

SYSTEMEX



SYSTEMEX CORPORATION

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ANNUAL REPORT

The Informantion of Company

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I. Letter to Shareholders

Dear Shareholders,

I. Foreword

SYSTEX's goal in 2017 was to become the "best partner for digital transformation for Enterprise" and assist corporate customers in their digital transformation. In the face of emerging technologies and changes in consumer behavior, corporate digital transition is a must. We may have encountered numerous challenges in the process, but the hard work of the management team and our employees have led to continued growth in company revenue which reached record heights in 2017.

II. Summary of 2017 Operational Outcomes

In 2017, SYSTEX's revenues of NT\$ (same below) 5,900,195,000, a 2.92% increase from 2016. Our net profit after tax in 2017 was \$1,177,749,000. The consolidated revenue in 2017 was \$16,874,279,000, an increase of 4.10% from 2016. The consolidated net income attributable to owners of the corporation in 2017 (excluding non-controlling interests) was \$1,177,749,000 and earnings per share were \$4.79.

III. Summary of 2017 Business Operations and Services

In 2017, SYSTEX implemented digital transition for enterprise customers based on ecosphere management with business integration including financial business, consumer business, digital technology business, and Chinese market.

■ FBI (Financial Business Integration)

The Company continued to provide innovative financial services with the "FundRich Securities Trading Platform" built for FundRich Securities in 2016. In 2017, we provided services including integration of the Robot Advisor to make "FundRich Securities Trading Platform" the largest cash flow service system for funds in Taiwan and achieved a transaction volume of NT\$34 billion in 2017. We led the industry by launching the LINE@Wealth Management Secretary and using our self-developed natural language processing (NLP) and machine learning technologies to power the database. Investors can interact with the Wealth Management Robot verbally or through text to satisfy their demand for mobile wealth management including news subscription, inquiries of wealth management information, and online account opening. The Company worked with leading international fund company Morning Star in launching the "Robo-Advisor ONE" robot wealth management consultant and used core technologies in robotic wealth management to continue update fund research data and improve automatic transaction execution capabilities. It provides investors with more choices and combinations in asset allocation.

The Company also provides diverse app services to meet demands for corporate digital transformation. We develop smart mobile claim platforms for customers in the insurance industry that integrate onsite photography for accidents, drawing functions, and mobile upload of claim documents to help the insurance industry provide quicker insurance claim services. In addition, the Company also tests various innovation applications for the first time and integrated insurance services with fitness wrist bands to display various health-related information on the app. We entered a new realm of customized insurance policies and established new milestones for the development of applications in the insurance industry.

I. Letter to Shareholders

■ CBI (Consumer Business Integration)

After our success with Starbucks, we succeeded in collaborating with McDonald in the launch of the first "Value Card" in the world that integrated "stored value, consumption, and points for products" in 2017. The Value Card is used as a digital tool for membership marketing and management that facilitates McDonald's digital transformation. The "SYSTEX Mobile Voucher Service" integrates online and offline services and allows consumers to use electronic serial numbers or electronic coupons for the exchange of gifts in all stores across Taiwan. It not only eases companies' pressure from inventories but also helps them with management. Customers included leading domestic chain retailers and restaurants: Starbucks, Sushi Express, Simple Mart etc. We introduced the service robot Pepper and developed applications for different scenarios including greeting guests, making presentations, and shopping assistance. We expanded digital government projects, implemented flexible use of Citizen Cards, integrated technologies such as AR, VR, and beacons, constructed two smart cities for Taoyuan and New Taipei City, and assisted governments in their digital transformation. We entered the smart billing sector and adopted NLP technologies to build interactive interfaces on LINE and management personal bills. We executed projects to provide financial institutions with AI wealth management platform services including the establishment of digital channels and digital branch institutions.

■ DBI (Data Technology Business Integration)

We made use of core capabilities in software integration and built software-defined data centers to provide customers in the telecommunication and finance industry with large-scale private clouds and established the foundations for digital transformation. In response to the massive and diverse data generated in the rapid development of the Internet of Things (IoT), our information security services also began to make use of AI and machine learning technologies and we helped more than 300 customers build information security protection frameworks. We continue to distribute and introduce advanced technologies and products from foreign countries and provide multiple product portfolios to satisfy customer demands for digital transformation. In 2017, the Company ranked first in providing Microsoft services to large corporate clients and won the VMware Best Sales Performance Growth Award, HPE Best Partner Award, and Symantec and Lenovo's Excellent Distributor Awards.

■ China Market

Our China HQ serves 20,000 corporate customers in China and Hong Kong including companies in manufacturing, retail, e-commerce, finance, tourism, healthcare, and logistics. The revenue in 2017 accounted for more than 20% of the Group's total revenue. We work closely with first-rate international companies to distribute diverse products and provide customers with diverse products. The Company uses advanced technologies to cultivate industry applications and provides IT services and solutions. We focus on professional information security services in Hong Kong.

IV. The effect of external competition, the legal environment, and the overall business environment

Protectionism has risen in the United States since Donald Trump took office and has affected international politics. Taiwan's economy faces the Labor Law adjustment and social security reforms have also led to widespread discussion. In terms of technology policies, the Ministry of Science and Technology has initiated the "AI Innovation and Research Center" program and plans to invest NT\$16 billion in 5 years to subsidize related

I. Letter to Shareholders

research programs and cultivate AI talents to build an AI innovation ecosphere in Taiwan. In addition, Taiwan's Financial Regulatory Sandbox was also passed at the end of last year and it is expected to encourage companies to invest in innovative financial technology applications and assist industry development. Uncertainty in the overall environment brings forth many challenges to corporate growth while offering ample hidden opportunities for growth.

V. The summary of the business plan for 2018

AI is a crucial technology that will lead industrial development in the next 10 years; it is also the key to driving industrial growth. SYSTEX's goal for this year is to become the "best partner for digital transformation for Enterprise", and we will remain committed to customers by integrating various applications in different industries, focusing on user experience, and advancing AI for Industry Application (AI4IA). The Company will continue to enhance our three core capabilities in data, software, and artificial intelligence and continue to engage in innovative applications and increase the value of its services, lead the integration of the digital ecosystem, and endeavor to acquire maximum client budgets in digital transition and data added-value services.

■ Develop AI to drive room for growth

The Company positions itself as the "best partner for digital transformation for Enterprise" and focuses on customers and their experience. The first step is to improve data assets and use external purchases, exchanges, or independent methods to build data assets as the basis for machine learning and analyses. At the same time, the Company shall also optimize internal and external talent pools and use technology exchanges and learning to enhance experience design capabilities.

The Company will grasp opportunities for growth made possible by AI in the development of each industry including the government's Foresight Policies, financial information security and regulatory technology (RegTech) opportunities, AI development and mobile applications for intelligent healthcare services, comprehensive payment/channel guest greeting and shopping assistance services, intelligent manufacturing and innovation IoT applications, strategic alliance with major international AI companies/unicorns such as SenseTime and iFlytek, introduction of audio/facial recognition technologies, and advancement of smart customer services and related marketing innovative applications.

■ From digitalization to data

We will focus on the development of AI in corporate applications and comprehensive payment/channel experience in the retail sector, and integrate Enterprise Resource Planning (ERP) systems and data management applications for general manufacturing and advance toward intelligent manufacturing. The Company will develop smart financing centered on FinTech to accommodate the demand of customers in the finance industry and provide services to large-scale financial holding companies to develop AI for FinTech. We shall create robot investment and wealth management platforms, implement RegTech, and build related applications for insurance technology (InsurTech). Our main directions include smart financing, market price prediction, AI audio recognition/control, integrated investor services, upgraded wealth management services, etc.

I. Letter to Shareholders

VI. Future development strategy

From the advancement of Internetization in Business 1.0, mobile technologies in Business 2.0, and digitalization in Business 3.0 to the emphasis on data in the upcoming phase of Business 4.0, the key to success now lies in creating a second growth curve with the use of AI. SYSTEX possesses profound knowledge of the industry and vast experience in industrial applications. We have abundant and diversely talented employees who can assist companies in cross-sector technology integration. From the cloud to mobile applications or from digital to data technologies, SYSTEX's core capability is utilizing technologies to enhance experience and we are also the best partner for employing AI in corporate applications. With regard to AI development, SYSTEX has adopted two major strategies including the AI for Industry Application (AI4IA) and AI@IA. AI4IA provides industries with applications and solutions to intensify smart industry applications. AI@IA provides platforms for use by different corporate customers and places smart industrial applications on platforms to help companies monetize from data.

The Company has invested resources to cultivate 100 group-certified AI technology experts and organized situations design programs to train designers that focus on industrial application intelligent. The Company develops applications for individual industries including intelligent finance, retail, operations, and life. We cooperate with leading AI technology companies and research institutes to construct visual recognition services and develop audio/semantic/emotion recognition services to transform AI technologies into industrial applications that can be seen, implemented, and used.

In addition to obtaining stable profits in the China market, the Company shall also partner with local companies to expand independent operations. It shall also develop its own products by acquiring products and teams with forward-looking technologies that are compatible with market demands. The Company is also actively seeking investment opportunities in healthcare, cloud, big data, and IoT in China or participation in collaborative businesses with new industries in China to drive momentum for growth.

