non-touch controller category.

Touch screen ICs: accounted for 19% of revenue in 2017. The applications include smart phones, tablet PCs, notebook PCs, AIO PCs, e-books, etc. The domestic and foreign competitors are US manufacturers Synaptics and Microchip, Goodix of China, and Focaltech and Parade of Taiwan.

Touch pad modules and ICs: accounted for 43% of revenue in 2017 and were mainly used in notebook computers. The domestic and foreign competitors include US manufacturer Synaptics, Alps of Japan, etc.

Biometric ICs: In 2017, the shipment of fingerprint recognition ICs grew significantly, and the range of applications was very broad, ranging from smart phones, notebooks, tablets, smart cards and PC peripherals to IoT. The domestic and foreign competitors include US manufacturers Synaptics, FPC of Sweden, Goodix and Microarray of mainland China, and Egis of Taiwan, etc. The Company is still optimistic about this year's growth opportunities while actively enters the facial recognition IC field.

MCU IC: accounted for 17% of revenue in 2017. The main core technologies of the Company's MCU IC products are: 8-bit RISC processor, 16-bit MCU with DSP computing function and development platform, which were mainly used in small or large home appliances, security systems, communications peripherals such as chargers, high-end interactive toys, mobile phones, electronic dictionaries, language learning machines, optical mouse, keyboard control ICs and other markets. Domestic competitors include Generalplus, Holtek, Pixart, Sonix, Nuvoton, etc.

Pointing stick: accounted for 14% of revenue in 2017. This product is used in notebook computers. Since customers' sales performance for pointing stick products were very good in recent years, the Company has benefited accordingly. The Company has successively completed the high-level denoise, anti-RFI pointing stick sensor ICs. The main competitors are foreign manufacturers, such as Synaptics of US, Alps, NMB, etc.

(3) Technology and R & D overview:

(1) R & D expenditures for the past 2 years:

Unit: NT\$'000

items	annual	2017	2016
R & D expenses		1,386,852	1,338,700
Net Income		7,503,267	6,558,933
proportion to Net Income		18%	20%

Source: CPA's report

(2) Technology or products successfully developed:

- Completed the development of ICs for IoT smart appliances;
- Completed the development of pen protocol for active stylus;
- Completed the development of low power consumption contactless sensor ICs for biometric smart cards;
- Completed the development of ICs for independent smoke alarm solution;
- Completed the development of the solution for the mobile phone 21:9 integrated touch solution HD panel and driver IC;
- Completed the development of touch pad protocol to prevent misjudgment from palm pressure.

(3) Affiliates: products and planned product developments of Metanoia Communications, Avisonic Technology and PiXORD:

Metanoia Communications: main products include ICs and solutions for VDSL2 /VDSL35b system, ICs and solutions for G.fast system, ICs and solutions for smart home network IEEE1902.1 PLC /Zigbee /Thread IoT system.

Products planned to be developed include new generation VDSL35b, G.fast's latest ultra high-speed broadband IC for 424MHz /212MHz /106MHz bandwidth, G.fast /VDSL2 /VDSL35b SFP module and Narrow Band PLC smart /power grid and Zigbee Thread IoT ICs.

The abovementioned products will be developed in collaboration with major foreign IC manufacturers combined with innovative business model. In the future, the company will, in addition to the launch of related G.fast /VDSL35b ICs, target at telecom operators, telecom equipment vendors and cable TV bidirectional coaxial cable transmission operators. The company will combine major foreign IC manufacturers' IoT, WiFi 11ac/ax and 5G/LTE technologies and universal cable & wireless broadband integrated SOC for IP development to provide the applications of mid- to high-end Gateway, IoT Gateway, WiFi AP and 5G /LTE small cell for corporate users and home users.

In addition, the G.fast /VDSL2/VDSL35b SFP module will be used in enterprise SD-WAN routers, targeting the market for the most popular SDN/NFV virtualization software-defined networks. The G.fast /VDSL2 SFP module will also be ideal for outdoor WiFi APs and smart city IoT integrated collectors for easy plug and play. The company is making a steady progress in the market dominated by Switzerland, England, Australia, Germany and France through the destructive innovation of the new generation G.fast/VDSL2 SFP modules.

Lastly, Metanoia will integrate all of the aforementioned ICs (VDSL2 /VDSL35b /G.fast)

and NB PLC /Zigbee IoT ICs to build a Smart Gateway ecosystem, which will be combined with the software platform of Metanoia to connect Cloud and big data analysis, in order to develop new generation services for smart city and smart home IoT.

**Avisonic Technology:** Avisonic Technology's current main products include: (1) fisheye lens image calibration processing ICs; (2) megapixel high-resolution image processing ICs; (3) Around View Monitor (AVM) and advanced driver-assistance systems (ADAS); (4) development of modules for computer peripheral applications and consumer electronics applications; (5) customized module design.

New products that Avisonic Technology planned to develop (including ICs and application modules & systems):

- (1) ICs: Planned to invest in image visual processing (ISP /fisheye calibration) and three-in-one HD single chip analog video ICs to overcome the limitations of existing system products in terms of specifications and enhance the multiple applications of the image interface in addition to improving image quality of the products; the Company will invest in the in-depth R & D on image recognition algorithm technology, which is mainly targeted at providing an endless product development momentum for image recognition technologies (ADAS / AI), image calibration viewpoint switch and neural network technologies (CNN).
- (2) Application module: When the product develops towards the precision intelligence, products and services will undergo various intelligent upgrades, and the overall industry will gradually change from digitalization to intelligentization. The company will strategically plan software and hardware system R & D for smart application to shorten the development timeline in order to meet the diverse characteristics of future market demand and enhance product competitive edge.

With the birth of artificial intelligence and in-depth learning, image analysis integrates with artificial intelligence, big data, and hardware & software technologies forming a flexible innovative environment platform. Image smart analysis not only enhances the security mechanism, but also develops cross-domain software and hardware integration applications, such as smart image analysis and cross-integration of business intelligence, on an open innovation service platform to enhance customer satisfaction, generate consumer behaviors analysis and to help improve the effectiveness of business operations; with the expansion of smart applications, continuous breakthroughs, innovation, and integration are the key to gain market share.

**PiXORD:** main products include: (1) 5 Mega Pixel 360 degree Fisheye H.264 IP Camera; (2) Dual Lens Panoramic Dome Network Camera; (3) 3 Mega Pixel Outdoor Bullet Network Camera; (4) 2 Mega Pixel Low Lux Outdoor Bullet Network Camera; (5) VDSL2 Point to Point Long Distance Media Converter.

New products that PiXORD planned to develop include:

- (1) Developing next-generation 4K fisheye camera and outdoor bullet network camera



using Hi3519 high-performance IC with H.265 compression ability and IVE simple smart function to provide higher image quality while reducing transmission bandwidth of the camera.

- (2) Collaborating with the AI experts and professors of the Academia Sinica to introduce AI applications in the field of security, using AI to analyze and identify objects more accurately for the network application of smart traffic, license plate recognition, smart business, and multi-cameras.

In recent years, PiXORD has been committed to promoting all kinds of smart solutions using 360-degree fisheye cameras. In 2017, demonstration site was set up on Gangqian Rd., Neihu Dist., Taipei City in collaboration with Chunghwa System Integration with the smart streetlights solution, and the streetlights infrastructure for Taoyuan Qingpu Smart City was built in collaboration with the Asia-Silicon Valley Development Program.

In addition, the company collaborated with well-known streetlights manufacturers such as Xuanguan, Dongbei, Leadray and Lite-On in the smart streetlights solution integrated with fisheye cameras, which is promoted and used in various cities in Taiwan and abroad.

In October 2017, PiXORD presented the “Smart Transportation - City Traffic Protocol” at the 9th SIG Workshop of Asia-Silicon Valley IoT Industry Alliance and received the most votes from the assessment committee as the winning program. This smart transportation - city traffic protocol has, in addition to the pilot support provided by traffic management units of Kaohsiung, Tainan, Chiayi, and Hsinchu, and other cities, been promoted to Hsinchu Science Park and Kaohsiung Export Processing Zone, hoping to help solve the problem of traffic jams issues during rush hours.

The smart traffic, smart retail, smart factory and value-added via multiple intelligences analysis that PiXORD presented with its strategic alliance of various expertise have established a successful performance and improved PiXORD’s unique competitiveness in the monitoring industry. PiXORD has also actively participated in tendering safety monitoring contracting projects for various counties, cities and industrial parks; through the advantages of winning the contract in various sites, it not only increased the sales revenue but also obtained more Big Data required for artificial intelligence to provide the basis of development for next-generation artificial intelligence products.

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

- (1) short-term plan

- A. Marketing strategy:

- (a) In order to meet the market demand for smart terminal device products, various IC protocols for smart phones were developed. For example, the fingerprint sensor module is one of the corresponding solutions. In 2017, sales has grown significantly. In addition, facial recognition is the next stage product; TDDI and TDDI ICs with pen functions, all of which are various IC protocols for smart phones. In the meanwhile, the Company built multiple collaboration models such as cooperation with

customers directly or with module factories, mobile phone ODM factories, mobile phone panel factories, etc.

The Company's sales model for touch controller ICs also meets the diversified demand of end-users. The Window 10 architecture, for example, is used on notebook computers in two ways: one is selling the touch pad in module, and the other is marketing the touch screen as single-chip. The smart phones, tablet PCs, notebooks, AIO PCs and other touch screens have all been applied with high-performance single-chips. This year, marketing for touch screen with active stylus will be strengthened, which has market leading power benefiting for the improvement of sales performance, and, most importantly, providing customers with the best platform and helping customers to achieve a greater market share with the most competitive product cost-effectiveness and engineering support.

- (b) Strengthen the development of OBM's in Taiwan, mainland China, US and Northeast Asia markets of budget smart phones, tablet PCs and notebooks with fingerprint recognition and touch controller, in order to increase the number of customers and the number of cases to enhance the operating momentum.
- (c) Gain more home appliance customers in mainland China by all-purpose MCU with low power consumption and high-level denoise ability; and earn greater market share by launching touch pad control IC with high-level denoise ability for home appliances, and MCU for brushless DC motors.
- (d) Require business marketing personnel to work deeper into the industry and face customer demand directly, in order to master the overall industrial supply chain, understand the key demand of the market, identify customers who can generate business energy, and seek cooperation and collaboration with muscle of the industry. At the same time, establish office in the main markets with after-sales service engineers ready at all time to provide customer with the best services in line with business demands.

B. Product development direction:

- (a) Develop touch-and-display 2-in-1 integrated ICs for smart phones: TDDI is an industrial trend. Combining touch and display driver ICs into a single chip will effectively reduce costs and improve performance.
- (b) Develop facial recognition ICs;
- (c) Complete the solution for the mobile phone 21:9 integrated touch HD panel and driver IC;
- (d) Develop ICs with 2-in-1 functions of touch pad and touch points;
- (e) Develop low power consumption contactless computing IC for biometric smart cards.

C. Production strategies:

- (a) Strengthen the planning and management for automation of the entire

production process to improve output efficiency of the modules and achieve rapid delivery. At the same time, prepare capacity planning in advance for the demands arising from wafer foundry capacity, packaging and testing, and biometric products related materials, while working closely with business units to meet the requirements of on-time delivery.

- (b) Maintain close cooperative relationship with upstream, midstream and downstream players in the semiconductor industry, such as foundries, touch screen manufacturers, liquid crystal display panel (LCD) manufacturers, notebook ODM /OEMs and mobile phone module foundries, packaging and testing factories, photomask factories, hardware and software manufacturers and other outsourced vendors, ensure good communication with each other, acknowledge different production processes of each manufacturer and related progress and changes, effectively reduce inventory by various countermeasures through motorized operations and activate optimal production efficiency.
- (c) Strictly set various production indicators, ensure the indicators are achieved, further strengthen the contents of the indicators, and constantly update and refine the production process to achieve the optimal production efficiency.

D. Operating strategies:

- (a) More flexible product sales strategies: The use of modular, single-chip, board and other sales approaches are the key sales approaches for continuous implementation, in order to strengthen market expansion, increase revenue scale effectively, meet customer demands and further enhance deeper understanding of the market.
- (b) Concentration: In response to the market demand for smart terminal device products, the Company will continue to focus on the product application for mobile devices in 2018. Touch screen pen function enhanced with touch application and biometrics sensor module will be incorporated in smart phones, notebook, tablets and smart card related products.
- (c) Performance optimization: apply touch solution to the Company's full range of products to, in addition to increase products' added value, effectively improve customers and the Company's market competitiveness and increase average selling price (ASP) in order to increase gross margin of the products.
- (d) Go hand-in-hand with brand, ODMs and related supply chains customers: strengthen cooperative programs with branding customers while diversifying by collaborating with ODMs and customer resources of upstream, midstream, and downstream supply chains to improve operating performance.