Chairman	Huang, Tsong-Jen
President	Lin, Lung-Fen

II. Company Profile

2.1 Date of Incorporation: January 7, 1997.

2.2 Company History

- In 2001 Became exclusive distributor for the Found Scan Internet security scan service manufactured by renowned US information security service company Foundstone.
Launched the Security Operations Center (SOC) to provide Managed Security Services (MSS).
Systex acquired Ching-Chi and officially entered the finance and mobile commerce sectors.
- In 2002 Launched the Money Market System (MMS) securities and bonds transaction management system.
Launched the newly updated "Finance Workshop" Internet DynaQuote (iDQ).
Launched the mobile phone version of "Mobile Winner" finance services.
Launched Taiwan's first "M-Loan Smart system for Mobile Bank Operations."
Systex's SOC received Check Point MSP certification.
Hosted the "Ultimate Hacking Seminar."
Received the 2002 Software Industry Benchmark Enterprise Award from Commonwealth Magazine.
Received the 2002 MIS Best Choice Award from the Institute for Information Industry as best outsourced information security service provider.
- In 2003 Systex stocks are listed on the OTC market under stock code 6214.
Acquired distribution rights for Nokia's complete series of Internet security equipment.
Launched Taiwan's first interest rate exchange system denominated in NTD - the "Income Winner."
Became the exclusive distributor for the financial Internet order placement system with the highest market share in Korea "Road to the Future" (RTF).
The interest rate and futures version of Income Winner was launched and its official trading preceded the bond futures by two months.
Taiwan's first roadside parking Internet payment system was launched in Taoyuan County.
Became exclusive distributor for the AirDefense wireless Internet security equipment in the Asia Pacific Region.
Received the 2003 MIS Best Choice Award from the Institute for Information Industry as best information security consultancy service provider.
- In 2004 Launched Taiwan's first cross-strait Convertible Bond Pricing Analysis (CBPA).
Acquired 100% of shares in Ucom through stock conversion.
Hosted the "2004 Infosec Information Security Summit" across Mainland China, Taiwan, Hong Kong, and the Asia Pacific Region.
Obtained distribution rights for Softnext Technologies' "Spam SQR Mail Filter and Management Platform" in Taiwan and China.
Hosted the "2004 Fannie Mae Asset Securitization Summit" in Taipei and Shanghai.
Security Operations Center (SOC) received BS7799 certification.
Systex OSC consulting services launched outsourced management services for Oracle ERP systems.
Became the largest enterprise performance strategy and management consultant service partner in Asia Pacific for the world's largest business process management (BPM) brand Hyperion.
Received the 2004 MIS Best Choice Award from the Institute for Information Industry as best information security consultancy service provider for the third consecutive year.
- In 2005 Merged with the most professional domestic information education training company - Ucom Co., Ltd. on January 1, the baseline date of the merger.
Merged with the leading securities and bonds company in the domestic software market - Yu-Lung Co., Ltd. on June 1, the baseline date of the merger.

II. Company Profile

- Acquired distribution rights for the Radware smart application switch solution in Taiwan.
Acquired distribution rights for the CP Secure Internet anti-virus solution.
Acquired exclusive distribution rights for the Business Objects (BO) Crystal Reports software in Taiwan.
- In 2006 The shareholders' meeting held on June 15 passed the merger with Ching-Yeh Co., Ltd., and Systex was the surviving company. The baseline date of the merger is January 1, 2007.
Acquired the Business Intelligence (BI) team to integrate its capabilities in professional consulting and product sales, and to enter into the market for commercial intelligent software services.
Collaborated with MAN Financial (world's largest derivatives broker) in the development of international quotation and transaction services for futures and options. Launched two electronic transaction systems including SGTP (web version) and GPM (AP version).
Acquired exclusive distribution rights for world leading Business Intelligence (BI) software company Cognos.
- In 2007 Acquired distribution rights for ArcSight in multiple nations throughout the Asia Pacific.
Became Taiwan's first model company for the management and regulation of intellectual property by passing the TIPS certification.
Acquired Taiwan Electronic Data Processing Corporation to formally enter the medical information sector as both companies create opportunities in the Asia Pacific medical information service market.
Collaborated with Farglory Land Development in the creation of the first "Farglory U-City Digital Service Platform" in Taiwan to help Farglory Land Development provide residents with all-new digitized lifestyle convenience.
Selected as "Enterprise with the Fourth Most Project Management Professional Certification (PMP) in Taiwan."
Formed a strategic alliance with CA as exclusive distributor for its entire IT management software product line.
- In 2008 Merged with Da-Shih Technology Co., Ltd. on January 1, the baseline date of the merger.
Announced a strategic alliance with Splunk to acquire distribution rights for its enterprise grade IT search engine in the Asia Pacific Region.
Acquired distribution rights for the high-level institutional financial electronic transaction solution of RTS Realtime Systems Group of Germany as the only distributor partner in Greater China.
Acquired distribution rights for the BPM solution of internationally renowned business process management (BPM) software provider Ascentn AgilePoint.
Launched "Money Link www.money-link.com.tw," the only professional finance portal that integrated Taichung Port financial information.
Invested in Wealth Group and formally entered the media content industry.
Became Taiwan's first company to acquire the business continuity management standard (BS25999-2: 2007) certification and became one of the first 20 businesses to acquire the certification.
The "Systex Advanced Software Development and Integration Methodology" was awarded "Manufacturing Process Innovation" by the Ministry of Economic Affairs in 2008.
Awarded the Enterprise Group Award in the "2008 Human Resource Innovation Awards" by the Council of Labor Affairs, Executive Yuan.
Awarded the "2008 Industrial Excellence Award" by the Industrial Development Bureau, Ministry of Economic Affairs.
Obtained "Capability Maturity Model Integration Level 3" certification and became the only local enterprise with multiple sites for software development in Greater China.

II. Company Profile

- In 2009
- Created Taiwan's first smart analysis and prediction platform "First Winner" that offered research results and predictions on individual stocks of all major securities firms.
 - Launched the first domestic research database monitoring system Systex DB Watch, which provides corporate databases with comprehensive protection.
 - Acquired distribution rights for Tripwire's information change and auditing management solutions.
 - Became the first provider of total solutions with the "Warrant Information Platform" and optimal market maker of the warrants market.
 - The information security team and Kainan University forged academic-industrial collaboration and assisted the "Department of Information & Electronic Commerce" in establishing the "Information Security Laboratory."
 - Collaborated with Samsung Anycall on its official website and provided the "Stock Market Pocket App" download service.
 - Awarded "Enterprise with the Fourth Most Project Management Professional Certification (PMP) in Taiwan" and maintained its position as the local information service company with the most PMPs.
 - Awarded "Annual Digitized Education Material Quality Advancement Prize"; "Western Painting Analysis" education material received the highest AAA certification.
- In 2010
- Collaborated with VMware in providing professional cloud technology consulting services for enterprises and became the first company in Mainland China, Taiwan, and Hong Kong to obtain VMware cloud service certification.
 - UCOM Information Technology Education Center was awarded the "Best Red Hat Training Center" in Greater China.
 - Collaborated with Shenzhen Forms Syntron Information and acquired 30% of its shares for entry into the outsourced financial service in China.
 - Acquired 98.93% of shares in system integrator Taifon Computer Co., Ltd. which became a subsidiary of the Company.
 - System subsidiary Taiwan Electronic Data Processing Corporation and U.S. Company Rimage established the joint venture Rimage Information Technology (Shanghai) Co., Ltd. to develop the healthcare market in China.
 - Established the CAS System Corporation with the Institute of Computing Technology, Chinese Academy of Sciences. This was the first collaboration between a Mainland Chinese government research institute and Taiwanese company as the two parties worked together to forge the next generation of financial information platforms for the financial information market in China.
 - System transferred its listing from the OTC market to the TWSE market; stocks began to be officially traded on December 30.
- In 2011
- Established the "Microsoft Customer Immersion Experience Center" to provide corporate clients with a full demonstration of the benefits of Microsoft's integrated corporate productivity platform solution.
 - Formed a strategic partnership with GRG Banking, the leading ATM manufacturer in China, and acquired distribution rights for GRG Banking's ATMs in Taiwan.
 - Collaborated with international innovation software development company Splunk in establishing the Splunk Innovation Center.
 - Invested in Systemweb Technology to formulate one-stop services for financial asset management.
 - Became exclusive distributor for Veloxum's virtual reality performance optimization solution, which provides companies with "active and continuous optimization" technologies and increases server performance by at least 50%.
 - Became Fujitsu's first licensed corporate IT product distributor in Taiwan and distributed ROR

II. Company Profile

cloud-based management software, servers, and storage facilities.

Awarded "Enterprise Project Management Benchmarking Award" and "Best Practice on Project Management Award" by the International Project Management Association.

Conducted simplified merger with subsidiaries Ching-Ho Information Co., Ltd. and Ching-Feng Information Co., Ltd.; the baseline date of the merger was June 1.

In 2012 The Information Management and Integration Service Department led the industry in acquiring Taiwan's first British Standards Institution (BSI) BS 10012 Personal Information Management System certification.

Acquired distribution rights for the MobileIron mobile application security solution.

Became the first Managed Mobility Services (MMS) partner certified by SAP.

Became exclusive distributor for BlueCat Networks IP management solution, which helps enterprises painlessly integrate IPv4 and IPv6 and manage IP with ease.

Developed the mobile payment market by acquiring 100% of shares in Nexsys Corporation.

The Etu innovative big data platform product Etu Appliance was awarded the 2012 TAITRONICS Technology Innovation Quality Award.

System's own brand Etu Appliance was awarded "Excellent Information Application and Product Award" in the 2012 IT Month and was the first big data processing platform to win the IT Month selection.

System became the only company in the IT service industry to receive the "Enterprise Employment of Disabled Individual Exceeding Required Amount Certification" issued by the Bureau of Labor of Taipei City Government.

Following System's collaboration with international big data firm Splunk in establishing the first Splunk Lab in Asia Pacific, the parties worked together again in establishing the first "Licensed Splunk Training Center" in Greater China.

System became Apple's authorized corporate distributor and acquired the complete series of products from the global mobile device leader to provide enterprises with one-stop software and hardware services.

In 2013 System's UCOM Information Technology Education Center became the exclusive distributor for all international information security certification courses offered by EC-Council.

System's own brand Etu was recognized by the Chinese media as the "Big Data Innovation Enterprise in 2012" and was the only original big data solution brand from Asia.

Syspower Corporation of System Group established a distribution agreement with Yonyou Network, the largest management software company in China, for exclusive distribution rights in Taiwan's finance sector so as to forge definitive advantages for Taiwanese finance businesses in the Mainland China market.

Etu received the "2013 Big Data Excellent Product Award" in China, the sixth award since its launch.

System Software & Service Corporation of System Group became authorized reseller of Microsoft Surface for Business and teams up with Microsoft to develop the tablet market.

Etu Recommender received the highest honor of Golden Award at the 2013 IT Month against hundreds of innovative new products. System became the only company who won awards at IT Month with different big data products in two consecutive years.

In 2014 System provided exclusive sponsorship for Taiwan's first "information science program" as Etu joined forces with Code for Tomorrow to form Taiwan's first formal data science program team in.

System allied with global application network technology leader A10 Networks to provide comprehensive corporate network information security products.

II. Company Profile

System teamed up with Amiya, a Japanese company that specializes in corporate information security and audit management, to embrace the dynamic and high-security network and IT management services for "concurrent backup with 4G and cable transmission" made possible through 4G transmission.

Syspower Corporation of Systex Group teamed up with international Business Intelligence (BI) firm Qlik to train big data management talent and established the first "Qlik Authorized Training Center" in Taiwan.

UCOM Information Technology Education Center of Systex Group partnered with Cloudera, leading provider of Hadoop solutions for analyzing big data, and introduced Hadoop training courses.

Systex worked with global data visualization leader Tableau to provide visualization analysis solutions.

In 2015 Systex and Chunghwa Telecom joined forces in the development of the corporate information security product "EyeQuila," which became a leading product on the market.

Systex established the App Center and Mobile Creativity Incubation Center in Taichung.

Systex Software & Service Corporation of Systex Group teamed up with Gridow for development of the evPlay corporate cloud video service.

Systex teamed up with Sunlight Technology, China's largest smart hotel cloud service platform, to build a brand new hotel cloud service platform for hotels with four or more stars.

Systex launched the "securities online account opening platform," Taiwan's first online securities account opening solution that integrated "video certification" and "CA certification."

In 2016 UCOM Information Technology Education Center launched the Amazon Web Services (AWS) series courses and became Taiwan's only AWS authorized training center.

Systex subsidiary Medincom Technology launched the "External Hospital Information Upload Workstation" to simplify the procedures for integrating information between hospitals, effectively reducing 80% of tasks previously required for importing images from external hospitals.

Systex launched the "FundRich Securities" fund platform which became Taiwan's first successful real-world FinTech application.

Systex partnered with Far Eastern Group to construct an O2O retail ecosphere and launched the "Market Shopping" platform on the friDay Wallet app.

Systex Software & Service Corporation of Systex Group maintained its leading position in providing Microsoft services to large corporate clients; the Company won the Microsoft Partner Hero Award for the 12th consecutive year.

In 2017 Invested in FinTech startup company INSTO.

Invested in Gemini Data for US and global business expansion.

Developed NLP (Neuro Linguistic Programming) technology, and applied in customer service for financial industry.

Awarded the 4th "Taiwan Mittelstand Award" held by the Taiwan Ministry of Economy Affairs.

Offering e-gift certificate service to realize O2O operation.

In 2018 Invested in FinRobo Advisor Securities Investment Consulting Co., Ltd. to expand FinTech product services.

Strategic cooperated with SenseTime, IFLYTEK, MS, IBM to bring AI related technology into Taiwan market to develop industry applications locally.

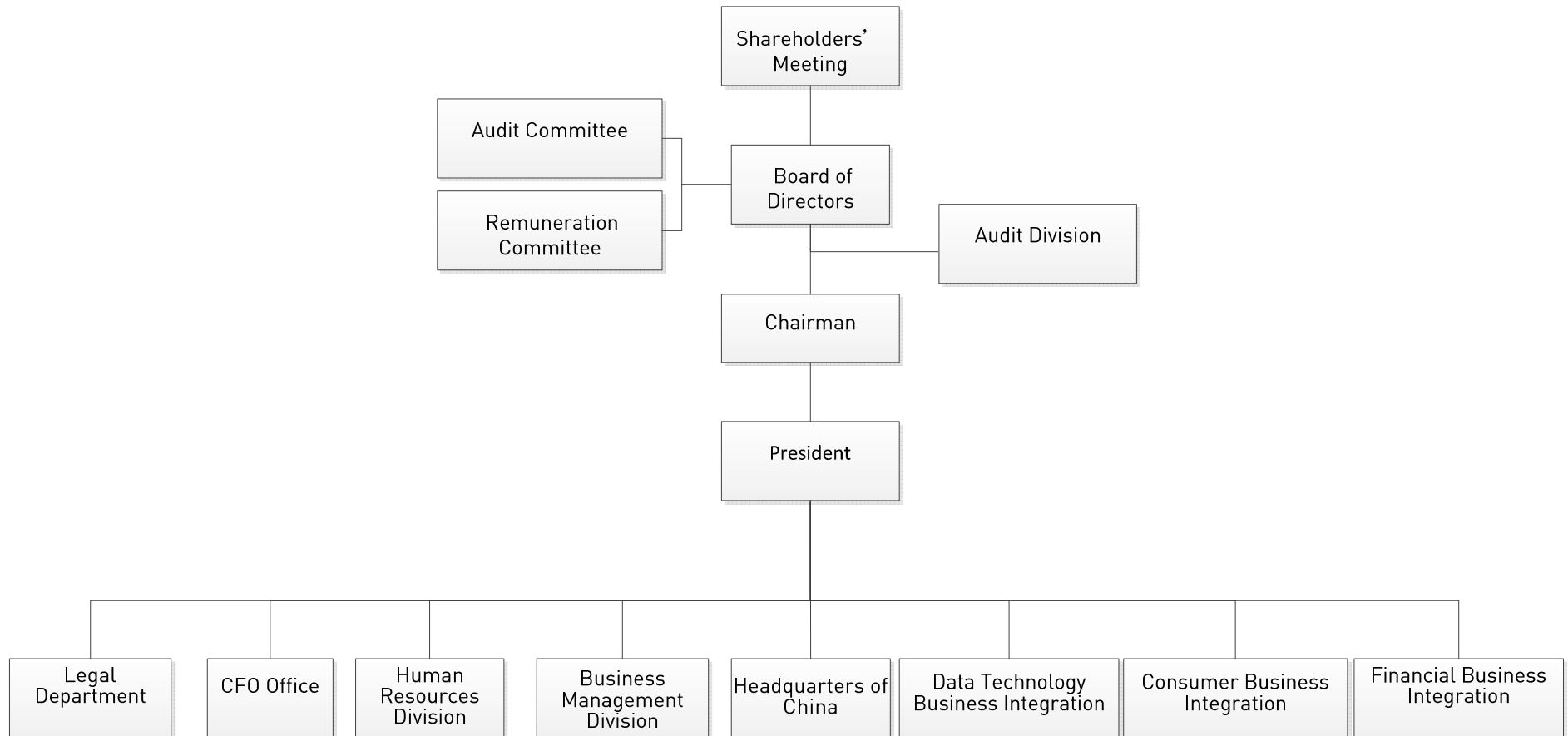
Kick off "AI+ Generator" Program to engage outstanding AI startups with enterprise to prove of solution concept in early stage of go-to-market.

III. Corporate Governance

3.1 Organization

3.1.1 Organizational Chart

As of April 1, 2018



III. Corporate Governance

3.1.2 Major Corporate Functions

Department	Functions
Audit Division	Audit Division conducts independent and objective assessment of the effectiveness of the Company's internal control system, follows up on improvement of irregularities, reviews the self-assessment procedures in the internal control system, and reasonably ensures compliance with company policies and regulations.
Legal Department	Legal Department is responsible for reviewing various commercial contracts, providing recommendations and control items for contract formulation/amendment, processing litigation/non-litigation, managing intellectual property rights affairs, providing the management team and managerial officers with necessary legal consultation, and conducting training on related legal knowledge.
CFO Office	CFO Office is responsible for financial accounting, management accounting, budget planning, investment management, fund management, Board of Directors meetings, shareholder services, and ensuring compliance with regulations stipulated by competent authorities. The CFO Office is also in charge of supervising the financial accounting departments of domestic and overseas business units for the purpose of establishing a consistent domestic and overseas financial accounting management system and institution.
Human Resources Division	Human Resources Division is responsible for planning human resource policies, regulations, and operating procedures including: human resources planning, organizational design and planning, recruitment and appointment, training and development, salary and benefits, performance management, promotion of employee relations and corporate culture etc. It is also responsible for the supervision of departments that oversee human resource management in affiliate enterprises as well as the planning and management of property security, cleaning, catering, electrical and mechanical appliances, air conditioning, machinery and equipment, and telecommunications systems.
Business Management Division	Business Management Division is responsible for related services in support of commercial operations including: trading, procurement, material control and warehousing, accounts, sales support, planning and execution of information procedures, and establishment of finance related information systems. It also supervises receivables in sales, inventory, daily tasks in shipment preparation and borrowing, and risk management of material and irregular transactions. The Commerce Department also supports the strategic plans, performance management and follow-up, investment performance analysis, public relations, and marketing events for the entire Group.
Financial Business Integration (Note 1)	Financial Business Integration provides comprehensive, cross-border financial content and information services for multiple markets including securities, futures, warrants, bonds, bills, foreign exchange, and funds as well as secure information transaction platforms for multiple financial products in order to satisfy the business application software and solution requirements of financial institution clients and investors, including information, trading, operations and management, finance, wealth management, risk management, asset management, and IT management.