(2) long-term development plan

- A. marketing strategy:
- (a) Set Taiwan in Asia as the operating headquarter and the center of strategic management in building global marketing network and distribution network (renowned notebook, smartphone and tablet PC OBMs in Asia are all important customers of the Company), flexibly use the marketing and technical support capabilities of the Company and the agents' distribution system, provide product design services through the Company's powerful patent network, strengthen the application of various products and increase gross margin of the products.
  - (b) Actively deepen the relationship with branding customers and marketing channels in Europe and the United States. First of all, strengthen the promotion with renowned US and European branding customers of consumer electronic products and establish cooperative partnerships with brand factories and ODMs to strategically develop towards internationalization, accumulate higher penetration rate in tier-one manufacturers, focus on renowned customers with strength and potential and provide comprehensive marketing and complete after-sales services, in order to boost revenue and increase market awareness and market share.
  - (c) Actively establish the Company's own elite talent pool, to enhance international marketing capabilities and strengthen technical support, and obtain cooperative opportunities with world-class manufacturers.
- B. Product development direction:
- (a) Continue the collaboration with multiple renowned U.S. platform industry players to launch products that respond to the latest demands of the market, which will be applied in smart phones, tablet PCs, notebooks, smart home appliances and other products.
  - (b) Actively collaborate with affiliate(s) of joint venture(s) and related IoT technology companies to jointly develop related technology platforms in response to the coming IoT era.
  - (c) In response to the demand of mobile payment market in the emerging mobile payment era, the Company is dedicated in developing fingerprint recognition sensor module and has presented the mainstream capacitive pressing and optical fingerprint recognition products solutions, while continues to innovate different specifications and versions in response to the market demands for slimness and capitalization.
- C. Production strategies:
- (a) Continuously improve product yields to improve product quality, reduce production costs, and effectively increase gross margins.
  - (b) Establish a close cooperative relationship or strategic alliance with the outsource factories to ensure sufficient production capacity.

- (c) Seek the best production method between process nodes and products in order to produce the most competitive product with effective and low cost production capacity.

D. Operating strategies:

- (a) Effectively use self-developed 16-bit and 8-bit MCU and digital signal processor technology to launch high-integration ICs, modularized products and application platforms with competitive prices and quality in various application fields through integrating the IP and technologies required for the communication, consumer electronic, notebook PCs, smart phones, tablet PCs and other application fields, and cooperate with leading manufacturers in various fields to create a win-win situation and expand business scale.
- (b) Focus on competitive products, expand their scope of application, enhance differentiation strategy and derive creative concept products with business opportunities, especially in touch solution related products, in order to increase business scale, gross profit margin and profitability.
- (c) Strategic alliances: leverage on external strength, seek related upstream and downstream industries with similar goals, work together to achieve coexistence and common prosperity.

E. Financial strategies:

Fully utilize, in line with the continuous expansion of business scale, various types of financial instruments in the capital market to obtain lower-cost working capital and strengthen the financial structure.

## 2. Market and Sales Overview

(1) Market analysis:

(1) Sales regions of major products during the past 2 years

Unit: NT\$'000

region \ sales	year	2016		2017	
		sales amount	percentage (%)	sales amount	percentage (%)
Taiwan		1,186,221	18.09	1,266,700	16.88
China		1,412,454	21.53	1,484,219	19.78
Hong Kong		3,837,997	58.52	4,653,405	62.02
other		122,261	1.86	98,943	1.32
Total Net Income		6,558,933	100.00	7,503,267	100.00

Mobile payment has become an important mainstream industrial trend, allowing users to easily complete transactions through mobile device carriers such as smart phones, notebooks and tablets, and covering smart cards, personal computer peripherals, etc. In order to emphasize the safety and reliability of payment, biometric ICs have become a key component of the payment industry. Biometric ICs are used in all high-end, mid-range and low-end smart phones mainly due to the focus on the potential business opportunities in future mobile payments. Among them, the application of fingerprint recognition function is continuously expanding; from smart phones, notebooks and tablets to smart cards, automobiles, and IoT, it will be an important application

device. In 2018, fingerprint recognition ICs will enter a period of high development. It is expected that the growth will be limited when the penetration rate in mobile phones exceed 60%. Instead, other biometric ICs and facial recognition will be used. The Company is currently fully expanding its facial recognition and expects to open up new prospects this year.

Smart cards are the most potential application products covering credit cards, financial cards, EasyCards, ID cards, health insurance cards, etc. Many cards are not limited to one personal use, therefore, long-term market prospect is optimistic. The use of fingerprint recognition function device in smart cards can effectively prevent fake cards and reduce the disputes between bank and users due to lost or stolen credit card in order to protect safety of personal property. At present, fingerprint recognition manufacturers are actively competing for market opportunities in this field.

In response to the rapid development of the biometrics market, the Company has successively completed the development of fingerprint recognition ICs in various sizes and is developing facial recognition ICs, which can be applied to smart phones. The Company continues to improve ICs for better performance and cost competitiveness. In addition to the existing customers and existing touch controller ICs, the Company will provide biometric products with good functionality, high quality and market competitiveness as the basis of revenue scale expansion.

In addition, the Company has long invested in the development and application of touch controller technology and has patents in the United States, Japan, mainland China, and Taiwan. In general, the touch controller ICs that the Company successfully developed and mass produced are applicable in touch panels of various large, medium, and small sizes, coupled with fully integrated terminal pre-sales and after-sales services for smart phones, tablet computers and notebooks. The Company will continue to provide customers with an overall solution that is more competitive in the international market.

The Company is at a key market position while facing global rivals in the touch controller IC industry, among which the touch controller notebook ICs for notebook accounted for more than half of global market share and the touch pad modules also accounted for more than 30% (and growing towards 40%) market share. The competitors that the Company is currently facing include many IC design companies at home and abroad such as US manufacturer Synaptics and Microchip, Alps of Japan, and Goodix of China. The increasingly fierce competition has also led to a decline in IC prices, therefore, effective improvement in IC performance, reduction of IC production costs, establishing competitive technical thresholds and sales channels are the goals of the Company's continuous efforts in 2018.

The most important application products in the touch controller industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and production capacity has also expanded considerably. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness were unable to be profitable and force to pull out from the race. This is especially noticeable among the touch screen manufacturers. In 2017, global smart phone shipments reached nearly 1.5 billion units; the growth has slowed down, and market penetration has clearly reached saturation.

Currently, the growth rate of smart phones in countries including North America, Europe, and China is slowing down. Therefore, the growth momentum of global mobile phones will shift to other emerging regions, including India, South America, Eastern Europe and Russia, where the

main demand is low price. Therefore, how to maintain revenue growth and profitability in the low-cost competitive environment is an important task for members of the touch controller supply chain.

Due to the slowed down demand in the emerging markets, the growth of consumer smart terminal products was weak. The TrendForce survey pointed out that the global smart phone shipments has reached 1.46 billion units in 2017 at an annual growth rate of 6.5%. TrendForce report shows that notebook computer shipments were 165 million units in 2017 at an annual growth rate of 2.1%. According to IDC data, global tablet shipments has dropped by 6.5% from the previous year to be 163 million units in 2017.

Another type of point stick product used in notebooks is currently supplied to the world's largest manufacturer of notebook computers. The Company has successively completed the high-level development of denoise, anti-RFI pointing stick sensor ICs and is expecting to score again in 2018.

As for the MCUs, the Company will continue to develop lower power consumption IC platforms to provide customers with the best solutions, while strengthening the collaboration with solution companies in mainland China and providing the best cost-effective control ICs.

## (2) Market share:

The Company is a professional IC design company with a full range of integrated solutions. It has a strong R & D team and invests more than 15% in R & D each year. It is a IC design company that focuses on research and development of new products. The quality of products developed by the Company is recognized by the customers; the proportion of revenue from global tier-one manufacturer customers accounted for more than half of the total revenue. The touch controller ICs for notebook accounted for nearly half of the world's market share, and the touch pad modules also has a market share of over 30%, making it the manufacturer with the world's second largest market share.

According to the data from IEK of ITRI, output value of Taiwan's IC design industry reached NT\$6.228 trillion in 2017; the proportion that the Company accounted for was approximately 1.2%.

## (3) Future supply, demand and growth of the market:

In the past, the growth experience of semiconductors and the global economic growth rate of GDP are showing a synchronous trend. According to the International Monetary Fund (IMF), the global economic growth rate in 2017 was 3.5%, and it is expected to grow to 3.9% in 2018. The global economy is still on the road to recovery, and the overall performance of semiconductors will be relatively good as a result.

Although the overall economic outlook looks promising, the changes are still great. In addition, China's policy strongly supports the semiconductor industry to strengthen the supply ratio for domestic demand. Therefore, in order to meet the external challenges of the overall environment, the Company, as a member of the semiconductor design industry, concentrated its major markets in North America and Asia. Therefore, combining the strengths of the U.S. and Japanese platform industry players and momentum of the Company in IC design to jointly develop the global market, continuous seeking for niche IC products and business collaboration or alliances and enriching

own strength through different feasible mechanisms are the only ways to respond to the overall economic situation and market changes.

At the same time, grasping relevant technologies, enhancing competitive momentum, gaining insights on market application trends (such as artificial intelligence, smart home, smart transportation, automotive electronics, etc.) and combining the resources of related companies to develop biometric sensor ICs and ultra-low power consumption sensor technology are the important development directions. Fully grasping the new opportunities for semiconductor development created by the changes in global artificial intelligence and new generation ICT industry markets can effectively enhance the added value of the Company, strengthen its competitiveness, and further drive its operations.

The application of artificial intelligence can be regarded as the next wave of huge business opportunities following smart phones, PCs and tablets. The Company plans to combine its own technology with affiliates to jointly develop competitive smart devices to drive the Company's business growth.

(4) Competitive niche:

- A. Possession of strong R & D team and huge patented technologies;
- B. Master the key technologies and IP of the products with important competitive advantages;
- C. Specialized technical services, effective product integration and provision of customer & technical engineering supports;
- D. Provide modularized solution that is different from the peers' operating models. Differentiated sales strategies effectively enhanced closer relationships with the customers;
- E. Well-established distribution agents and global sales offices at home and abroad;
- F. Collaboration and mass production experience with domestic and foreign smart phone module manufacturers, touch controller manufacturers, panel manufacturers and notebook ODMs.

(5) Favorable and unfavorable factors of development prospects:

- A. Favorable factors
  - The Company focused on the global market, combined with renowned platforms providers and specification makers in the United States and Japan, and conducted comprehensive contacts with tier-one brands and customers in China to gain purchase orders. There are gradual progress, which gradually reflected in operating performance. In 2018, the focus of market development will be on the global branding manufacturers and tier-one branding customers in mainland China.
  - Flexible business strategies: modularized, single-chip or chipset methods of sales are available. Among them, the modularized sales model can enhance closer collaboration with system manufacturers and access to the earliest market information, which is favorable in gaining purchase orders.
  - Man-machine interface operation: Touch applications are becoming more and more popular in smart mobile devices. This kind of operation mode that emphasizes man-machine interface is becoming more and more popular and has already penetrated into various types of consumer electronic products with increasing penetration rate over the years. The Company owns patented multi-finger technology that can be widely used in various consumer electronics products, just in



- line with the development trend of the market.
- Own a strong R & D team and hundreds of patented technologies.
  - Close to the market: outsource production in the vast consumer market, achieve the goal of rapid delivery, and strengthen customer service.
  - Complete system of production chain: various large-scale domestic and foreign wafer factories and related packaging and testing downstream subcontractors will expand the scale of capital expenditures, which will be favorable when IC design companies expand their production cooperation. At the same time, the increasingly specialized division of work of the above-mentioned manufacturers has already evolved into considerable economic scale, providing the Company with stable wafer supply and related post-processing services while effectively controls production quality and timeliness, reduces production costs and risks, all of which are favorable for the development and timing of new products.
  - Long-term collaboration with upstream, midstream, and downstream supply chains of the customers: understand the requirements of production and process nodes, reduce processing time, reduce peripheral costs and increase production efficiency.
  - In response to the demand for market price/function ratio: As the market is increasingly competitive, reducing the size of IC and overall cost has always been the goal of the company. At the same time, with regard to the different requirements of product features in different markets, the company also provides a diversified product range to provide different product solutions in response to customer demand.
  - Product diversification: low impact from the economic environment, broad distribution channels, low impact from changes in a single market, and a stable customer base.
  - Consumer electronic digitalization has become the mainstream of the market. Since the establishment of the Company, it has oriented towards consumer electronics and the market, and realized that consumer electronics is already the mainstream industry in the future. Therefore, the continuous introduction of new products helps the Company in meeting the market demand.
- B. Unfavorable factors
- The IC design industry is highly dependent on wafer production capacity and is susceptible to wafer manufacturer; when the wafer production capacity is full, IC design companies must pay higher costs to obtain production capacity.
  - The amount of development funds invested in artificial intelligence-related applications is relatively high, the product life cycle is short and the changes are rapid, creating pressure on product development.
  - R & D talents are an important lifeblood for the survival and development of IC design companies. High employee turnover rate can hamper the accumulation of research and development capabilities.
  - Insufficient domestic R & D manpower makes recruitment a problem for companies.
  - Competition among domestic and foreign IC design companies has become increasingly fierce, and the pressure on product prices has increased, creating operating pressure.
  - The rise of IC design companies in mainland China: due to policy support in terms of funding or markets, the scale of operations continues to expand and pose a threat to Taiwan's IC design industry.
  - Increasingly fierce competition: price war is increasingly fierce. Facing the

competition from US, South Korea and mainland China IC design companies, the environment is becoming increasingly difficult.