III. Corporate Governance

Department	Functions
	<p>In response to trends in cloud, mobility, and artificial intelligence, Financial Business Integration also uses the professional finance transaction network as the basic cloud development model to provide the finance industry with quick selections in the formulation of finance information and professional transaction services. At the same time, it also creates and develops mobile services with leading clients in various industries to successfully forge new applications in portal sites, financial holding, securities and futures, investment consulting, insurance, telecommunications, logistics and transportation, and medical facilities etc. and create new standards for corporate services.</p>
<p>Consumer Business Integration (Note 2)</p>	<p>The Company provides the consumer market with innovative lifestyle applications and services and helps corporate clients in retail, catering, banking, insurance, and government adopt the latest IT technologies and artificial intelligence. We aim to help them use innovative service concepts to connect the value of data and develop various daily life and financial services for consumers, members, and citizens and increase companies' profitability and customer satisfaction. Our main services include development and operation services for all-channel e-commerce platforms, smart finance solutions, all-payment services, electronic ticketing customer guidance services, smart retail, and integrated insurance policy printing services, interactive electronic billing, and e-government.</p>
<p>Data Technology Business Integration (Note 3)</p>	<p>Data Technology Business Integration continues to operate in the digital ecosphere and serves as agent/distributor of world-class DT software/hardware product combinations and solutions.</p> <p>It also provides end-to-end solutions required for clients' business operations through added-value services, thus helping companies use innovative applications for advancing digital transformation and increasing company profits. The Digital Technology Business Unit uses the latest technologies to connect to the world and develops data-based products and intelligent services to help companies carry out their digital transformation and accumulate data capital.</p>
<p>Headquarters of China (Note 4)</p>	<p>Headquarters of China distributes world-class software, added-value technologies, capabilities and professional services. It also employs intensified system integration capabilities to provide large-scale clients with customized services and become their long-term partners. The team also seeks out investment opportunities in new sectors in the Chinese market to develop products and services native to the finance sector on both sides of the strait. It is also responsible for integrating the related administrative and management affairs of subsidiaries in China.</p>

Note 1: Financial Business Integration is covering subsidiaries, including: Softmobile Technology Corp., Syspower Corp., Naturint Ltd., Concord System Management Corp., Taiwan Electronic Data Processing Corp. and Mendincom Technology Corp.

Note 2: Consumer Business Integration is covering subsidiaries, including: Nexsys Corp. and Systex Solutions Corp.

Note 3: Data Technology Business Integration is covering subsidiaries, including: Systex Software & Service Corp., ETU Corp. and Taifon Computer Co., Ltd.

Note 4: Headquarters of China is covering subsidiaries in China (Hong Kong), including: Ucom Information Ltd. (Shanghai), Systek Information (Shanghai) Ltd., Sysware Shenglong Information Systems Co., Ltd., Systex Group(China) Ltd., Systex Rainbow Tech Inc., Systex Ucom (Shanghai) Information

III. Corporate Governance

Ltd.Co., Systex Information (H.K.) Ltd. and Ranibow Tech Information (HK) Limited.

3.1.3 Information of Subsidiaries: Please refer to pages 175-194.

III. Corporate Governance

3.2 Directors and Management Team

3.2.1 Directors

As of April 17, 2018

Title/Name (Note1)	Nationality/ Country of Origin	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangemen		Experience (Education)	Other Position (Note 2)	Executives, Directors who are spouses or within two degrees of kinship		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman/ Huang, Tsong-Jen	R. O. C.	Male	June 17, 2016	3	June 15, 2006	20,755,750	7.70	20,755,750	7.70	2,008,634	0.75	-	-	Ph.D. in Computer Science, University of Wisconsin	Note 3	Director	Huang, Ting-Rong 、 Huang, Chi-Rong	Within one degree of kinship
Director/ Lin, Lung-Fen	R. O. C.	Male	June 17, 2016	3	March 28, 2002	1,374,762	0.51	1,324,762	0.49	263	-	-	-	EMBA, CEIBS Master's degree in Computer Science, University of the Pacific	Note 4	-	-	-
Director/ Cheng, Deng-Yuan	R. O. C.	Male	June 17, 2016	3	March 28, 2002	263,152	0.10	208,152	0.08	-	-	-	-	EMBA, Fudan University Fu Jen University, Dept. of Accounting	Note 5	-	-	-
Director/ Lu, Ta-Wei	R. O. C.	Male	June 17, 2016	3	June 13, 2007	765,656	0.28	415,656	0.15	2,050,390	0.76	-	-	Tunghai University, Dept. of Chemistry	Note 6	-	-	-
Director/ Shaw, Shung-Ho	R. O. C.	Male	June 17, 2016	3	March 28, 2002	861,475	0.32	945,475	0.35	229,201	0.09	-	-	MBA, National Chengchi University	Note 7	-	-	-
Director/ Hsieh, Chin-Ho	R. O. C.	Male	June 17, 2016	3	June 18, 2010	20,000	0.01	20,000	0.01	-	-	-	-	Master Degree in Graduate of East Asian Studies, National Chengchi University	Note 8	-	-	-
Director/ Huang, Ting-Rong	R. O. C.	Female	June 17, 2016	3	June 17, 2016	242,152	0.09	242,152	0.09	-	-	-	-	MBA, Waseda University	Note 9	Chairman	Huang, Tsong-Jen	Within one degree of kinship
Director/ Huang, Chi-Rong	R. O. C.	Female	June 17, 2016	3	June 17, 2016	633,780	0.24	633,780	0.24	-	-	-	-	Wharton School of the University of Pennsylvania, Dept. of Economics	Note 10	Chairman	Huang, Tsong-Jen	Within one degree of kinship

III. Corporate Governance

As of April 17, 2018

Title/Name (Note 1)	Nationality/ Country of Origin	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangemen		Experience (Education)	Other Position (Note 2)	Executives, Directors who are spouses or within two degrees of kinship		
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director/ Huang, Yi-Shiung (Representative of Joway Investment Co., Ltd.)	R. O. C.	Male	June 17, 2016	3	June 13, 2007	482,309	0.18	482,309	0.18	-	-	-	-	Soochow University, Dept. of Accounting	Note 11	-	-	-
Director/ Lin, Chih-Min (Representative of Joway Investment Co., Ltd.)	R. O. C.	Male	June 17, 2016	3	June 13, 2007	482,309	0.18	482,309	0.18	-	-	-	-	National Taiwan University, Dept. of Law	Note 12	-	-	-
Independent Director/ Huang, Jih-Tsan	R. O. C.	Male	June 17, 2016	3	June 13, 2007	-	-	-	-	122,017	0.05	-	-	Ph.D. in Law, Harvard University	Note 13	-	-	-
Independent Director/ Cheng, Huang-Yen	R. O. C.	Male	June 17, 2016	3	June 13, 2007	-	-	-	-	-	-	-	-	Tamkang University, Dept. of Accounting	Note 14	-	-	-
Independent Director/ Cheng, Wen-Feng	R. O. C.	Male	June 17, 2016	3	June 21, 2013	-	-	-	-	845	-	-	-	Master Degree in Chemical Engineering, National Tsing Hua University	Note 15	-	-	-

Note 1: Institutional representatives shall indicate the names of the institutional shareholders and fill in the information specified in Table 1 below.

Note 2: Concurrent positions as of the date of publication of the annual report.

Note 3: Chairman, representative of Ching Pu Investment Corp.

Chairman, Asiavest Capital Co., Ltd.

Director, representative of Kimo.com (BVI) Corp. and Systex Capital Group, Inc.

Note 4: President of SYSEX Corp.

Chairman, representative of Golden Bridge Information Corp., Systex Software & Service Corp., Etu Corp., Taiwan Electronic Data Processing Corp., Mendincom Technology Corp., Syslink Corp., Smartsys Technology Corp., Syswiser Technology Corp. and Sysware Singapore Pte. Ltd.

Director, representative of Ching Pu Investment Corp., Syscore Corp., Concord System Management Corp., SoftMobile Technology Corp., Systex Solutions Corp., Syspower Corp., Nexsys Corp., Naturint Ltd., System Information (Shanghai) Ltd., Ucom Information Ltd. (Shanghai), Sysware Shenglong Information Systems Co., Ltd., Systex Group (China) Ltd., Shenzhen Forms Syntron Information Co., Ltd., Forms Syntron Information (HK) Limited, Kimo.com (BVI) Corp., Systex Capital Group, Inc. and Systex Solutions (HK) Ltd.

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Note 5: Chief Strategy Officer of SYSEX Corp.

Chairman, representative of Systex Information (H.K.) Ltd., Systek Information (Shanghai) Ltd., Ucom Information Ltd. (Shanghai), Systex Group (China) Ltd. and Systex Rainbow Tech Inc.

Director, representative of Ranibow Tech Information (HK) Limited and Sysware Shenglong Information Systems Co., Ltd.,

Director, Shenzhen Sunlight Technology Co., Ltd.

Supervisor, representative of Shenzhen Forms Syntron Information Co., Ltd. and Suntex Technology (Shenzhen) Co., Ltd.

Note 6: Chairman, Firstweb Limited

Note 7: Chairman, Liang Hsin Finance Corp.

Director, Scientech Corp., WPG Holdings Limited and Sundia Meditech Group

Note 8: Chairman, representative of Wealth Media Corp., Investment Media Ltd., Genetinfo Inc., Wealth Magazine Co., Ltd. and Business Today Publisher

Chairman, Business Today Co., Ltd.

Director, representative of Cashbox Partyworld Co., Ltd. and Business Today Marketing Corp.,

Director, Diancan Art & Collection Ltd.

Note 9: Independent Director, Chipbond Technology Corp.

Executive Director, Asiavest Capital Co., Ltd.

Director, Sundia Meditech Group

Note 10: Executive Director, Asiavest Capital Co., Ltd.

Director, representative of Taiwan Hopax Chems. Mfg. Co., Ltd.

Note 11: CPA, Grand H&C CPAs Firm

Independent Director, Taiwan Hopax Chems. Mfg. Co., Ltd.

Note 12: Director, representative of Hanmore Investment Corp.

Note 13: Partner lawyer, Jones Day

Independent Director, WPG Holdings Limited, Taiwan Mobile Co., Ltd. and CTCL Corp.

Director, representative of Taiwan Capital Buffalo Fund Co, Ltd. and Taiwan Capital Biotech Co., Ltd.

Director, Taiwan Capital Management Corp.

Note 14: CPA, Formosa and Co.

Independent Director, Tung Ho Textile Co., Ltd.

Note 15: Chairman & President, Boardtek Electronics Corp.

Director, representative of Chipboard Technology Corp.

Director, Sundia Meditech Group

Table1- Major shareholders of the institutional shareholders

As of April 17, 2018

Name	Major Shareholders
Joway Investment Co., Ltd.	Ho, Mei-Yii (25.72%), Huang, Ting-Rong (25.32%), Huang, Chi-Rong (25.32%), Huang, Tsong-Jen (22.91%), Joray Co., Ltd. (0.73%)

Table2- Major shareholders of the Company's major institutional shareholders

As of April 17, 2018

Name	Major Shareholders
Joray Co., Ltd.	Ho, Mei-Yii (34.97%), Huang, Ting-Rong (29.84%), Huang, Chi-Rong (29.74%), Huang, Tsong-Jen (5.35%), Lai Hsueh, Fen-Fang (0.10%)

III. Corporate Governance

As of April 17, 2018

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director	
	Criteria	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9		10
Huang, Tsong-Jen			V										V	V	0
Lin, Lung-Fen			V			V	V	V	V	V	V	V	V	V	0
Cheng, Deng-Yuan			V			V	V	V	V	V	V	V	V	V	0
Lu, Ta-Wei			V	V	V	V	V	V	V	V	V	V	V	V	0
Shaw, Shung-Ho			V	V	V	V	V	V	V	V	V	V	V	V	0
Hsieh, Chin-Ho			V	V	V	V	V		V	V	V	V	V	V	0
Huang, Ting-Rong			V	V	V		V	V	V		V	V	V	V	1
Huang, Chi-Rong			V		V		V	V	V		V	V	V	V	0
Huang, Yi-Shiung (Representative of Joway Investment Co.,Ltd.)		V	V	V	V	V					V	V			1
Lin, Chih-Min (Representative of Joway Investment Co.,Ltd.)			V	V	V	V					V	V			0
Independent Director Huang, Jih-Tsan		V	V	V	V	V	V	V	V	V	V	V	V	V	3
Independent Director Cheng, Huang-Yen		V	V	V	V	V	V	V	V	V	V	V	V	V	1
Independent Director Cheng, Wen-Feng			V	V	V	V	V	V	V	V	V	V	V	V	0

III. Corporate Governance

Note: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

III. Corporate Governance

3.2.2 Management Team

As of April 17, 2018

Title/ Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position (Note 1)	Managers who are Spouses or Within two degrees of kinship		
				Shares	%	Shares	%	Shares	%			Title	Name	Relation
President/ Lin, Lung-Fen	R.O.C.	Male	2009.10	1,324,762	0.49	263	-	-	-	EMBA, CEIBS Master's degree in Computer Science, University of the Pacific	Note 2	-	-	-
Chief Strategy Officer & Senior Vice President / Cheng, Deng-Yuan	R.O.C.	Male	2001.08	208,152	0.08	-	-	-	-	EMBA, Fudan University Fu Jen University, Dept. of Accounting	Note 3	-	-	-
CFO & Vice President/ Chung, Chih-Chun	R.O.C.	Male	2014.05	-	-	-	-	-	-	Master's degree in Banking and Finance, Tamkang University	Note 4	-	-	-
CHO & Vice President / Huang, Yu-Jen	R.O.C.	Male	2017.03	-	-	-	-	-	-	Master's degree in Graduate Institute of Human Resource Management, National Central University	None	-	-	-
Senior Vice President/ Yang, Shih-Chung	R.O.C.	Male	2007.01	1,225	-	-	-	-	-	National Cheng Kung University Dept. of Mathematics	Note 5	-	-	-
Senior Vice President/ Fan, Jee-Der	R.O.C.	Male	2007.01	170,743	0.06	952	-	-	-	Soochow University, Dept. of Business Mathematics	Note 6	-	-	-

III. Corporate Governance

As of April 17, 2018

Title/ Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position (Note 1)	Managers who are Spouses or Within two degrees of kinship		
				Shares	%	Shares	%	Share s	%			Title	Name	Relation
Senior Vice President/ Su, Kou-Lin	R.O.C.	Male	2005.01	-	-	-	-	-	-	Master's degree in, Environmental Engineering, National Chung Hsing University	None	-	-	-
Vice President/ Chang, Huang-Yu	R.O.C.	Male	2005.06	72,312	0.03	-	-	-	-	Feng Chia University, Dept. of Information	Note 7	-	-	-
Vice President/ Yeh, Chen-Min	R.O.C.	Male	2007.01	220,000	0.08	-	-	-	-	Nanya Engineering College Dept. of Mechanical	None	-	-	-
Vice President/ Chang, Ying-Chin	R.O.C.	Female	2007.01	71,599	0.03	2,023	-	-	-	National Taichun College Dept. of Banking and Insurance	Note 8	-	-	-
Vice President/ Lin, Wen-Kuei	R.O.C.	Male	2007.01	233,221	0.09	-	-	-	-	Lunghwa Engineering College Dept. of Electronic Engineering	None	-	-	-
Vice President/ Hsiao, Wei-Chun	R.O.C.	Male	2017.03	-	-	-	-	-	-	Fu Jen University, Dept. of Information Management	None	-	-	-
Vice President/ Pan, Tieh-Yi	R.O.C.	Male	2018.01	13,142	-	6,883	-	-	-	Chien Hsin University of Science and Technology Dept. of Electronic Engineering	Note 9	-	-	-
Vice President/ Wu, Wen-Shuen	R.O.C.	Male	2018.01	110,000	0.04	-	-	-	-	Master of Business Administration, National Chengchi University	Note 10	-	-	-

III. Corporate Governance

As of April 17, 2018

Title/ Name	Nationality / Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position (Note 1)	Managers who are Spouses or Within two degrees of kinship		
				Shares	%	Shares	%	Share s	%			Title	Name	Relation
Vice President/ Tao, Yea-Kuan	R.O.C.	Male	2018.01	-	-	-	-	-	-	Chuan Yuan University, Dept. of Information and Computer Engineering	Note 11	-	-	-
Vice President/ Tang, Yin-Soon	R.O.C.	Male	2012.01	26,031	0.01	4,000	-	-	-	Master's degree in Computer, The City University of New York	Note 12	-	-	-
Chief Audit Executive/ Tsai, Chun-Hsiung	R.O.C.	Male	2007.01	8,285	-	-	-	-	-	Tunghai University, Dept. of Business Administeration	None	-	-	-
Accounting Manager/ Cheng, Yuan-Yih	R.O.C.	Male	2008.12	32,144	0.01	-	-	-	-	National Chung Hsing University, Dept. of Accounting	Note 13	-	-	-

III. Corporate Governance

Note 1: Concurrent positions as of the date of publication of the annual report.

Note 2: Chairman, representative of Golden Bridge Information Corp., Systex Software & Service Corp., Etu Corp., Taiwan Electronic Data Processing Corp., Mendincom Technology Corp., Syslink Corp., Smartsys Technology Corp., Syswiser Technology Corp. and Sysware Singapore Pte. Ltd.

Director, representative of Ching Pu Investment Corp., Syscore Corp., Concord System Management Corp., SoftMobile Technology Corp., Systex Solutions Corp., Syspower Corp., Nexsys Corp., Naturint Ltd., Systek Information (Shanghai) Ltd., Ucom Information Ltd. (Shanghai), Sysware Shenglong Information Systems Co., Ltd., Systex Group (China) Ltd., Shenzhen Forms Syntron Information Co., Ltd., Forms Syntron Information (HK) Limited, Kimo.com (BVI) Corp., Systex Capital Group, Inc. and Systex Solutions (HK) Ltd.

Note 3: Chairman, representative of Systex Information (H.K.) Ltd., Systek Information (Shanghai) Ltd., Ucom Information Ltd. (Shanghai), Systex Group (China) Ltd. and Systex Rainbow Tech Inc.

Director, representative of Ranibow Tech Information (HK) Ltd. and Sysware Shenglong Information Systems Co., Ltd.,

Director, Shenzhen Sunlight Technology Co., Ltd.

Supervisor, representative of Shenzhen Forms Syntron Information Co., Ltd. and Suntex Technology (Shenzhen) Co., Ltd.

Note 4: Chairman, representative of Syscore Corp.

Director, representative of Ching Pu Investment Corp., Golden Bridge Information Corp., Mendincom Technology Corp., Systemweb Technologies Co., Ltd., FinRobo Advisor Securities Investment Consulting Co., Ltd., Enova Technology Corp., Systex Group (China) Ltd., Systex Infopro Corp. Ltd., Systex Solutions (HK) Ltd.

Supervisor, representative of Concord System Management Corp., Taifon Computer Co., Ltd., Systex Solutions Corp., SoftMobile Technology Corp., Nexsys Corp., Naturint Ltd., Syslink Corp. and Far Eastern Electronic Toll Collection Corp.

Supervisor, Etu Corp., Investment Media Ltd., Taiwan Electronic Data Processing Corp. and Hanmore Investment Corp.

Note 5: Director, representative of Nexsys Corp., Far Eastern Electronic Toll Collection Corp. and Mohist web technology Co., Ltd.

Note 6: Chairman, representative of Naturint Ltd., Syspower Corp., Sysware Shenglong Information Systems Co., Ltd. Director, representative of SoftMobile Technology Corp., Taiwan Electronic Data Processing Corp., Mendincom Technology Corp., Investment Media Ltd., Systemweb Technologies Co., Ltd., Sanfran Technology Inc., FinRobo Advisor Securities Investment Consulting Co., Ltd. and ICT- Systex Information Systems Corp. Ltd.

Note 7: Director, representative of Shengsen Corp.

Note 8: Director, representative of Investment Media Ltd.

Note 9: Chairman, representative of Nexsys Corp.

Director, representative of Da Ho Marketing Co., Ltd.

Note 10: Chairman, representative of SoftMobile Technology Corp.

Director, representative of Yan Key Information Corp.

Note 11: Chairman, representative of Concord System Management Corp.

Director, representative of Sanfran Technology Inc.

Note 12: Director, representative of Syslink Corp.

Note 13: Director, representative of Hanmore Investment Corp. and Taiwan Electronic Data Processing Corp.

Supervisor, representative of Ching Pu Investment Corp., Golden Bridge Information Corp., Systex Software & Service Corp., Syscore Corp., Smartsys Technology Corp., Syswiser Technology Corp., Mendincom Technology Corp. and Syspower Corp.