(6) Countermeasures:

- Grasp the evolution of market trends and develop appropriate strategies. The continuous growth of the smart terminal products market and the tremendous business opportunities brought by the coming artificial intelligence (AI) era will once again lead the big growth in semiconductor industry. The Company has completed biometric sensor ICs, in which fingerprint recognition ICs have been massproduced and shipped, while continuing the development of business opportunities for facial recognition ICs. At the same time, changes in the global artificial intelligence (AI) and new generation ICT industry markets will create new opportunities for semiconductor development. To meet the development trend, ultra low power consumption sensor technology is an important development direction, which can effectively enhance the added value of the Company, strengthen its competitiveness, and stimulate the operating momentum.
- Flexible business strategies: modularized, single-chip or chipset methods of sales are available. Among them, the modularized sales model can enhance closer collaboration with system manufacturers and access to the earliest market information, which is favorable in gaining purchase orders.
- Continuous recruit specialized R & D talents, implement localization strategies, increase overall engineering manpower, reduce related operating costs, build the strength of R & D teams, and achieve the goal of shortening product development timelines.
- Expanding the market through strategic alliances with domestic and foreign peers or related players to accelerate revenue and profit growth.
- Build marketing channels, expand marketing outlets at home and abroad, and actively develop new customers.
- Understand the market development trends, understand the needs of end-users and consumers, and respond to their needs in order to achieve the goal of profit growth; strengthen the application of products, and enrich the service mechanism of the application engineering manpower so that the Company can coexist and prosper with customers.

(2) Important uses and production processes of the major products:

(1) Important uses of the major products

At present, the company has two major product categories and five product lines. The two product categories are touch and non-touch controller I. The touch controller I category includes touch screen ICs, touch pad module, and biometric ICs. The non-touch controller category includes MCU and a pointing stick. All related production processes are carried out by the Company from IC design, to outsourcing the photomask company to make the photomask, to transfer to the wafer factory for the various fabrication (such as exposure to UV-light, etching, etc.), to perform wafer testing and packaging testing before ship to the customer for production. All production time varies according to various required IC functions, precision, etc.

A. Application products in touch controller category:

Application products in touch controller category are the main products of the Company in 2017. They will still account for a large part of the revenue in 2018. The

main application products of touch screen ICs include smart phones, tablet computers and notebook computers, e-books, and AIO. PC, etc.

B. Touch Pad module:

Mainly used on notebook PCs.

C. Biometric ICs:

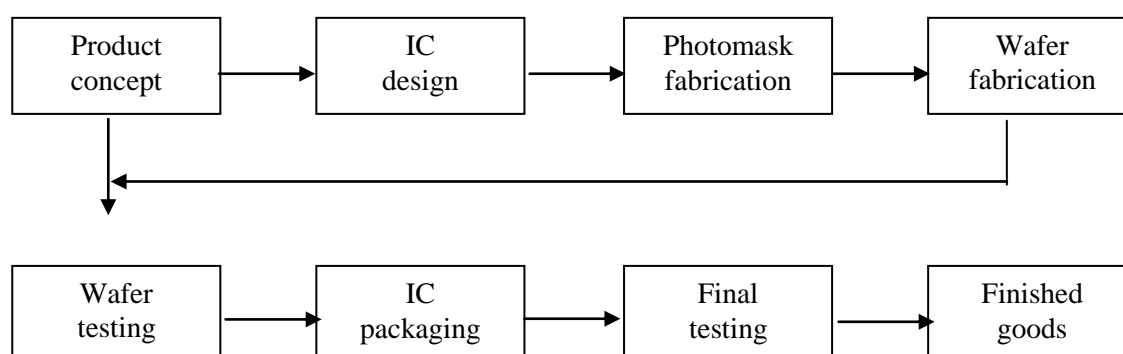
In 2017, the shipment of fingerprint recognition ICs has grown significantly, and the scope of applications was wide covering smart phones, notebooks, tablets, smart cards, PC peripherals, etc. This year, the Company will enter into the development of facial recognition ICs, hoping to expand the market in biometrics.

D. MCU:

The main core technologies of the Company's MCU IC products include: 8-bit RISC processor and 16-bit MCU with DSP computing function and development platform, which are mainly used in small and large home appliances, security systems, and communications peripherals such as chargers, high-end interactive toys, mobile phones, electronic dictionaries, language learning machines, optical mice, keyboard control ICs and other markets. MCU has been dominated by foreign IC manufacturers. The product lines developed by the Company are competitively priced, and the development tools such as OTP, MTP, and ICE are quite complete, allowing the customers to quickly market their products and achieve "Time to Market" requirements. In the future, more engineering talents will be recruited, and the Company will seek collaboration with more solution companies to provide customers with overall solutions and achieve a customer-corporation-consumer win-win-win situation.

E. Pointing stick products: used on notebook computers; the high-level denoise, anti-RFI pointing stick sensor IC were already completed, hoping to gain a broader customer structure in 2018.

(2) Production processes:



(3) Supply of major raw materials:

The Company's main raw materials are wafers and photomasks. The Company's main collaborating professional wafer foundries are Magnachip, UMC, and Macronix, which have excellent quality, process nodes technology and on-time delivery. In addition, in the photomask part, the main collaboration partners are Taiwan Mask and TCE, which are all long-term cooperative manufacturers with no concern in supply shortage or interruption.

(4) List of major suppliers and customers

(1) List of major customers (account for more than 10% of sales revenue)

**Information on Major Customers in the Past 2 Years (consolidated basis)**

Unit: NT\$'000

No.	2016				2017				as of the previous quarter of 2018 (Note 2)			
	name	amount	Proportion to net sales revenue of the year (%)	relationship with the issuer	name	amount	Proportion to net sales revenue of the year (%)	relationship with the issuer	name	amount	Proportion to net sales revenue of the year as of the previous quarter of 2018 (%)	relationship with the issuer
1	Ultra Source	2,639,127	40.24	non-related parties	Ultra Source	3,106,645	41.40	non-related parties	Ultra Source	538,403	30.26	non-related parties
2	Silicon Application	167,948	2.56	non-related parties	Silicon Application	998,562	13.31	non-related parties	Silicon Application	413,780	23.26	non-related parties
	other	3,751,858	57.20		other	3,398,060	45.29		other	827,055	46.48	
	net sales revenue	6,558,933	100.00		net sales revenue	7,503,267	100.00		net sales revenue	1,779,238	100	

Note 1: Specify the name, sales amount and proportion to sales revenue of the customer whose sales amount accounted for more than 10% of the total sales revenue in the past two years. If the customer name cannot be disclosed due to the contractual agreement or the transaction counterparty is a non-related individual, a code can be used in lieu thereof.

Note 2: As of the date of publishing the annual reports, listed company or company of which stocks have been traded at the securities firm shall disclose the most recent financial information certified by CPA.

(2) List of major suppliers (account for more than 10% of purchase amount)

**Information on Major Suppliers in the Past 2 Years (consolidated basis)**

Unit: NT\$'000

No.	2016 (Note 3)				2017 (Note 3)				as of the previous quarter of 2018 (Note 2, Note 3)			
	name	amount	Proportion to net purchase amount of the year (%)	relationship with the issuer	name	amount	Proportion to net purchase amount of the year (%)	relationship with the issuer	name	amount	Proportion to net purchase amount of the year as of the previous quarter of 2018 (%)	relationship with the issuer
1	Lien Hwa	670,788	19.28	non-related parties	Lien Hwa	714,716	19.84	non-related parties	Lien Hwa	192,283	24.05	non-related parties
2	MagnaChip	495,406	14.24	non-related parties	MagnaChip	514,674	14.29	non-related parties	MagnaChip	64,272	8.04	non-related parties

3	TPT	341,630	9.82	non-related parties	TPT	369,249	10.25	non-related parties	TPT	97,431	12.19	non-related parties
	other	1,970,790	56.66		other	2,002,996	55.62		other	445,476	55.72	
	Net purchase amount	3,478,614	100		Net purchase amount	3,601,635	100		Net purchase amount	799,462	100	

Note 1: Specify the name, purchase amount and proportion to total purchase amount of the supplier whose purchase amount accounted for more than 10% of the total purchase amount in the past two years. If the supplier's name cannot be disclosed due to the contractual agreement or the transaction counterparty is a non-related individual, a code can be used in lieu thereof.

Note 2: As of the date of publishing the annual reports, listed company or company of which stocks have been traded at the securities firm shall disclose the most recent financial information certified by CPA.

Note 3: Including finished goods purchased.

(5) Schedule of production and sales value for the past 2 years

1. Schedule of production value (consolidated basis):

Unit: '000pcs, NT\$'000

year production value major products	2016			2017		
	production capacity	output	output value	production capacity	output	output value
consumer touch controller IC	—	606,037	3,058,436	—	508,371	2,359,302
notebook input devices module	—	55,508	2,087,338	—	68,064	2,476,190
network communication IC	—	252	40,993	—	383	49,380
image process IC	—	220	38,717	—	727	69,358
safety monitoring module		3	9,537		5	12,184
total	—	662,020	5,235,021		577,550	4,966,414

2. Schedule of production and sales value (consolidated basis):

Unit: '000pcs, NT\$'000

major products \ year	2016				2017			
	Domestic sales		Export		Domestic sales		Export	
	Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value	Sales volume	Sales value
consumer touch controller IC	227,848	1,048,875	276,586	1,754,585	134,831	1,106,305	278,165	1,800,653
notebook input devices module	383	30,653	55,496	3,600,908	502	42,907	66,461	4,384,271
network communication IC	158	28,967	36	12,094	192	37,362	46	29,715
image process IC	198	42,477	26	24,004	417	50,578	71	19,421
safety monitoring module	3	12,766	2	3,604	5	29,548	2	2,507
total	228,590	1,163,738	332,146	5,395,195	135,947	1,266,700	344,745	6,236,567

\* "Other" referred to design development revenues, sales of DEMO BOARD and ICE.

3. Basic Human Resources information

Consolidated number of employees, average years of service, age and academic distribution ratio for the past two years:

year		2016	2017	March 31, 2018
number of employees	Managers	227	218	213
	Technician	245	293	290
	General staff	690	673	681
	total	1,162	1,184	1,184
average age		35.9	35.9	36.1
average years of service		6.8years	6.9years	7.2years
academic distribution ratio	Ph.D.	1.1%	1.1%	1.1%
	Master	45.1%	42.9%	42.9%
	Bachelor	41.2%	39.7%	39.6%
	High school	4.1%	3.7%	3.6%
	Below high school	8.5%	12.6%	12.8%

#### **4. Environmental Protection Expenditures**

The Company has always attached great importance to environmental protection; its pollution prevention performance is good, and there was no sanction received due to environmental pollution and violation.

- (1) Total amount of losses and sanctions in the past two years due to environmental pollution: N/A.
- (2) Future countermeasures expenditures and possible expenditures: N/A.
- (3) Work environment and employee personal safety protection measures:

The Company's working environment is excellent and is the only integrated circuit (IC) design company that has won the Distinguished Green Landscaping Award of Hsinchu Science Park Bureau for 13 consecutive years. In addition, the Company has always attached importance to matters concerning employees' health and safety, such as:

1. Employee health checkups;
2. Established Safety & Health Office and medical room for labor safety health education and environmental protection management;
3. Invited lecture with expertise to hold several health promotion seminars;
4. Hire professional medical practitioners to the Company on monthly basis to perform on-site health services and provide health advice to the employees;
5. Hold safety and health training every six months;
6. Hold weight loss classes and weight loss competitions to promote employee health;
7. Drinking water quality testing;
- 8.. The Company commissions professional manufacturers to overhaul and report fire fighting facilities on yearly basis;
9. Conduct employees' firefighting training every six months.
10. Conduct CO<sub>2</sub> measurement for the workplace environment every six months to safeguard employee health;
11. Obtained ISO 14001 Environmental System Certification. Environmental policies: prevention of pollution, company-wide full participation, commitment to environmental protection, continuous improvement;
12. The Corporate Social Responsibility Report has been introduced since 2014; the greenhouse gases inspections was commenced since 2014; and a KPI performance indicator of at least 1% in energy conservation and carbon reduction per year was set;
13. Obtained OHSAS 18001 Occupational Safety and Health Management System certification in May 2016.

#### **5. Labor Relations**

The Company's labor relations are harmonious and there was no major loss due to labor disputes.

- (1) Current important employer-employee agreement and its implementation status
  1. Employee benefit measures
    - (1) In addition to the canteen, exercise are, fitness equipment area and medical room facilities established by the Company, employees also enjoy health insurance, group insurance, pension benefits, regular health checkups, and health management services provided by professional medical personnel. In addition, the benefits provided by the Company also include: bonuses of the year, employees' compensation, club activities subsidy, New Year gift certificates, etc.
    - (2) The Company has established the Employee Welfare Committee pursuant to laws and selected the Welfare Committee to handle employee welfare issues. The source of its benefits is 1% capital contribution at the time of establishment and 0.5% and 0.12% contributed from monthly salary and revenue, respectively. The Welfare Committee is responsible in setting annual plan and budget, holding Welfare Committee meetings on a regular basis to discuss, resolve and organize various

welfare activities, and to disclose the income and expenses of the welfare funds. The welfare provided by the Welfare Committee include: birthday gifts, travel subsidies, wedding subsidies, funeral subsidies and maternity subsidies.

2. Employee education and training

In order to enrich the knowledge and skills of our staff members and enhance their morale and quality, the Company has set up a dedicated unit to plan the training for all staff members and provide external training opportunities in accordance with their professionalism, in order to combine the growth of staff members with the development of the Company to create a joint corporate vision.

(1) Internal trainings:

The Training Unit is responsible for planning annual training courses; training courses that are professional in nature will be organized by each department and co-organized by the Training Unit. In addition, the Company has established e-learning and know-how management system on the Company's internal website to effectively pass down professional know-how.

(2) External trainings:

Staff members shall apply for the course of which the materials was collected by the Training Unit and various departments, and proceed with the registration and payment procedures at the HR Department upon the supervisor's approval.

(3) Newcomer trainings:

Responsible by the HR Department and Public Resources Department, to ensure the newcomers understand and get familiar with the Company's organizational profile, personnel regulations, quality policies, industrial safety and health, people and the environment.

(4) On-job training:

Responsible by each department.

(5) Consolidated employee training and training execution status of the Company of the last fiscal year (2017)

items	expenses	Unit: NT\$ / number of person / hour	
		number of persons	hours
technology and R & D category	886,405	39	824
program and system category	30,786	8	27
management category	80,843	33	338
patent and intellectual property category	1,000	1	6
production and quantity assurance category	5,040	2	13
total	1,004,074	83	1,208

(6) Certificate(s) obtained by the chief finance, accounting and auditing officers:

job title	name	date	certificate name	certificate no.
Chief auditor	CHUNG,I-MEI	March 2006	Internal Auditor of The Institute of Internal Auditors-Chinese Taiwan	(Zheng)-9420032

3. Pension system

(1) pension fund contribution:

A. The Company has formulated an employee retirement plan and established a Retirement Reserve Supervision Committee. The Company contributes 2% of the monthly salary to the retirement reserve funds pursuant to the "Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds" and deposits in the Retirement Reserve Account at Taiwan bank.

B. The Company, pursuant to the Labor Pension Act, also deposits the 6% contribution from monthly salary of those employees who are eligible for pension as identified by the Labor Pension Act to each individual pension account.

(2) Pension system:



- A. Mandatory retirement:
    - a. Those who reached the age of 65; or
    - b. Those who suffer from the loss of mind or physical disability and unfit to work.
  - B. Volunteer retirement:
    - a. Those who have served over 25 years; or
    - b. Those who have served over 15 years and reached the age of 55; or
    - c. Those who have served over 10 years and reached the age of 60.
  - C. Base point: average salary of the last 6 months prior to the retirement.
- (3) Retirement benefits: For those who have reached the years of serve applicable for pension pursuant to the Labor Standards Act shall receive 2 base points for each full year; for who have served for more than 15 years shall receive additional 1 base point for each full year; the total number of base points is limited to 45 points.
4. Agreements between employee / employer and the safeguarding of employees' rights and interests
- The Company has not established a written agreement with the employee. Employees can freely express various advises for the Company through the quarterly employee-employer meeting, employee suggestion boxes, e-mail, internal network systems, etc.; the Manpower Performance Management Department gathers opinions from employees and distributes them, based on their opinions, to the responsible units for reply, and be processed pursuant to Employees' Code of Work after reporting to the CEO; the protection of the rights and interests of employees are subject to the Employees' Code of Work and the relevant regulations of the competent authorities.
- (2) Loss due to labor disputes during the last fiscal year
- The Company's labor relations are harmonious and there was no major loss due to labor disputes.

## 6. Important Contracts

contract nature	party	contract commence and ending date	main contents	limitations
technology licensing	Peripheral Imaging Corp.	Jan. 1, 2002 ~ termination called by any party	Product Development & Licence Agreement	N/A
technology licensing	Cybernetic	Jan. 1, 2005	LRC & HASC & ESAC	N/A
technology licensing	Synatics	Oct. 19, 2008 ~	Settlement and Cross - Linense Agreement	N/A
technology licensing	Apple	Jan. 3, 2012 ~	Settlement and License Agreement	N/A
technology licensing	Startek	Jul. 30, 2014 ~	Software Development and License Agreement	N/A
technology licensing	Finger Pro.	May 1, 2014 ~	Software license agreement	N/A
technology licensing	NEC Corporation	Nov. 30, 2012 ~	Software License For Evaluation	N/A
technology licensing	Precise Biometrics AB	Feb. 19, 2016 ~ Feb. 19, 2018	Software Business Agreement 2	N/A
Cooperative licensing	Chengdu Finchos Electronics Co., Ltd.	Aug. 22, 2016 ~	Cooperative Contract for Fingerprint Algorithm	N/A
Cooperative licensing	Chengdu Finchos Electronics Co., Ltd.	Jan. 4, 2017	Supplementary Cooperative Contract for Fingerprint Algorithm	N/A
technology licensing and development	Taluko holdings SAS	Jun. 4, 2016 ~	Licensing and Developemnt Collaboration Agreement	N/A
technology licensing	NXP	Oct. 1, 2017	Non-Exclusive Technology License Agreement	N/A
development service	NXP	Oct. 1, 2017	Services Agreement	N/A
commissioned development	National Taiwan University of Science and Technology	Dec. 1, 2010 ~ termination date of the rights and obligation	Industry-Academy Cooperative Contract	N/A

commissioned development	Industrial Technology Research	Dec. 1, 2013 ~ Feb. 28, 2024	Commissioned Service and Licensing Contract	N/A
commissioned development	Intel	Sep. 18, 2014	Software Development, Support and Demonstration Agreement	N/A
commissioned development	Altptech	May 18, 2017	Commissioned Software Development Contract	N/A

## 6. Financial Information

### 1. Last Five Fiscal Years' Financial Summary

#### (1) Concise Balance Sheet and Income Statement

##### 1. Concise Balance Sheet - Consolidated Financial Statements

Unit: NT\$'000

item \ year	financial information of the last five years					financial information as of March 31, 2018 (Note 3)
	2013	2014	2015	2016	2017	
current assets	7,408,380	7,799,627	7,038,751	7,015,408	7,953,564	8,044,272
property, plants and equipments (Note 2)	727,203	678,708	612,066	581,444	580,010	593,717
intangible assets	207,097	326,061	290,523	250,519	256,273	250,606
other assets (Note 2)	48,101	49,112	41,669	47,075	54,739	53,113
total assets	9,521,707	10,166,979	9,284,645	9,131,230	10,142,805	10,124,624
current liabilities	1,627,743	1,783,442	1,682,957	1,789,056	2,410,414	2,258,287
before distribution						
after distribution	3,150,987	3,371,564	2,565,247	2,470,616	Note 4	Note 4
non-current liabilities	421,789	513,384	510,525	446,032	408,928	402,003
total liabilities	2,049,532	2,296,826	2,193,482	2,235,088	2,819,342	2,660,290
before distribution						
after distribution	3,572,776	3,884,948	3,075,772	2,916,648	Note 4	Note 4
equity attributable to owner(s) of the parent company	7,407,842	7,817,412	7,099,955	6,899,178	7,356,477	7,625,023
capital	4,332,125	4,411,448	4,411,448	4,341,148	4,341,148	4,341,148
capital surplus	1,450,512	1,173,275	976,488	735,781	536,328	536,328
reserved surplus	1,986,973	2,483,273	1,961,910	1,745,995	2,422,333	2,703,823
before distribution						
after distribution	1,073,027	1,146,604	1,264,901	1,312,748	Note 4	Note 4
other equity	166,428	230,837	221,247	177,522	147,779	134,835
treasury shares	528,196	481,421	471,138	101,268	91,111	911,111
non-controlling interest	64,333	52,741	(8,792)	(3,036)	(33,014)	(38,689)
total equity	7,472,175	7,870,153	7,091,163	6,896,142	7,323,463	7,586,334
before distribution						
after distribution	5,948,931	6,282,031	6,208,873	6,214,582	Note 4	Note 4

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: If there is asset revaluation, the revaluation date and revaluation surplus shall be listed.

Note 3: Q1 / 2018 financial information certified by the Accountant.

Note 4: As of the reporting date, profit distribution has not yet been resolved by the 2017 shareholders' meeting.

Note 5: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017.

## 2. Concise Comprehensive Income Statement - Consolidated Financial Statements

Unit: NT\$'000

<div> <div>year</div> <div>item</div> </div>	financial information of the last five years					financial information as of March 31, 2018 (Note 2)
	2013	2014	2015	2016	2017	
business revenues	7,794,533	7,686,322	6,605,099	6,558,933	7,503,267	1,779,238
gross income	3,574,257	3,523,924	2,813,686	2,708,170	3,347,802	790,139
income (loss)	1,661,426	1,433,528	848,884	752,415	1,349,782	287,697
non-operating income and expenses	58,353	254,741	62,826	(27,525)	(87,521)	40,633
net profit before tax	1,719,779	1,688,269	911,710	724,890	1,262,261	328,330
net going concern profit of the period	1,466,939	1,404,732	738,946	580,001	1,032,110	258,695
loss from discontinuing operation	0	0	0	0	0	0
net income / (loss)	1,466,939	1,404,732	738,946	580,001	1,032,110	258,695
other comprehensive income (loss) (post-tax) of the period	9,874	(13,067)	(15,316)	2,526	6,211	(12,944)
total comprehensive income (loss) of the period	1,476,813	1,391,665	723,630	582,527	1,038,321	245,751
net profit attributable to owner(s) of the parent company	1,545,693	1,491,867	824,777	652,667	1,073,802	264,370
net profit attributable to non-controlling interest	(78,754)	(87,135)	(85,831)	(72,666)	(41,692)	(5,675)
total comprehensive income (loss) attributable to owner(s) of the parent company	1,555,593	1,478,356	809,408	655,414	1,079,841	251,426
total comprehensive income (loss) attributable to non-controlling interest	(78,780)	(86,691)	(85,778)	(72,887)	(41,520)	(5,675)
earnings per share	3.80	3.61	1.98	1.57	2.58	0.63

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: Q1 / 2018 financial information certified by the Accountant.

Note 3: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets. IFRS 9 and IFRS 15 was adopted on January 1, 2018 without retroactively restate consolidated balance sheets issued before the year of 2017.

### 3. Concise Balance Sheet - Individual Financial Statements

Unit: NT\$'000

item \ year	financial information of the last five years				
	2013	2014	2015	2016	2017
current assets	7,008,621	7,306,317	6,588,344	6,470,853	7,341,632
property, plants and equipments (Note 2)	704,690	661,735	598,560	567,880	572,376
intangible assets	185,130	300,311	253,764	217,847	230,104
other assets (Note 2)	24,508	25,793	24,886	28,169	79,247
total assets	9,366,709	10,024,306	9,072,585	8,916,171	9,886,202
current liabilities	1,547,351	1,704,766	1,470,222	1,579,121	2,126,747
before distribution	3,070,595	3,292,887	2,352,512	2,260,681	Note 3
after distribution	411,516	501,307	502,408	437,872	402,978
non-current liabilities	1,958,867	2,206,073	1,972,630	2,016,993	2,529,725
before distribution	3,482,111	3,794,194	2,854,920	2,698,553	Note 3
after distribution	7,407,842	7,817,412	7,099,955	6,899,178	7,356,477
equity attributable to owner(s) of the parent company	4,332,125	4,411,448	4,411,448	4,341,148	4,341,148
capital	1,450,512	1,173,275	976,488	735,781	536,328
capital surplus	1,986,973	2,483,273	1,961,910	1,745,995	2,422,333
before distribution	1,073,027	1,146,604	1,264,901	1,312,748	Note 3
after distribution	166,428	230,837	221,247	177,522	147,779
other equity	528,196	481,421	471,138	101,268	91,111
treasury shares	-	-	-	-	-
non-controlling interest	7,407,842	7,817,412	7,099,955	6,899,178	7,356,477
before distribution	5,884,598	6,229,291	6,217,665	6,217,618	Note 3
after distribution					
total equity					

Note 1: Financial information of the above-listed years has been certified by the Accountant.

Note 2: If there is asset revaluation, the revaluation date and revaluation surplus shall be listed.

Note 3: As of the reporting date, profit distribution has not yet been resolved by the 2017 shareholders' meeting.

Note 4: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated the 2013 and 2014 Consolidated Balance Sheets.