III. Corporate Governance

3.3 Remuneration of Directors and Management Team

3.3.1 Remuneration of Directors

Unit: NT\$ thousands As of December 31, 2017

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees				Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)				Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary		
		Base Compensation (A) (Note 2)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Profit Sharing-Employee Bonus (G) (Note 2)						
		The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	Cash	Stock	Cash	Stock		The Company	Consolidated Entities
Chairman	Huang, Tsong-Jen	735	735	-	-	24,317	24,317	640	640	2.18	2.18	34,919	35,406	328	328	164	-	164	-	5.19	5.23	-
Director	Lin, Lung-Fen																					
Director	Cheng, Deng-Yuan																					
Director	Lu, Ta-Wei																					
Director	Shaw, Shung-Ho																					
Director	Hsieh, Chin-Ho																					
Director	Huang, Ting-Rong																					
Director	Huang, Chi-Rong																					
Director	Huang, Yi-Shiung																					
Director	Lin, Chih-Min																					
Independent Director	Huang, Jih-Tsan																					
Independent Director	Cheng, Huang-Yen																					
Independent Director	Cheng, Wen-Feng																					

Other than disclosure in the above table, Directors remunerations earned by providing services (i.e. non-employee consulting services) to companies which are listed in financial reports in 2017: None.

Note 1: The amount of remuneration received by Directors shall be determined by the Board of Directors according to the contribution of the individual and extent of involvement in the Company's operations; general remuneration standards within the domestic and international industries are also duly referenced. The acquisition cost of vehicles allocated to Directors was NT\$10,169 thousands, and the annual salary of drivers amounted to NT\$1,479 thousands.

Note 2: The 2017 Directors' and Employees' remuneration distribution plan is NT\$24,317 thousands and NT\$1,216 thousands had been approved by Borad of Director.

Note 3: The consolidated net profit after tax in 2017 (excluding non-controlling interests) was NT\$1,177,749 thousands.

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Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company	Consolidated Entities	The Company	Consolidated Entities
Under NT\$ 2,000,000	Lin, Lung-Fen, Cheng, Deng-Yuan, Lu, Ta-Wei, Shaw, Shung-Ho, Hsieh, Chin-Ho, Huang, Ting-Rong, Huang, Chi-Rong, Huang, Yi-Shiung (Note), Lin, Chih-Min (Note)	Lin, Lung-Fen, Cheng, Deng-Yuan, Lu, Ta-Wei, Shaw, Shung-Ho, Hsieh, Chin-Ho, Huang, Ting-Rong, Huang, Chi-Rong, Huang, Yi-Shiung (Note), Lin, Chih-Min (Note)	Lu, Ta-Wei, Shaw, Shung-Ho, Hsieh, Chin-Ho, Huang, Ting-Rong, Huang, Chi-Rong, Huang, Yi-Shiung (Note), Lin, Chih-Min (Note)	Lu, Ta-Wei, Shaw, Shung-Ho, Hsieh, Chin-Ho, Huang, Ting-Rong, Huang, Chi-Rong, Huang, Yi-Shiung (Note), Lin, Chih-Min (Note)
NT\$2,000,000 ~ NT\$5,000,000	Huang, Tsong-Jen, Huang, Jih-Tsan, Cheng, Huang-Yen, Cheng, Wen-Feng	Huang, Tsong-Jen, Huang, Jih-Tsan, Cheng, Huang-Yen, Cheng, Wen-Feng	Huang, Tsong-Jen, Huang, Jih-Tsan, Cheng, Huang-Yen, Cheng, Wen-Feng	Huang, Tsong-Jen, Huang, Jih-Tsan, Cheng, Huang-Yen, Cheng, Wen-Feng
NT\$5,000,000 ~ NT\$10,000,000			Cheng, Deng-Yuan	Cheng, Deng-Yuan
NT\$10,000,000 ~ NT\$15,000,000				
NT\$15,000,000 ~ NT\$30,000,000			Lin, Lung-Fen	Lin, Lung-Fen
NT\$30,000,000~ NT\$50,000,000				
NT\$50,000,000 ~ NT\$100,000,000				
Over NT\$100,000,000				
Total	13	13	13	13

Note: Representative of Joway Investment Co., Ltd.

III. Corporate Governance

3.3.2 Remuneration of Management Team

Unit: NT\$ thousands As of December 31, 2017

Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Other Compensations from non-subsidiary affiliates
		The Company	Consolidated Entities	The Company	Consolidated Entities	The Company	Consolidated Entities	The Company		Consolidated Entities		The Company	Consolidated Entities	
								Cash	Stock	Cash	Stock			
President	Lin, Lung-Fen	30,162	32,566	3,188	3,188	54,722	62,689	192	-	194	-	7.49	8.38	140
Chief Strategy Officer & Senior Vice President	Cheng, Deng-Yuan													
CFO & Vice President	Chung, Chih-Chun													
CHO & Vice President	Huang, Yu-Jen (Note 3)													
Senior Vice President	Yang, Shih-Chung													
Senior Vice President	Fan, Jee-Der													
Senior Vice President	Su, Kou-Lin													
Vice President	Chang, Huang-Yu													
Vice President	Yeh, Chen-Min													
Vice President	Chang, Ying-Chin													
Vice President	Lin, Wen-Kuei													
Vice President	Tang, Yin-Soon													
Vice President	Hsiao, Wei-Chun (Note 3)													
Vice President	Huang, Chun-Chieh (Note 3)													
Vice President	Lee, Su-Yue (Note 3)													

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Note 1: The 2017 Employees' remuneration distribution plan is NT\$1,216 thousands had been approved by Borad of Director.

Note 2: The consolidated net profit after tax in 2017 (excluding non-controlling interests) was NT\$1,177,749 thousands.

Note 3: Remuneration for the President and Vice Presidents is determined by their personal performance and their contribution to the Company's overall operations; general remuneration standards within the domestic and international industries are also duly referenced. The acquisition cost of vehicles allocated to Managers was NT\$5,084 thousands, and the annual salary of drivers amounted to NT\$794 thousands. Huang, Yu-Jen & Hsiao, Wei-Chun took office in 2017.03, Huang, Chun-Chieh left in 2017.02 and Lee, Su-Yue was dismissal in 2018.01.

Range of Remuneration	Name of President and Vice Presidents	
	The Company	Consolidated Entities
Under NT\$ 2,000,000	Chang, Ying-Chin, Huang, Chun-Chieh (Note), Lee, Su-Yue (Note)	Chang, Ying-Chin, Huang, Chun-Chieh (Note)
NT\$2,000,000 ~ NT\$5,000,000	Chung, Chih-Chun, Huang, Yu-Jen (Note), Su, Kou-Lin, Chang, Huang-Yu, Lin, Wen-Kuei, Tang, Yin-Soon, Hsiao, Wei-Chun (Note)	Chung, Chih-Chun, Huang, Yu-Jen (Note), Su, Kou-Lin, Chang, Huang-Yu, Lin, Wen-Kuei, Tang, Yin-Soon, Hsiao, Wei-Chun (Note)
NT\$5,000,000 ~ NT\$10,000,000	Cheng, Deng-Yuan, Yang, Shih-Chung, Fan, Jee-Der, Yeh, Chen-Min	Cheng, Deng-Yuan, Yang, Shih-Chung, Fan, Jee-Der, Yeh, Chen-Min Lee, Su-Yue (Note)
NT\$10,000,000 ~ NT\$15,000,000		
NT\$15,000,000 ~ NT\$30,000,000	Lin, Lung-Fen	Lin, Lung-Fen
NT\$30,000,000 ~ NT\$50,000,000		
NT\$50,000,000 ~ NT\$100,000,000		
Over NT\$100,000,000		
Total	15	15

Note: Huang, Yu-Jen & Hsiao, Wei-Chun took office in 2017.03, Huang, Chun-Chieh left in 2017.02 and Lee, Su-Yue was dismissal in 2018.01.

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3.3.3 Employees' remuneration

Unit: NT\$ thousands As of January 1, 2018

	Title	Name	Stock (Note 1)	Cash (Note 1)	Total	Ratio of Total Amount to Net Income (%) (Note 2)
Management Team	President	Lin, Lung-Fen	-	196	196	0.02
	Chief Strategy Officer & Senior Vice President	Cheng, Deng-Yuan				
	CFO & Vice Presidents	Chung, Chih-Chun				
	CHO & Vice President	Huang, Yu-Jen				
	Senior Vice President	Yang, Shih-Chung				
	Senior Vice President	Fan, Jee-Der				
	Senior Vice President	Su, Kou-Lin				
	Vice President	Chang, Huang-Yu				
	Vice President	Yeh, Chen-Min				
	Vice President	Chang, Ying-Chin				
	Vice President	Lin, Wen-Kuei				
	Vice President	Lee, Su-Yue (Note 3)				
	Vice President	Tang, Yin-Soon				
	Vice President	Hsiao, Wei-Chun				
Accounting Manager	Cheng, Yuan-Yih					

Note 1: The 2017 employees' remuneration distribution plan is NT\$1,216 thousands had been approved by Borad of Director.

Note 2: The consolidated net profit after tax in 2017 (excluding non-controlling interests) was NT\$1,177,749 thousands.

Note 3: Lee, Su-Yue was dismissal in 2018.01.

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3.3.4 Comparison of Remuneration for Directors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Presidents and Vice Presidents

- A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, presidents and vice presidents of the Company, to the net income.

Title	Ratio of total remuneration paid to directors, presidents and vice presidents to net income (%)			
	2016		2017	
	The Company	Consolidated Entities	The Company	Consolidated Entities
Directors	4.47	4.51	5.19	5.23
President and Vice Presidents	7.80	8.75	7.49	8.38

- B. Policies, standards, and combination of remuneration payment to firectors, President, and Vice President, the remuneration determination procedure, and the relationship between operation performance and future risk.

(a) The Directors are remunerated in accordance with the Company's current Articles of Incorporation. The Company has also established the Regulations on Director Remuneration to calculate their remuneration in accordance with the base numbers established by their contribution to the Company and whether they are Independent Directors.

Director remuneration includes remuneration, salary, and travel expenses etc. Independent Directors are paid fixed amounts of remuneration every quarter in accordance with the resolutions of Board of Directors meetings. Travel expenses are paid each time Directors attend Board of Directors or functional committee meetings in person. The Company's remuneration for employees and Directors shall be no lower than 0.1% and under 2% of the earnings before tax of the year and before deducting remuneration for employees and Directors.

(b) Remuneration for the President and Vice Presidents are paid in accordance with the Company's related human resources policies. The remuneration mainly includes basic salary, rewards, and employee remuneration. Rewards and bonuses are distributed based on the overall operating performance of the Company and in accordance with the Regulations on the Distribution of Year-End Bonus, Regulations on the Distribution of Performance Bonus, Regulations on the Distribution of Group Performance Bonus and Employee Bonus, and Regulations on Employee Share Subscription Certification.

- C. Methods of remuneration payment to the President and Vice President of the Company and relationship between operation performance and future risk are stipulated as follows:

(a) The Company's Director remuneration payment policy is established in the Articles of Incorporation. The distribution is carried out after approval from the Board of Directors and the distribution status is reported to the shareholders' meeting. In addition, the Board of Directors may resolve to pay remuneration for Directors in each quarter in accordance with the Articles of Incorporation. The amount of remuneration received by Directors shall be determined by the Board of Directors according to the contribution of the individual and extent of involvement in the Company's operations, taking into account the general remuneration standards within the domestic and international industry.

(b) The Company has established a Remuneration Committee to be in charge of the performance evaluation of Directors and managerial officers, set and reviewing the remuneration policy, system standards and structure, and conduct periodic review on the accomplishment of performance targets in order to build a comprehensive remuneration system for the Company's Directors and managerial officers.

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D. Procedures for payment and relevance with operation performance and future risk exposure.

- (a) Director remuneration shall be determined by the business performance of the Company and its profitability, while taking into account existing affairs that may cause risks in the Company's future liabilities, obligations, or debt. According to the Company's Articles of Incorporation, director remuneration may only be distributed when the Company generates profits. The remuneration shall be in positive correlation to the Company's business performance while taking into account its future operating risks.
- (b) Remuneration for the President and Vice Presidents are distributed based on the achievement rate of their personal targets, performance, and their contribution to the Company's overall operations. Rewards and bonuses are distributed based on the overall operating performance of the Company and in accordance with the Regulations on the Distribution of Year-End Bonus, Regulations on the Distribution of Performance Bonus, Regulations on the Distribution of Group Performance Bonus and Employee Bonus, and Regulations on Employee Share Subscription Certification. The distribution of remuneration shall be in positive correlation to the operating performance.

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3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

A total of 7 [A] meetings of the Board of Directors were held in the previous period. The attendance of directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Chairman	Huang, Tsong-Jen	7	0	100%	
Director	Lin, Lung-Fen	7	0	100%	
Director	Cheng, Deng-Yuan	6	1	86%	
Director	Lu, Ta-Wei	7	0	100%	
Director	Shaw, Shung-Ho	6	1	86%	
Director	Hsieh, Chin-Ho	5	2	71%	
Director	Huang, Ting-Rong	7	0	100%	
Director	Huang, Chi-Rong	7	0	100%	
Director	Huang, Yi-Shiung (Representative of Joway Investment Co.,Ltd.)	7	0	100%	
Director	Lin, Chih-Min (Representative of Joway Investment Co.,Ltd.)	6	1	86%	
Independent Director	Huang, Jih-Tsan	7	0	100%	
Independent Director	Cheng, Wen-Feng	7	0	100%	
Independent Director	Cheng, Huang-Yen	7	0	100%	

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Other mentionable items:

1. The date of the Board meeting, the term, contents of the proposals, opinions of all Independent Directors, and the Company's handling of opinions of Independent Directors shall be recorded under the following circumstances in the operations of the Board of Directors meeting:
 - (1) Items listed in Article 14-3 of the Securities and Exchange Act: Not applicable, since the Company has already established the Audit Committee.
 - (2) With the exception of the aforementioned items, resolutions adopted by the Board of Directors, to which an Independent Director has a dissenting or qualified opinion that is on record or stated in a written statement: Not applicable.
2. Directors abstaining in certain proposals for being a stakeholder (the name of the Director(s), the content of the proposal, reasons for abstentions and the results of voting counts shall be stated):
 - (1) On March 23, 2017, the Board of Directors discussed: (i) The review results of managerial officers for the second half of 2016 and the calculation and distribution of non-financial indicator bonuses; (ii) The distribution of year-end bonus, group performance reward and employee remuneration, excess profit bonus and annual remuneration for managerial officers for 2016; (iii) 2017 KPI settings and remuneration plan for the Company's managerial officers. As Directors Lin, Lung-Fen and Cheng, Deng-Yuan serve concurrently as the Company's managerial officers, they recused themselves when the discussion involved their interest and the other Directors in attendance passed the proposal unanimously.
 - (2) On August 10, 2017, the Board of Directors discussed the KPI settings, achievement rate, and detailed salary and remuneration for the Company's managerial officers for the first half of 2017. As the Director Cheng, Deng-Yuan serves concurrently as the Company's managerial officers, he recused himself when the discussion involved his interest and the other Directors in attendance passed the proposal unanimously.
3. Measures taken to strengthen the functionality of the board:
 - (1) The Company reelected three Independent Directors in the election of the 8th-term Board of Directors in the general shareholders' meeting on June 17, 2016 and established the Audit Committee on the same day.

The Audit Committee held 9 meetings in 2017 to review related proposals.
 - (2) The Company conducted the election of the 8th-term Board of Directors in the general shareholders' meeting on June 17, 2016 and established the Remuneration Committee on the same day. The Committee is composed of three Independent Directors and is vested with the purpose to professionally and objectively evaluate the salary and remuneration policy of the Directors and managerial officers and then provide its recommendation to the Board of Directors.

The current term Remuneration Committee held 3 meetings in 2017 to review related proposals.

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3.4.2 Audit Committee

A total of 9 [A] meetings of Audit Committee of the Board of Directors were held in the previous period. The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】	Remarks
Independent director	Huang, Jih-Tsan	9	0	100%	
Independent director	Cheng, Wen-Feng	8	1	89%	
Independent director	Cheng, Huang-Yen	9	0	100%	

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Other mentionable items:

1. The date of the Board meeting, the term, contents of the proposals, resolutions of the Audit Committee, and the Company's handling of the resolutions of the Audit Committee shall be recorded under the following circumstances in the operations of the Audit Committee meeting:

(1) Items specified in Article 14-5 of the Securities and Exchange Act:

Meeting Dates	Contents Proposed	Resolutions of the Audit Committee	Any Independent Director had a Dissenting Opinion or Qualified Opinion
January 23, 2017	The disposal of shares in Shenzhen Forms Syntron Information Co., Ltd.	Approved	N/A
	The subsidiary Systex Capital Group, Inc.'s loans to subsidiary Systex Solutions (HK) Ltd.	Approved	N/A
March 23, 2017	The amended "Internal Control System."	Approved	N/A
	The amended "Procedures for the Acquisition and Disposal of Assets."	Approved	N/A
	The endorsement guarantee for Systex Group (China) Ltd.	Approved	N/A
April 17, 2017	The cancellation of agreement for transfer of shares of Shenzhen Forms Syntron Information Co., Ltd.	Approved	N/A
August 10, 2017	The endorsement guarantee for Systex Software & Service Corp.	Approved	N/A
November 9, 2017	The endorsement guarantee for Systex Ucom (Shanghai) Information Co., Ltd.	Approved	N/A
December 22, 2017	The endorsement guarantee for Systex Solutions Corp.	Approved	N/A
	The endorsement guarantee for Systex Group (China) Ltd.	Approved	N/A
	The increased capital by cash through subsidiaries for Syscore Corp.	Approved	N/A
	The redeemed of Fuh Hwa Legend Fund VI and then invest in Fuhua Investment Trust New Private Equity Fund.	Approved	N/A
	The transferred Corporate Bonds of Nan Shan Life Insurance.	Approved	N/A

(2) With the exception of the aforementioned items, any issues that are not agreed by the Audit Committee but passed by more than two-thirds of all Directors: No such occurrences.

2. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None.

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3. Communications between the independent directors, the Company's chief internal auditor and CPAs (e.g. the items, methods and results of audits of corporate finance or operations, etc.)

(1) The Company's Audit Committee shall be solely composed of Independent Directors and meetings shall be convened at least once a quarter. Ad-hoc meetings shall be held whenever necessary.

(2) Communication between the chief internal auditor and the Audit Committee:

a. Periodic: Report the findings in audits and the status of improvement on irregularities to the Audit Committee; respond to all questions submitted by the Independent Directors, and enhance the contents of auditing tasks in accordance with their instructions to ensure the effectiveness of the internal control system. Specific items include:

Item	Communication Content	Results
Exercise supervisory functions	Reports to the Audit Committee on irregularities in the audit.	1. The management team is requested to review and assess the upgrade and optimization of the ERP system in response to requirements for future management. 2. Establish standard operating procedures for changes in project performance.

b. Non-periodic: Use telephone, email, or face-to-face communication to communicate discoveries in the audits and how to continuously increase the value of audits. In the event of material violation, the Independent Directors shall be notified immediately.

c. Summaries of communication in 2017:

Date	Communication Content	Results
March 23, 2017	The implementation of audit program for January to March, 2017. The "Statement of Internal Control System" for 2016. The amended "Internal Control System."	The independent directors of the Company have a good communication situation in the implementation of the audit business and the results.
May 4, 2017	The implementation of audit program for April to May, 2017.	
August 10, 2017	The implementation of audit program for June to July, 2017.	
November 9, 2017	The report of internal control defects and irregularities analysis.	
December 21, 2017	The implementation of audit program for August to December, 2017. The 2018 Audit program.	