#### 4. Concise Comprehensive Income Statement - Individual Financial Statements

Unit: NT\$'000

<div> <div>year</div> <div>item</div> </div>	financial information of the last five years				
	2013	2014	2015	2016	2017
business revenues	7,661,505	7,580,992	6,455,625	6,428,211	7,341,164
gross income	3,546,505	3,491,463	2,769,101	2,690,167	3,307,355
income (loss)	1,912,822	1,690,514	1,101,905	1,001,819	1,463,417
non-operating income and expenses	(116,128)	78,733	(109,433)	(209,533)	(167,090)
net profit before tax	1,796,694	1,769,247	992,472	792,286	1,296,327
net going concern profit of the period	1,545,693	1,491,867	824,777	652,667	1,073,802
loss from discontinuing operation	0	0	0	0	0
net income / (loss)	1,545,693	1,491,867	824,777	652,667	1,073,802
other comprehensive income (loss) (post-tax) of the period	9,900	(13,511)	(15,369)	2,747	6,039
total comprehensive income (loss) of the period	1,555,593	1,478,356	809,408	655,414	1,079,841
net profit attributable to owner(s) of the parent company	1,545,693	1,491,867	824,777	652,667	1,073,802
net profit attributable to non-controlling interest	-	-	-	-	-
total comprehensive income (loss) attributable to owner(s) of the parent company	1,555,593	1,478,356	809,408	655,414	1,079,841
total comprehensive income (loss) attributable to non-controlling interest	-	-	-	-	-
earnings per share	3.80	3.61	1.98	1.57	2.58

Note 1: The above Financial information has been certified by the Accountant.

Note 2: On 1 January 2015, adopted the effective International Financial Reporting Standards:2013, International Accounting Standard and interpretations (excluding No. 9 of the International Financial Reporting Standard) approved and issued by FSC in the preparation of financial statements and has retroactively restated 2014 Consolidated Balance Sheet.

(2) Concise Balance Sheet and Income Statement - Taiwan's Financial Accounting Standards

1. Concise Balance Sheet - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.
2. Concise Income Statement - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.
3. Names and audit opinions of the Certified Public Accountants in the last 5 years:

year	name of the firm	Certified Public Accountant	audit opinions
2013	KPMG	CHOU PAO-LIEN, WEI, HSING-HAI	unqualified opinion
2014	KPMG	CHOU PAO-LIEN, WEI, HSING-HAI	revised unqualified opinion
2015	KPMG	CHOU PAO-LIEN, GAU WEY CHUAN	revised unqualified opinion
2016	KPMG	CHOU PAO-LIEN, GAU WEY CHUANN	unqualified opinion
2017	KPMG	GAU WEI-CHUAN, TSENG MEI-YU	unqualified opinion

## 2. Last Five Fiscal Years' Financial Analysis

### (1) Financial analysis - consolidated

analysis items (Note 3)		financial analysis for the last five years					Financial information as of March 31, 2018 (Note 2)
		2013	2014	2015	2016	2017	
financial structure (%)	debt to assets ratio	21.52	22.59	23.62	24.48	27.80	25.96
	long-term capital to property, plant and equipment ratio	1,085.52	1,235.22	1,241.97	1,262.75	1,333.15	1,345.48
solvency ratios %	current ratio	455.13	437.34	418.24	392.13	329.97	356.21
	liquidity ratio	381.07	367.85	346.39	331.58	279.39	304.49
	interest protection multiples	3,083.04	3,156.64	758.86	339.58	300.61	294.41
operating capacities	receivables turnover ratio (times)	6.58	6.22	5.71	5.87	6.99	7.98
	average collection period	55	59	64	62	52	46
	inventory turnover ratio (times)	3.18	2.98	2.74	2.88	3.00	2.65
	accounts payable turnover ratio (times)	5.66	5.44	4.61	4.61	4.81	4.86
	days sales of inventory	115	122	133	127	122	129
	property, plants and equipments turnover ratio (times)	10.20	10.93	10.23	10.99	12.92	12.13
	total assets turnover ratio (times)	0.86	0.78	0.68	0.71	0.78	0.70
profitability	return on asset (%)	16.13	14.27	7.61	6.32	10.75	10.16
	return on equity (%)	20.88	18.31	9.88	8.29	14.52	13.88
	profit before tax to capital stock (%) (Note 7)	39.70	38.27	20.67	16.70	29.08	30.25
	net profit margin (%)	18.82	18.28	11.19	8.84	13.76	14.54
	earnings per share (NT\$)	3.80	3.61	1.98	1.57	2.58	0.63
Cash Flow	cash flow ratio (%)	102.09	81.50	47.86	54.19	60.69	24.74
	cash flow adequacy ratio (%)	118.05	95.47	83.61	87.57	99.04	96.76
	cash reinvestment ratio (%)	4.74	-0.07	-8.85	1.45	9.09	6.10
leverage	operating leverage	4.24	5.01	7.07	8.09	4.85	5.30
	financial leverage	1	1	1	1	1	1

Explain the reasons for changes in financial ratios in the past two years (when the rate of change exceeds 20%):

- Profitability :**  
 The increased sales revenue and gross sales margin in 2017 from that of in 2016 caused the increase in profit in 2017 from that of in 2016, and the indicators related to profitability were all higher than that of in 2016.
- Cash Flow:**  
 The cash reinvestment ratio is higher than that of the previous period, mainly due to the increase in cash flow from operating activities in 2017 from that of in 2016 and the decrease in cash dividends payment in activities in 2017 from that of in 2016.
- Leverage :**  
 The operating leverage is lower than that of the previous period, mainly due to the increase in operating profit in 2017 from that of in 2016.



(2) Financial analysis - individual

analysis items (Note 3)		Year (Note 1)	financial analysis for the last five years				
			2013	2014	2015	2016	2017
financial structure (%)	debt to assets ratio		20.91	22.01	21.74	22.62	25.59
	long-term capital to property, plant and equipment ratio		1109.62	1,257.11	1,270.11	1,292.01	1,355.66
solvency ratios %	current ratio		452.94	428.58	448.12	409.78	345.20
	liquidity ratio		380.70	361.82	372.74	346.97	294.82
	interest protection multiples		Note 3	Note 3	Note 3	49,519	162,042
operating capacities	receivables turnover ratio (times)		6.30	6.02	5.61	6.03	7.30
	average collection period		58	61	65	61	50
	inventory turnover ratio (times)		3.32	3.13	2.88	3.04	3.16
	accounts payable turnover ratio (times)		5.59	5.40	4.53	4.55	4.72
	days sales of inventory		110	116	127	120	116
	property, plants and equipments turnover ratio (times)		10.34	11.10	10.24	11.02	12.88
	total assets turnover ratio (times)		0.86	0.78	0.68	0.71	0.78
profitability	return on asset (%)		17.36	15.39	8.64	7.26	11.42
	return on equity (%)		22.25	19.60	11.06	9.32	15.06
	profit before tax to capital stock (%) (Note 7)		41.47	40.11	22.50	18.25	29.86
	net profit margin (%)		20.17	19.68	12.78	10.15	14.63
	earnings per share (NT\$)		3.80	3.61	1.98	1.57	2.58
Cash Flow	cash flow ratio (%)		123.44	105.71	73.70	81.22	76.70
	cash flow adequacy ratio (%)		140.35	115.01	101.74	106.77	116.80
	cash reinvestment ratio (%)		7.05	3.00	-5.85	4.77	10.73
leverage	operating leverage		3.07	3.31	4.19	4.68	4.18
	financial leverage		1	1	1	1	1

Explain the reasons for changes in financial ratios in the past two years (when the rate of change exceeds 20%):

1. Profitability :

The increased sales revenue and gross sales margin in 2017 from that of in 2016 caused the increase in profit in 2017 from that of in 2016, and the indicators related to profitability were all higher than that of in 2016.

- Note 1: Financial information of the above-listed years has been certified by the Accountant.
- Note 2: Q1 / 2018 financial information certified by the Accountant.
- Note 3: The interest expense in the year 2013 to 2015 Individual Financial Statements were all “0”, therefore, so the , interest protection multiples is infinite.
- Note 4: Financial ratio formula:
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 property, plants and equipments.
  2. Solvency ratios
    - (1) Current ratio = current assets / current liabilities.
    - (2) Liquidity ratio = (current assets – inventory – prepaid expenses) / current liabilities.
    - (3) Interest protection multiples = earnings before interest and taxes / interest expenses of the period.
  3. Operating capacities
    - (1) Receivables (including accounts receivable and note receivable from business operations) turnover ratio = net sales revenue / average receivables (including accounts receivable and note receivable from business operations) balance of each period.
    - (2) Average collection period = 365 / receivables turnover ratio.
    - (3) Inventory turnover ratio = cost of goods sold / average inventory.
    - (4) Accounts payable (including accounts payable and note payable from business operations) turnover ratio = cost of goods sold / average accounts payable (including accounts payable and note payable from business operations) balance of each period.
    - (5) Days sales of inventory = 365 / inventory turnover ratio.
    - (6) Property, plants and equipments turnover ratio = net sales revenue / average net property, plants and equipments.
    - (7) Total assets turnover ratio = net sales revenue / average total assets.
  4. Profitability
    - (1) Return on asset = [post-tax profit or loss + interest expenses × (1 – tax rate)] / average total assets.
    - (2) Return on equity = post-tax profit or loss / average total equity.
    - (3) Net profit margin = post-tax profit or loss / net sales revenue.
    - (4) Earnings per share = (profit or loss attributable to owner(s) of the parent company – preference share dividends) / weighted-average number of shares issued. (Note 4)
  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 in the last 5 years / (capital expenditures + increase in inventory + cash dividends) in the last 5 years.
    - (3) Cash reinvestment ratio = (net cash flows from operating activities – cash dividends) / (gross property, plants and equipments + long-term investment + other non-current assets + working capital). (Note 5)
  6. Leverage :
    - (1) Operating leverage = (net operating income – changes in operating costs and expenses) / operating profit (Note 6).
    - (2) Financial leverage = operating profit / (operating profit – interest expenses).
- Note 5: The calculation formula for the above-mentioned earnings per share shall be measured with the following precautions:
1. Shall be based on weighted-average number of common shares instead of number of shares issued as of the end of the year.
  2. Where there is capital addition or treasury share transaction, weighted-average number of shares shall be calculated after considering the circulation period.
  3. Where there is Retained Earnings Transferred To Capital or Capital Increase By Capital Surplus, when calculating the earnings per share for the previous year and mid-year, it shall be retrospectively adjusted according to the proportion of capital increase without considering the issuing period of the capital increase.
  4. If the preference share is a non-convertible cumulative preference share, its dividends (paid or not) of the year shall be subtracted from net profit after tax or added to net loss after tax. If the preference share is non-cumulative, the preference dividends shall be deducted from net profit after tax if there is a net profit after tax; if it is a loss, there is no need for adjustment.
- Note 6: The following precautions shall be paid when measuring cash flow analysis:
1. Net cash flow from operating activities referred to the net cash inflow from operating activities shown in the cash flow statement.
  2. Capital expenditure referred to the annual cash outflows for capital investment.

3. The increase in inventory is only listed when the ending balance is greater than the beginning balance. If the inventory decreases at the end of the year, the increase in inventory will be regarded as zero.
4. Cash dividends include cash dividends of common shares and preference shares.
5. Gross property, plants and equipments referred to the total property, plant and equipment before accumulated depreciation.

Note 7: The issuer shall classify various operating costs and operating expenses into fixed and variable categories. If estimation or subjective judgment are involved, the issuer shall pay attention to its rationality and maintain consistency.

Note 8: If the Company's shares have no face value or if the face value of each share is not NT\$10, the aforementioned calculation of ratio involving paid-in capital shall be calculated based on the equity ratio of the balance sheet attributable to the owner(s) of the parent company.

- (3) Financial analysis - Taiwan's Financial Accounting Standards: The Company has adopted International Financial Reporting Standards in preparing financial information for five years; therefore, the Company will not prepare separate financial information base on Taiwan's Financial Accounting Standards.

### **3. Audit Committee's Review Report**

#### **Audit Committee's Review Report**

The Board of Directors has prepared the Company's 2017 financial statements and consolidated financial statements, which was audited by Accountant KAO, WEI-CHUAN and TSENG, MEI-YU of Klynveld Peat Marwick Goerdeler (KPMG) who issued an audit report, together with business report and the profit distribution proposal for Audit Committee's review. The Audit Committee hereby confirmed that there are no discrepancies and reported as above pursuant to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

For your honor's approval.

ELAN Microelectronics Corporation

Convener of the Audit Committee:

March 8, 2018

**4. Financial Statements of the Past 2 Years**

**Please refer to page 74 of the Chinese annual report**

**5. Last Fiscal Year's Parent-Subsidiary Consolidated Financial Statements and Independent Auditors' Report**

**Please refer to page 130 of the Chinese annual report**

**6. Financial Difficulties of the Company and its Affiliates During the Last Fiscal Year and Until the Publishing date of the Annual Report : N/A**

## 7. Review of Financial Status, Operating Results, and Risk Management

### (1) Financial Status

#### Comparative Statement of Financial Position

Unit: NT\$'000

item \ Year	2017	2016	differences	
			amount	amount
current assets	7,953,564	7,015,408	938,156	13.37
property, plants and equipments	580,010	581,444	(1,434)	(0.25)
intangible assets	256,273	250,519	5,754	2.30
other assets	54,739	47,075	7,664	16.28
total assets	10,142,805	9,131,230	1,011,575	11.08
current liabilities	2,410,414	1,789,056	621,358	34.73
non-current liabilities	408,928	446,032	(37,104)	(8.32)
total liabilities	2,819,342	2,235,088	584,254	26.14
equity attributable to owner(s) of the parent company	7,256,477	6,899,178	356,299	5.18
capital stock	4,341,148	4,341,148	-	-
capital surplus	536,328	735,781	(199,453)	(27.11)
retained earnings	2,422,333	1,745,995	676,338	38.74
other equity	147,779	177,522	(29,743)	(16.75)
treasury shares	91,111	101,268	(10,157)	(10.03)
non-controlling interest	(33,014)	(3,036)	(29,978)	987.42
total shareholders' equity	7,323,463	6,896,142	427,321	6.20

Explanation:

- (1) Where the percentage of changes in the Company's consolidated assets, liabilities, and shareholders' equity in the past two years was more than 20% and the amount of changes reached NT\$10 million, the impact and future countermeasures:
  1. Current liabilities: This period was higher than that of last year, mainly due to higher profit, higher income tax liabilities payable, and higher employees compensation and Directors' remuneration.
  2. Capital surplus: This period was less than that of last year mainly due to the payment of capital surplus.
  3. Retained earnings: This period was higher than that of last year, mainly due to the increase in profit of the period.
  4. Non-controlling interest: This period was less than that of last year mainly due to some of the consolidated subsidiaries were not profitable in this period.
- (2) Future countermeasures: N/A.

## 2. Operating Results

### (1) Operating results comparison analysis table:

Unit: NT\$' 000

items \ year	2017	2016	increase (decrease) amount	percentage of changes %
operating income	7,503,267	6,558,933	944,334	14.40
gross income	3,347,820	2,708,170	639,650	23.62
income (loss)	1,349,782	752,415	597,367	79.39
non-operating income and expenses	(87,521)	(27,525)	(59,996)	217.97
net profit before tax	1,262,261	724,890	537,371	74.13
net going concern profit of the period	1,032,110	580,001	452,109	77.95
net profit of the period	1,032,110	580,001	452,109	77.95
other comprehensive income (loss) of the period	6,211	2,526	3,685	145.88
total comprehensive income (loss) of the period	1,038,321	582,527	455,794	78.24
net profit attributable to owner(s) of the parent company	1,073,802	652,667	421,135	64.53
net profit attributable to non-controlling interest	(41,692)	(72,666)	30,974	(42.63)
total comprehensive income (loss) attributable to owner(s) of the parent company	1,079,841	655,414	424,427	64.76
total comprehensive income (loss) attributable to non-controlling interest	(41,520)	(72,887)	31,367	(43.04)

- (2) Major reasons for material changes in consolidated operating income, net operating income, and net profit before tax in the past two years; the possible impact on the Company's future finance and business from the expected sales volume (include its basis) and the countermeasures therefor: (please provide analysis and explanation when the percentage of change is more than 20%, and the amount is more than 10 million)

1. Increase in net operating profit:

Mainly due to the revenue growth and increase in gross margin of the period, resulting in an increase in net operating profit over the previous period.

2. Decrease in non-operating income and expenses:

Mainly due to exchange loss of the period is higher than that of the previous period.

3. Increase in net profit before tax of the period:

Mainly due to revenue growth and increase in gross margin of the period, resulting in an increase in net operating profit over the previous period and higher net profit before tax of the period than that of the previous period.

- (3) The possible impact on the Company's future finance and business from the expected sales volume (include its basis) and the countermeasures therefor:

Mobile payment has become a mainstream, allowing users to easily complete transactions through mobile devices such as smart phones, notebooks and tablets, and covering smart cards, personal computer peripherals, etc. In order to emphasize the safety and reliability of payment, biometric ICs have become the key component of the payment industry. Biometric ICs are used in all high-end, mid-range and low-end smart phones mainly due to the focus on the potential business opportunities in future mobile payments. Among them, the application of fingerprint recognition function is continuously expanding; from smart phones, notebooks and tablets to smart cards, automobiles, and IoT, it will be an important application device. In 2018, fingerprint recognition ICs will enter a period of high development. It is expected that the growth will be limited when the penetration rate in mobile phones exceed 60%. Instead, other biometric ICs and facial recognition will be used. The Company is currently fully expanding its facial recognition and expects to open up new prospects this year.

Smart cards are the most potential application products covering credit cards, financial cards, EasyCards, ID cards, health insurance cards, etc. Many cards are not limited to one personal use, therefore, long-term market prospect is optimistic. The use of fingerprint recognition feature device in smart cards can effectively prevent fake cards and reduce the disputes between bank and users due to lost or stolen credit card in order to protect safety of personal property. At present, fingerprint recognition manufacturers are actively competing for market opportunities in this field.

In response to the rapid development of the biometrics market, the Company has successively completed the development of fingerprint recognition ICs in various sizes and is developing facial recognition ICs, which can be applied to smart phones. The Company continues to improve ICs for better performance and cost competitiveness. In addition to the existing customers and existing touch controller ICs, the Company will provide biometric products with good functionality, high quality and market competitiveness as the basis of revenue scale expansion.

In addition, the Company has long invested in the development and application of touch controller technology and has patents in the United States, Japan, mainland China, and Taiwan. In general, the touch controller ICs that the Company successfully developed and mass produced are applicable in touch panels of various large, medium, and small sizes, coupled with fully integrated terminal pre-sales and after-sales services for smart phones, tablet computers and notebooks. The Company will continue to provide customers with an overall solution that is more competitive in the international market.

The Company is at a key market position while facing global rivals in the touch controller IC industry, among which the notebook ICs accounted for more than half of global market share and the touch pad modules also accounted for more than 30% (and growing towards 40%) market share. The competitors that the Company is currently facing include many IC design companies at home and abroad such as US manufacturer Synaptics and Microchip, Alps of Japan, and Goodix of China. The increasingly fierce competition has also led to a decline in IC prices, therefore, effective improvement in IC performance, reduction of IC production costs, establishing competitive technical thresholds and sales channels are the goals of the Company's continuous efforts in 2018.

The most important application products in the touch controller industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and production capacity has also expanded considerably. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness were unable to be profitable and force to pull out from the race. This is especially noticeable among the touch screen manufacturers. In 2017, global smart phone shipments reached nearly 1.5 billion units; the growth has slowed down, and market penetration has clearly reached saturation.

The Company is a professional IC design company with a full range of integrated solutions. It has a strong R & D team and invests more than 15% in R & D each year. It is a IC design company that focuses on research and development of new products. The quality of products developed by the Company is recognized by the customers; the proportion of revenue from global tier-one manufacturer customers accounted for more than half of the total revenue. The touch controller ICs for notebook accounted for nearly half of the world's market share, and the touch pad module also has a market share of over 30%, making it the manufacturer with the world's second largest market share.



### 3. Cash Flow

(1) Analysis on changes in the consolidated cash flow for the last fiscal year (2017):

Unit: NT\$'000

beginning cash balance (1)	net cash flows from operating activities of the year (2)	cash outflows of the year (3)	cash balance (short) (1) + (2) - (3)	remedy measures for cash shortage	
				investment plan	investment plan
1,843,893	1,462,819	(1,322,699)	1,984,013	—	—
1. Analysis on changes in the consolidated cash flow of the year: (1) Operating activities: net cash inflow from operating activities has increased by NT\$493,370,000 from the previous year, mainly due to the increase in net profit before tax in this year. (2) Investment activities: Net cash outflows from investment activities has increased by NT\$1,412,261,000 from the previous year, mainly due to the decrease in the number of fixed deposit with maturity longer than 3 months and the acquisition of financial assets carried at cost. (3) Financing activities: Net cash outflows from financing activities decreased by NT\$303,051,000 from the previous year, mainly due to the decrease in cash dividends payment of the period and increase in short-term loan. 2. Expected remedy measures for cash shortage and liquidity analysis: N/A.					

(2) Cash liquidity analysis for the coming year

Unit: NT\$'000

beginning cash balance (1)	expected net cash flows from operating activities of the year (2)	expected cash outflows of the year (3)	expected cash balance (short) (1) + (2) - (3)	expected remedy measures for cash shortage	
				investment plan	investment plan
1,984,013	1,479,107	(2,521,295)	941,825	—	—
1. Analysis on changes in the cash flow of the year: (1) The Company expects its operating income to grow, in addition to the original notebook touch solution for notebook, from the development of products combining single-chip solution with capacitive stylus pen function and LCD driver IC (TDDI) solution. It is expected to see net cash inflow from operating activities. (2) Investment activities: It is expected to see net cash outflows from investment activities, which mainly covers the procurement of software and fixed assets. (3) Financing activities: It is expected to see cash outflows from financing activities, which mainly covers the decrease in investment and return of stock subscription price, as well as payment of shareholders' cash dividends. 2. Expected remedy measures for cash shortage and liquidity analysis: N/A.					

### 4. Impact of Major Capital Expenditures on the Financial Operations during the Last Fiscal Year:

(1) The use of major capital expenditures and sources of funding:

In the most recent year, the Company has no expenditure item whose capital expenditure exceeds 5% of paid-in capital or NT\$100 million.

(2) Expected benefits: N/A.

### 5. The last fiscal year joint venture policies, main reasons for the profit or loss and the improvement plan thereof and the investment plan for the coming year:

items explain	investment policies	investment profit or loss recognized for the period	reason for the profit (loss)	improvement plan	other future investment plan
Elan Investment Co., Ltd.	general investment business	(31,769)	Benefit from the joint venture business has yet been realized	—	—
Metanoia Communications Co., Ltd.	manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment	(70,099)	Revenues grew from 2016, which were mainly recognized under NXP development income and resulted in the decrease in loss as compared to 2016. However, due to the continued investment in the development of new telecommunications products and the long processing time for	Suntel Networks' products have been recognized by foreign telecommunications companies such as Swisscom and British Telecom, and are preparing for related certifications and testing. At the same time, they are working with NXP to develop high-end routers and introduce IoT and smart home network solutions. The above is	—

			certification from telecommunications companies, there were still losses in 2017.	expected to contribute to revenue in 2018.	
Avisonic Technology Corporation	research, design, manufacture and sale of multimedia video compression and impact processing ICs	(29,815)	Revenue for 2017 has grown over 2016. As the on-board and access control system customers have successively passed certification for mass production, they were optimistic about the future market growth and continued to invest in the development of hardware and software technologies for image-related products, resulting in losses in 2017.	Development of image visual processing (ISP / fisheye calibration) and three-in-one analog high-definition transmission single-chip image ICs to optimize image quality; strategic cooperation with key component manufacturers for smart devices will help improve profitability.	—
PiXORD Corporation	export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing	(29,704)	Insufficient product diversification and low price competition from mainland China resulted in less than expected sales.	Promote the "Overall Wisdom Monitoring" solution. Emphasis on the overall solution of AI smart analysis, coupled with diversified product mix for sales; application integration of high-end fisheye products such as "smart streetlight", "smart traffic", "smart retail" and "smart factory" to increase revenue.	—
Eminent Electronic Technology Co., Ltd.	electronic component manufacturing, computer and peripheral equipment manufacturing, optical instrument manufacturing	(29,580)	In 2017, due to fierce market competition, the sales revenue and gross sales margin decreased compared to 2016, and inventory losses recognized also increased. Due to the continuous development of new products, there was a loss in 2017.	In 2017, in addition to the promotion of existing products to various mobile phone customers, the company shall also develop 3D sensing technology to provide human-machine interface solutions for gestures in order to generate revenue.	—

Note: Analysis on investment losses and profits of more than NT\$10 million only.

## 6. Risk Analysis and Assessment

- (1) The impact of interest rate, exchange rate changes and inflation on the profit or loss of the Company in the last fiscal year and the future countermeasures therefor:

Unit: NT\$'000

item	year	2017
net operating income		7,503,267
net profit before tax		1,262,261
net exchange (loss) profit		(70,154)
net exchange (loss) profit to net income ratio		(0.93%)
net exchange (loss) profit to net profit before tax ratio		(5.56%)
interest revenues		39,276
interest revenues accounted for net income ratio		0.52%
interest revenues accounted for net profit before tax ratio		3.11%
interest expenses		4,213
interest expenses accounted for net income ratio		0.06%
interest expenses accounted for net profit before tax ratio		0.33%

1. Interest Rate: The net interest income (expenses) accounted for 0.46% of net income in 2017. The Company has sufficient funds and does not have any financial borrowing; and given the economic recovery is still over-shadowed, safety is a major consideration in the

use of funds. Therefore, the funds were allocated to the stable targets in order to obtain steady amount of interest income.

2. Exchange rate: In order to avoid exchange rate fluctuations, the Company offsets regular sales amount with purchase amount to achieve the natural hedge effect on exchange rate changes. In 2017, the overall exchange loss was NT\$70,154,000. The Company's financial personnel pay close attention and duly response to exchange rate fluctuations at all time to reduce the impact of exchange rate changes on the Company's profit and loss.
3. Inflation: The Company has long-term cooperation with raw materials suppliers, so the source and price of the raw materials are quite stable; therefore, inflation has no significant impact on the Company's profit and loss. The Company will pay close attention to the changes in the relevant economic environment and the market to avoid adverse effect on the Company caused by inflation.

- (2) Policies on high risk, high leverage investment, capital lending to others, endorsement and trading of derivative commodities, main reasons for profit or loss therefrom and future countermeasures therefor:

The Company did not engage in high risk, high leverage investment, nor capital lending to others, endorsement or trading of derivative commodities. The company has set operating procedures of lending funds to others, endorsing, acquiring or disposing of assets as basis for related operations.

- (3) Future R & D plans and expected R & D expenses:

1. Future R & D plans:

In response to the rapid development of the biometrics market, the Company has successively completed the development of fingerprint recognition ICs in various sizes and is developing facial recognition ICs, which can be applied to smart phones. The Company continues to improve ICs for better performance and cost competitiveness. In addition to the existing customers and existing touch controller ICs, ELAN Microelectronics will provide biometric products with good functionality, high quality and market competitiveness as the basis of revenue scale expansion.

In addition, the Company has long invested in the development and application of touch controller technology and has patents in the United States, Japan, mainland China, and Taiwan. In general, the touch controller ICs that the Company successfully developed and mass produced are applicable in touch panels of various large, medium, and small sizes, coupled with fully integrated terminal pre-sales and after-sales services for smart phones, tablet computers and notebooks. The Company will continue to provide customers with an overall solution that is more competitive in the international market.

The Company is at a key market position while facing global rivals in the touch controller IC industry, among which the touch control notebook ICs for notebook accounted for more than half of global market share and the touch pad modules also accounted for more than 30% (and growing towards 40%) market share. The competitors that the Company is currently facing include many IC design companies at home and abroad such as US manufacturer Synaptics and Microchip, Alps of Japan, and Goodix of China. The increasingly fierce competition has also led to a decline in IC prices, therefore, effective improvement in IC performance, reduction of IC production costs, establishing competitive technical thresholds and sales channels are the goals of the Company's continuous efforts in 2018.

The most important application products in the touch controller industry are smart phones, notebooks and tablets. As competitors have accelerated their investment in recent years, the number of manufacturers have increased and production capacity has also expanded considerably. As a result, competition among the entire supply chain has intensified, and manufacturers that cannot maintain strong competitiveness were unable to be profitable and force to pull out from the race. This is especially noticeable among the touch screen manufacturers. In 2017, global smart phone shipments reached nearly 1.5 billion units; the growth has slowed down, and market penetration has clearly reached saturation.

Currently, the growth rate of smart phones in countries including North America, Europe, and China is slowing down. Therefore, the growth momentum of global mobile phones will shift to other emerging regions, including India, South America, Eastern Europe and Russia, where the main demand is low price. Therefore, how to maintain revenue growth and profitability in the low-cost competitive environment is an important task for members of the touch controller supply chain.

Due to the slowed down demand in the emerging markets, the growth of consumer smart terminal products was weak. The TrendForce survey pointed out that the global smart phone shipments has reached 1.46 billion units in 2017 at an annual growth rate of 6.5%. TrendForce report shows that notebook computer shipments were 165 million units in 2017 at an annual growth rate of 2.1%. According to IDC data, global tablet shipments has dropped by 6.5% from the previous year to be 163 million units in 2017.

Another type of point stick product used in notebooks is currently supplied to the world's largest manufacturer of notebook computers. The Company has successively completed the high-level development of denoise, anti-RFI pointing stick sensor ICs and is expecting to score again in 2018.

As for the MCUs, the Company will continue to develop lower power consumption IC platforms to provide customers with the best solutions, while strengthening the collaboration with solution companies in mainland China and providing the best cost-effective control ICs.

2. The R & D expenses is expected to be approximately NT\$1.2 billion.

- (4) The impact of important policies and legal changes at home and abroad on the Company's finance and business and the countermeasures therefor:

The Company has a legal department responsible for the research and collection of information related to intellectual property, laws, and important policies at home and abroad to truly understand the impact of this on the Company's finance and business and provide timely countermeasures therefor.

Recent changes in major policies and laws at home and abroad have no material adverse impact on the company's finance and business.

- (5) The impact of technological changes and industrial changes on the Company's finance and business and the countermeasures therefor:

The Company's diversified product lines can meet the needs of customers. The diversified

product lines make the Company less subjective to technological changes than single product line or minority players. In recent years, the Company has actively sought multiple sources of production and has effectively controlled costs.

In addition, in terms of financial operations, the Company actively strengthened the management of cash flows and maintained a good financial structure to maintain the stable operation of the Company and diversify the operating risks. Therefore, technological changes have no significant impact on the finance and business of the Company.

- (6) The impact of corporate image change on corporate crisis management and the countermeasures therefor: N/A.
- (7) Expected benefits and possible risks from merger and acquisition and the countermeasures therefor: N/A.
- (8) Expected benefits and possible risks from the expansion of factory building and the countermeasures therefor: N/A.
- (9) Risks from concentration of incoming goods or sales and the countermeasures therefor:  
The Company's customers and suppliers are quite dispersed, therefore, there will be no overconcentration of incoming and outgoing of goods.
- (10) The impact and risks on the Company when the Directors, supervisors or large shareholders holding more than 10% of shares transfer or replace a large number of shares:  
There was no transfer or replacement of a large number of shares by the Directors, supervisors or large shareholders holding more than 10% of shares.
- (11) The impact and risks on the Company from the changes in the right to operate and the countermeasures therefor:  
The Company has no significant changes in the Board of Directors in 2017, therefore, there will not be any changes in the right to operate.
- (12) Litigation or non-litigation events:

May 31, 2018

case	description	result
ELAN Microelectronics had filed a patent infringement litigation against eGalax_eMPIA Technology Inc. in Taiwan's Intellectual Property Court on June 23, 2015.	The Company filed a patent infringement litigation against eGalax_eMPIA Technology Inc. in Taiwan Intellectual Property Court on June 23, 2015. The Company claimed that the touch controller products for touch panel produced and sold by EETI has infringed the Company's patent rights. Therefore, the Company has petitioned the court to prohibit the aforementioned defendant from using and manufacturing the products in question and pay liquidated damages. On July 22, 2016, the court made an interim verdict and found that No. 14 of the claims was valid for the patent claimed by the Company. The Company and EETI had formally reached a settlement in the Intellectual Property Court on September 29, 2017. The agreement mainly addressed that both parties should consider focusing on the promotion of their respective products and strengthen global marketing strategies to achieve coexistence and co-prosperity. Both parties signed a settlement agreement and ended the case. The litigation had no significant impact on the Company's finance and business.	Both parties signed a settlement agreement and ended the case.

- (13) Other significant risks: N/A.

## 7. Other Important Matters : N/A.

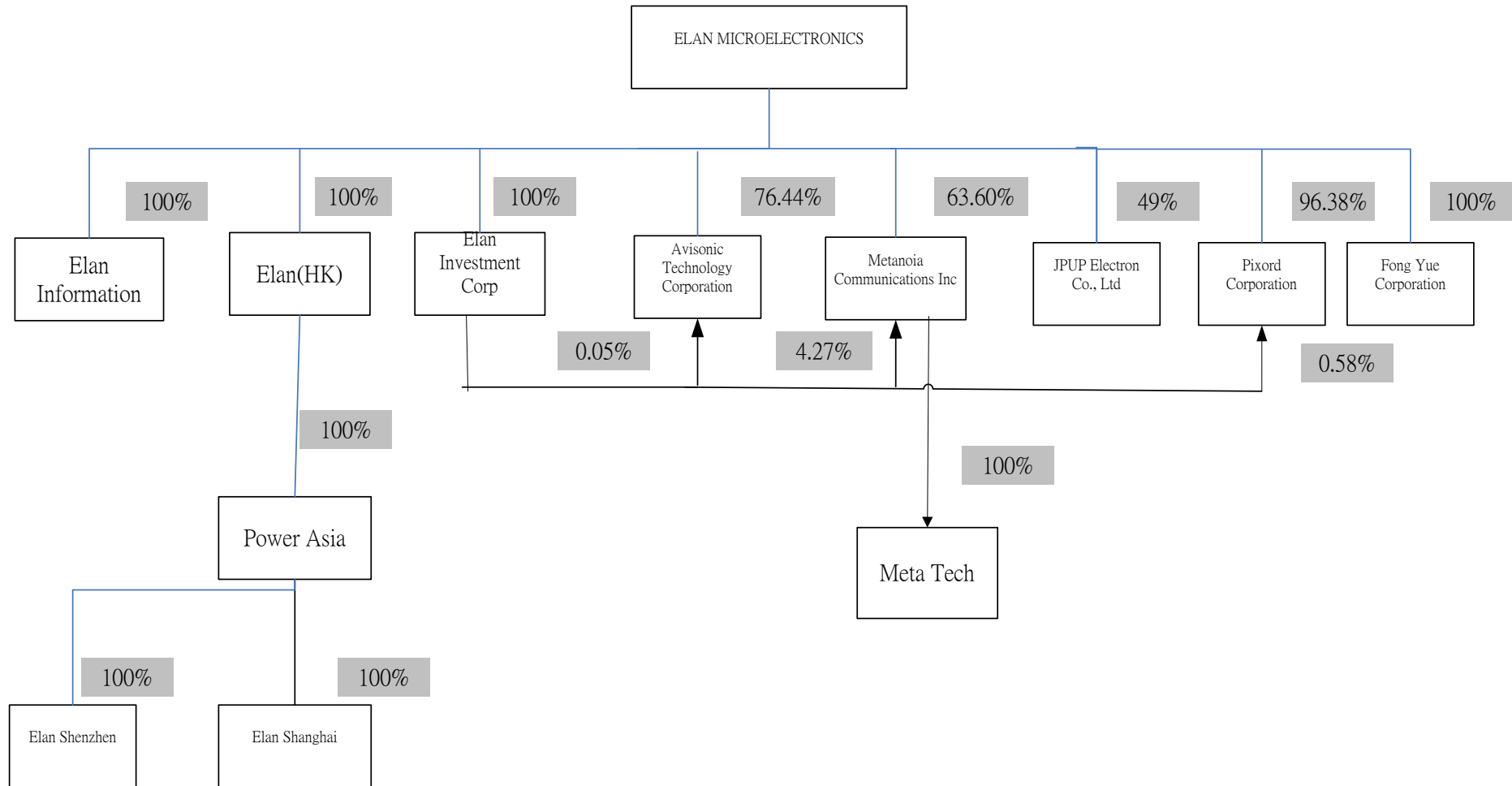
## 8. Special Disclosure

### 1. Summary of Affiliated Companies

#### (1) Consolidated business report of the affiliates

##### 1. Overview of the affiliates

##### (1) Organizational chart of the affiliates:



Note: Meta Tech was liquidated in January 2017.

(2) Basic information of each affiliate:

company name	date of incorporation	address	paid-up capital	main business or production items
Elan H.K Microelectronics Corp. Ltd.	May 15, 1997	Flat A, 19/F., World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon, Hong Kong	HKD 29,328,003	sales the Company's products, provide after-sales services, establish sales outlets
Elan Investment Co., Ltd.	May 31, 2000	Room#1, 5/F, No. 306, Section 1, Dunhua South Road, Taipei City	NTD 500,000,000	general investment business
Elan Information	Jan. 11, 2002	10062 MILLER AVE. SUITE 100, CUPERTINO CA95014	USD 650,000	provide after-sales services, obtain product information and technologies
Power Asia Investment Corp.	Jun. 6, 2002	2nd Floor, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Republic of Mauritius.	USD 2,861,000	general investment business
Elan Microelectronics Shanghai, Ltd.	Aug. 6, 2002	6F, Ke Yuan Building, No. 5, Bibo Road, Zhangjiang Hi-tech Park, Shanghai	USD 1,500,000	information supply services
Elan Microelectronics Shenzhen, Ltd.	Jun. 6, 2003	8A Floor, Microprofit Building, Gaoxin South Road 6, Shenzhen Hi-Tech Industrial Park, South Area, Shenzhen	USD 1,000,000	information supply services
Metanoia Communications Inc.	Dec. 1, 2003	3/F, No. 12, Chuangxin 1st Road, Hsinchu Science Park	NTD 850,000,000	manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment
Avisonic Technology Corporation	Dec. 22, 2003	7/F, No.12, Innovation 1st Rd., HsinChu Science Park	NTD 285,420,000	research, design, manufacture and sale of multimedia video compression and impact processing ICs
Chiper Technology Corporations Ltd.	Dec. 26, 2002	Room#13, 21/F, No. 1, Section 1, Zhongshan Road, Banqiao District, New Taipei City	NTD 16,000,000	manufacture data storage and processing equipment, manufacture and wholesale of electronic components
PiXORD Corporation	Aug. 10, 2000	5/F, No. 12, Chuangxin 1st Road, Hsinchu Science Park	NTD 379,200,000	export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing
Fong Yue Co., Ltd.	Mar. 3, 2015	Room#3, 7/F, No. 5, Section 2, Dunhua South Road, Da'an District, Taipei City	NTD 30,000,000	general investment business

- (3) Information on party presumed to be related to be controlling and subsidiary company: N/A.
- (4) If the industries covered by the affiliates are related to each other in terms of business operations, the division of work shall be explained:

company name	main business or production items	division of work
Elan H.K Microelectronics Corp. Ltd.	sales the Company's products, provide after-sales services, establish sales outlets	the Company's Asia-Pacific sales outlet
Elan Investment Co., Ltd.	general investment business	not applicable
Elan Information Technology Group	provide after-sales services, obtain product information and technologies	the Company's customer services outlet in North America
Power Asia Investment Corp.	general investment business	not applicable
Elan Microelectronics Shanghai, Ltd.	information supply services	the Company's development and customer service outlet in Eastern China market
Elan Microelectronics Shenzhen, Ltd.	information supply services	the Company's development and customer services outlet in Southern China market
Metanoia Communications Inc.	manufacture cable and wireless communication machinery and equipment, electronic components, wholesale and retail telecommunication equipment	not applicable
Avisonic Technology Corporation	research, design, manufacture and sale of multimedia video compression and impact processing ICs	not applicable
Chiper Technology Corporations Ltd.	manufacture data storage and processing equipment, manufacture and wholesale of electronic components	the Company's foundry
PiXORD Corporation	export manufacturing, data storage and processing equipment, wireless communication machinery and equipment manufacturing	not applicable
Feng Yao Co., Ltd.	general investment business	not applicable



(5) Name of the Directors, Supervisors and CEO of each affiliate and their shareholding status:

company name	job title	name or representative	shareholding	
			number of shares	number of shares
Elan H.K Microelectronics Corp.	Director	ELAN Microelectronics Corporation representative: YEH, I-HAU	29,328,000	100%
	Director	ELAN Microelectronics Corporation representative: WU, CHIA-MIAO	29,328,000	100%
	Director	ELAN Microelectronics Corporation representative: TSENG, WEN-YA	29,328,000	100%
Elan Investment Co., Ltd.	Chairman	ELAN Microelectronics Corporation representative: YEH, I-HAU	50,000,000	100%
	Director	ELAN Microelectronics Corporation representative: YEN, KUO-LUNG	50,000,000	100%
	Director	ELAN Microelectronics Corporation representative: WU, CHIA-MIAO	50,000,000	100%
	Supervisor	ELAN Microelectronics Corporation representative: CHENG, WU-HUNG	50,000,000	100%
Elan Information Technology Group	Director and CEO	ELAN Microelectronics Corporation representative: JOE T. YEH	65,000	100%
Power Asia Investment Corp.	Director	Elan H.K Microelectronics Corp. representative: YEH, I-HAU	2,861,000	100%
	Director	Elan H.K Microelectronics Corp. representative: WU, CHIA-MIAO	2,861,000	100%
Elan Microelectronics Shanghai, Ltd.	Chairman	ELAN Microelectronics Corporation representative: LI, I-CHING	—	100%
	Director	ELAN Microelectronics Corporation representative: WENG, CHING-HSIUNG	—	100%
	Director	ELAN Microelectronics Corporation representative: WU, CHIA-MIAO	—	100%
Elan Microelectronics Shenzhen, Ltd.	Chairman	ELAN Microelectronics Corporation representative: LI, I-CHING	—	100%
	Director	ELAN Microelectronics Corporation representative: WENG, CHING-HSIUNG	—	100%
	Director	ELAN Microelectronics Corporation representative: WU, CHIA-MIAO	—	100%
Metanoia Communications Inc.	Chairman	ELAN Microelectronics Corporation representative: YEH, I-HAU	54,056,862	63.60%
	Director	ELAN Microelectronics Corporation representative: YEN, KUO-LUNG	54,056,862	63.60%
	Director	ELAN Microelectronics Corporation representative: LIU, TAI-MING	54,056,862	63.60%
	Supervisor	Elan Investment Co., Ltd. representative: LIN, YUNG-JEN	3,625,990	4.27%
Avisonic Technology Corporation	Chairman	ELAN Microelectronics Corporation representative: YEH, I-HAU	21,817,750	76.44%
	Director	ELAN Microelectronics Corporation representative: WU, CHIEN-TE	21,817,750	76.44%
	Director	ELAN Microelectronics Corporation representative: YEN, KUO-LUNG	21,817,750	76.44%
	Director	ELAN Microelectronics Corporation representative: TAO, I-HSIN	21,817,750	76.44%
	Director	ELAN Microelectronics Corporation representative: LIN, MENG-CHUN	21,817,750	76.44%
	Supervisor	Elan Investment Co., Ltd. representative: LIN, YUNG-JEN	13,500	0.05%
	Supervisor	Elan Investment Co., Ltd. representative: TSENG, WEN-YA	13,500	0.05%
Chiper Technology Corporations Ltd.	Director	ELAN Microelectronics Corporation representative: WU, TSUNG-HSIAO	784,000	49.00%
	Director	ELAN Microelectronics Corporation representative: LIN, CHIN-CHUAN	784,000	49.00%
	Director	ELAN Microelectronics Corporation representative: HSIEH, WEN-YU	784,000	49.00%
	Supervisor	ELAN Microelectronics Corporation representative: TSAI, CHIEN-WEN	784,000	49.00%
PiXORD Corporation	Chairman	ELAN Microelectronics Corporation	36,546,936	96.38%

company name	job title	name or representative	shareholding	
			number of shares	number of shares
	Director	representative: YEH, I-HAU		
		ELAN Microelectronics Corporation	36,546,936	96.38%
	Director	representative: WU, CHIEN-TE		
		ELAN Microelectronics Corporation	36,546,936	96.38%
	Supervisor	representative: LIEN, CHUNG-CHI		
		Elan Investment Co., Ltd.	219,728	0.58%
Feng Yao Co., Ltd.	Supervisor	representative: LIN, YUNG-JEN		
		Elan Investment Co., Ltd.	219,728	0.58%
	Director	representative: TSENG, WEN-YA		
		YEH, TSUNG-TAO	0	0%
	Director	CHAN, MENG-FANG	0	0%
	Director	CHAN, CHIH-SHUO	0	0%
	Supervisor	CHEN, CHIEN-YU	0	0%

## 2. Operating Highlights:

### Operating Highlights of Each Affiliates

Unit: NT\$'000

company name	capital	total assets	total liabilities	net worth	operating income	operating profit	profit or loss of the period (post-tax)	earnings per share (post-tax)
Elan H.K	123,272	194,600	35,259	159,341	773,283	48,520	44,417	1.51
ELAN Investment	500,000	1,270,909	90	1,270,819	0	(4,392)	(31,769)	(0.64)
Elan Information	22,822	10,464	71	10,393	10,549	1,210	1,186	18.25
Metanoia Communications	850,000	88,152	181,637	(93,485)	68,465	(102,549)	(105,521)	(1.31)
Avisonic Technology	285,420	81,515	118,130	(36,615)	70,063	(36,909)	(39,273)	(1.38)
Chiper Technology	16,000	9,482	376	9,106	11,902	(1,620)	(1,620)	(1.01)
PiXORD	379,200	42,415	9,686	32,729	33,812	(30,846)	(30,820)	(0.81)
Fengyao	30,000	28,364	0	28,364	0	(57)	(1,577)	(0.53)
Power Asia	98,368	24,303	0	24,303	0	(2)	5,800	2.03
Elan Microelectronics Shanghai	52,095	17,263	4,563	12,700	44,728	3,515	3,575	-
Elan Microelectronics Shenzhen	34,670	19,335	8,194	11,141	74,430	1,670	1,94	-

Note: Assets and liabilities categories adopted foreign currency exchange rates on the date of Dec. 31, 2017: [US\$1 : NT\$29.79], [HK\$1 : NT\$3.81], [RMB1 : NT\$4.57].

Profit and loss categories adopted average exchange rate of the year 2017: [US\$1 : NT\$31.025], [HK\$1 : NT\$3.985], [RMB1 : NT\$4.595].

## (2) Consolidated financial statements of the affiliates:

### Statement of the Consolidated Financial Statements of the Affiliates

The companies that the Company shall include in the 2017 (from January 1, 2017 to December 31, 2017) consolidated financial statements of the affiliates pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as the companies that shall be included in parent-subsidary consolidated financial statements pursuant to IFRS 10 adopted by Financial Supervisory Commission, and the relevant information that shall be disclosed in the consolidated financial statements of the affiliates has been disclosed in the parent-subsidary consolidated financial statements; therefore, the Company hereby declare that a separate consolidated financial statements of the affiliates will not be prepared.

Company name: ELAN Microelectronics Corporation

Responsible person: YEH, I-HAU

Date: March 8, 2018

2. **Private Placement Securities During the Last Fiscal Year and Until the Publishing date of the Annual Report: N/A.**
3. **The Shares in the Company Held or Disposed of by Subsidiaries During the Last Fiscal Year and Until the Publishing date of the Annual Report:**

Unit: NT\$; share; %

name of the subsidiary (Note 1)	paid-up capital	source of fund	the Company shareholding percentage	acquisition or disposal date	acquired number of shares and amount (Note 2)	disposed number of shares and amount (Note 2)	investment profit or loss	number of shares held and amount as of the publishing date of the annual reports (Note 3)	creation of pledge	amount endorsed by the Company for the subsidiary	amount the subsidiary borrowed from the Company
ELAN Investment	500,000	self- funding	100%	Oct. 1, 2008	17,573,679 shares; NT\$154,477,318	0	0	0	0	0	0
				as of the publishing date of the annual reports	17,753,789 shares; NT\$91,111,656	0	0	0	0 (Note 4)	0	0

Note 1: Please list the subsidiaries by type.

Note 2: "Amount" referred to actual acquisition or disposal amount.

Note 3: List the status of possession and disposal separately.

Note 4: Explains its impact on the Company's operation results and financial status: no impact.

#### 4. **Other Necessary Supplementary Explanations : N/A.**

9. Any matter that has material effect on the shareholders' equity or the price of securities as set out in sub-paragraph 2, paragraph 2, Article 36 of the Company Act during the last fiscal year and until the publishing date of the annual report: N/A.

Public Company's Statement on Internal Control  
Represents the effectiveness of both the design and execution  
(This statement is applicable when all laws and ordinances are complied herewith)

ELAN Microelectronics Corporation  
Statement on Internal Control

Date: December 31, 2017

The Company hereby undertakes the 2017 internal control system based on the results of the self-assessment as follows:

1. The Company acknowledges that establishing, implementing and maintaining the internal control system is the responsibility of the Board of Directors and managers of the company, and the Company has established such system. Its purpose is to reasonably assure the effectiveness and efficiency of operations (including profitability, performance, and protection of asset safety, etc.), reporting reliability, timeliness, transparency and compliance with relevant laws and regulations.
2. The internal control system has its inherent limitations. No matter how perfect the design is, an effective internal control system can only provide reasonable assurance for the achievement of the above three goals. Moreover, due to changes in the environment and conditions, the effectiveness of the internal control system may change. However, the Company's internal control system has a self-monitoring mechanism. Once the deficiency is identified, the Company will take immediate corrective action.
3. The Company determines the effectiveness of the design and implementation of the internal control system based on the internal control system identifiers set out in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations"). The internal control system identifiers adopted in the "Regulations" divided the internal control system into five items based on management control processes: (1) Control environment; (2) Risk assessment; (3) Control operations; (4) Information and communicate; and (5) Supervision. Each component includes several sub-items. Please refer to the provisions of the "Regulations" for details of the aforementioned items.
4. The Company has adopted the above-mentioned internal control system identifiers to assess the effectiveness of the design and implementation of the internal control system.
5. Based on the results of the foregoing evaluation, the Company believes that the Company's design and implementation of the internal control system (including the supervision and management of its subsidiaries) as of December 31, 2016<sup>Note2</sup>, includes understanding the effectiveness of the operation, degree of achieving the goals, reliable reports, timeliness, transparency and compliance with relevant laws and regulations, are effective, and the abovementioned goals can be reasonably assured of achievement.
6. This statement will become a major part of the Company's annual report and public statement, and will be disclosed to the public. If any of the above disclosed content is false or hidden, it will be subject to legal obligations under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This statement was adopted by the Board of Directors of the Company on March 8, 2018. Of the 7 attending Directors, 0 opposed, and all of them agree with the contents of this statement.

ELAN Microelectronics Corporation

Chairman: YEH, I-HAU (sign & seal)

President: YEH, I-HAU (sign & seal)

Note 1: If there are major deficiencies found in the design and implementation of the public company's internal control system during the year, the company shall add list and explanation for the major deficiencies found via self-assessment, and the Company's improvement actions taken before the balance sheet date and improvement status following the fourth item in the Statement on Internal Control.

Note 2: Date of the statement is "end of the fiscal year".