(3) Communication between the CPAs and the Audit Committee:

a. Periodic: The CPAs shall communicate with the Audit Committee on the audit plan, execution status, and results in the periods before and after the semi-annual and annual audit reports.

b. Non-periodic: Meetings may be arranged in the event that operations or internal controls require immediate communication on related cases.

c. Summaries of communication in 2017:

Date	Item	Communication Content	Results
March 23, 2017	Financial Statement for Year 2016	Consolidated and Unconsolidated Financial Statements for Year 2016	Report the audited adjustments of Year 2016 Financial Statement. We discuss and communicate the applicability of certain accounting principles.
	Key audit items	The impairment evaluation for inventories, accounts	The most important items of Systex Group's 2016 Consolidated Financial

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		receivable, and investments accounted for using the equity method were the key audit items in 2016.	Statements as per the professional judgment of the CPA.
	Adoption of International Financial Accounting Standard (IFRS) 9 in 2018	The financial instruments measured at cost shall be converted to financial instruments measured at fair value and the measurement and classification of the financial instruments shall be reconsidered.	Adoption of IFRS 9 "Financial instruments" in 2018 Share investments previously measured at cost shall be reclassified to profit and loss measured at fair value or other designated financial assets with comprehensive profit and loss measured at fair value.
	Disposal of shares in Shenzhen Forms Syntron Information Co., Ltd.	Forms Syntron is an affiliate with significant influence on financial statements. The current state of transactions is expected to impact profit and loss and the classification in the financial statements of the first quarter of 2018.	SYSTEX expects to complete the disposal of shares in Forms Syntron in the second quarter of 2017 and it shall be disclosed in the financial statements at the end of 2016. Forms Syntron will be reclassified from investment accounted for using the equity method to assets for disposal.
	Plans for the profit and loss of foreign operations	Does the Group have short-term plans for the remittance of cumulative earnings of foreign operations for the allocation of earnings?	Considering the overall utilization plan for funds, the Group has no plan to repatriate the surplus of foreign operating agencies.
	Related SAP prepayment	The subsidiary companies' accounts include related SAP prepayment for the public sector. What are the Company's future sales plans for the prepayments?	The Company performs planned reversals each quarter based on annual plans. If accounts fail to reach annual targets, they are recognized in reserves for losses. In addition, the prepayments are used to purchase licenses to reclassify them as inventories prior to the expiry of contracts and business units shall actively complete the removal.
August 10, 2017	Financial Statements for the Second Quarter Ended June 30, 2017	Consolidated Financial Statements for the Second Quarter Ended June 30, 2017	Report the adjustments of financial statements for the Second Quarter Ended June 30, 2017. We discuss and communicate the newly-announced "Statements on Auditing Standards" and the amendment of decree.

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	<p>Group bonus appropriation and allocation</p>	<p>The Group's bonus is appropriated based on overall profitability and allocated in accordance with consolidated individual salary ratios. However, the actual distribution is affected by the business performances of consolidated individual units which cause discrepancies between the actual distribution amounts and estimated amounts on the accounts.</p>	<p>In the future, prior to account settlement in December each year, the Human Resources Division shall calculate the estimated group bonus of various business units based on their annual profits in order to lower the discrepancies in supplementary withdrawals/reversals after actual distribution. The regulations on the group bonus are also amended to adopt performance as the basis for the estimation and appropriation of the group bonus.</p>
	<p>Impairment and write-off of accounts receivable</p>	<p>The allowance for bad debts in accounts receivable accounts for approximately 4% of total accounts receivable as of June 30, 2017. Should additional measures be taken for such allowance for bad debts?</p>	<p>With regard to allowance for bad debts, if related taxation certification documents cannot be obtained, we plan to remove them from the financial statements but keep them in the taxation reports for management in order to reduce the allowance for bad debts ratio.</p>

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3.4.3 Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies"

Item	Implementation Status			Reason for Non-Implement
	Yes	No	Summary Description	
1. If the Company established and disclosed Corporate Governance Principles in accordance with Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?	V		The Company's "Corporate Governance Best Practice Principles" have been established and disclosed on the company website in accordance with regulations.	None
2. Shareholding Structure & Shareholders' Rights				
(1) If the Company established internal procedures to handle shareholder suggestions, proposals, complaints and litigation and execute accordingly?	V		(1) The Company has established the "Rules and Procedures for Shareholders' Meetings" in accordance with regulations and shareholders may file suggestions in the shareholders' meeting. The Company also established a spokesperson and acting spokesperson system to process shareholder suggestions or disputes.	
(2) If the Company maintained of a list of major shareholders and a list of ultimate owners of these major shareholders?	V		(2) The Company's shareholder agency institute can provide a list of major shareholders that have actual control over the Company and a list of ultimate owners of those major shareholders in a timely manner for the Company to understand its shareholding structure.	None
(3) If risk management mechanism and "firewall" between the Company and its affiliates are in place?	V		(3) The Company has established the "Rules Governing Operations, Business and Financial Matters with Specific Companies, Group Enterprises, and Related Parties" to strictly control and monitor subsidiaries' rights to conduct loans, endorsements, guarantees, and operations in derivatives in order to ensure the enforcement of internal controls and internal auditing for the purpose of risk management and maintenance of a firewall system.	
(4) If the Company established internal policies that forbid insiders from trading based on non-disclosed information?	V		(4) The Company has established "Procedures for Handling Material Internal Information" and educated the internal staff on the restriction of trading securities based on information that has not been disclosed on the market.	

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Item	Implementation Status			Reason for Non-Implement
	Yes	No	Summary Description	
<p>3. Structure of Board of Directors and its responsibility</p> <p>(1) Does the Board of Directors set and implement a diversification policy?</p> <p>(2) If the Company established any other functional committee in addition to Compensation Committee, Audit Committee as required by law?</p> <p>(3) If the Company established methods and procedures to assess the performance of the Board and conduct assessment on annual basis?</p> <p>(4) If the Company assess the independence of CPA periodically?</p>	V	V	<p>(1) The members of the Company's Board of Directors shall be selected for their knowledge, skills, and competencies required for executing their duties based on existing operations and actual requirements in order to enhance the capabilities of the Board of Directors.</p> <p>(2) The Company has established the Remuneration Committee and Audit Committee but no other functional committees.</p> <p>(3) For effective corporate governance and better board performance, the Company has established the "Regulations on Board of Director Performance Evaluation" on August 10, 2017. It was passed in the board meeting and it stipulates an internal performance evaluation for the Board of Directors at once every year. The methods of evaluation include self-evaluation of the Board and functional committees and self-evaluation of the members of the Board. The "Board Performance Evaluation Self-evaluation Questionnaire", "Audit Committee Performance Evaluation Self-evaluation Questionnaire", "Remuneration Committee Performance Evaluation Self-evaluation Questionnaire", "Director Performance Evaluation Self-evaluation Questionnaire", and related self-evaluation questionnaires are implemented to record evaluation results. The results of the 2017 performance evaluation were submitted to the Board of Directors on March 22, 2018. If a score of 80 points is deemed to meet standards, the results of performance evaluation for the Company's Board of Directors, Audit Committee, Remuneration Committee, and individual Directors were all above 80 points, demonstrating the satisfactory overall operations of the Board that is in line with the Company's corporate governance principles.</p> <p>(4) The Audit Committee shall regularly evaluate the independence of the certifying accountant in accordance with its organization regulations. The Company is assessed by the CFO Office in December each year for the</p>	<p>However, the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and related regulations shall apply where there are regulatory or actual requirements.</p>

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Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
			<p>independence of the CPA. Inspections have shown that the appointment of the CPA is not involved in financial interests, financing, guarantees, and close business relations with the Company, non-auditing businesses, or violation of independence of the CPA.</p> <p>In addition, the CPA does not hold any of the Company's shares, nor is the CPA hired by the Company or serves in the Company or a violation of the Certified Public Accountant Act or Article 37 of the Securities and Exchange Act those results in penalty by the Financial Supervisory Commission. After inspections, the Company's certifying accountant has been verified to be in compliance with requirements for independence as specified in the Certified Public Accountant Act and related regulations.</p>	

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Item	Implementation Status			Reason for Non-Implement
	Yes	No	Summary Description	
4. Should the listed company establish a department dedicated to corporate governance on a part-time basis, or assign the responsibility of monitoring corporate governance and related affairs to a person (including but not limited to providing directors and supervisors with the necessary materials for executing their business responsibilities, handling of matters related to the Board of Directors Meeting and the Shareholders' Meeting pursuant to the relevant laws and regulations, handling of company registration and changes in registration status, and Preparation of the meeting minutes of the Board of Directors Meeting and the Shareholders' Meeting etc.)?	V		<p>The CFO Office is in charge of related affairs regarding corporate governance in the Company. The Office has accumulated more than three years of work experience in financial management in public companies.</p> <p>Related corporate governance affairs include supplying information to Directors for the performance of their affairs, assisting Directors in regulatory compliance, organizing shareholders meetings and Board of Directors meetings in accordance with laws, producing meeting minutes, and processing company registration and change of registration.</p> <p>The status of business operations in 2017 was as follows:</p> <ol style="list-style-type: none"> 1. The Office organized 2 courses for Directors to meet the number of course hours recommended in the regulations. 2. The Office was responsible for examining matters related to the release of material information about the important resolutions approved by the Board of Directors to ensure the legality and accuracy of the content of the material information and maintain information symmetry for investor trading. 3. The Office planned the schedules for the meetings of the Board of Directors and the Audit Committee for the year, formulated meeting agenda, assisted the chairmen in convening meetings in accordance with laws, and delivered meeting information and agenda within the required time. 4. The Office processed related affairs in the shareholders meeting in accordance with laws and announces the Procedures Manual, Annual Report, and related information in Chinese and English before the benchmark deadlines specified in the Corporate Governance Evaluation. 5. The Office assisted the implementation of internal performance evaluation for the Board of Directors. 	None

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Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
5. If the Company established communication channel with interested parties (Including but not limited to shareholders, employees, customers and suppliers, etc.) and disclosed key corporate social responsibility issues frequently enquired by stakeholders on the designated area of the corporate website?	V		The Company has established a stakeholder area on the company website and assigned a contact window to be directly responsible for communications with stakeholders. The Company respects and maintains their legal rights and they may contact the Company through telephone or email at any time.	None
6. If the Company engaged professional transfer agent to host annual general shareholders' meeting?	V		The Company has appointed the Department of Stock Affairs at Yuanta Securities Co., Ltd. to process affairs related to shareholders' meetings.	None
7. Information Disclosure (1) If the Company set up a corporate website to disclose information regarding the Company's finance, business and corporate governance? (2) If the Company adopted any other information disclosure channels (e.g., maintaining an English-language website, appointing designated personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?	V V		(1) The Company has established a corporate website. Disclosed information can also be found on the Market Observation Post System. (2) The Company's website is available in Traditional Chinese and English. The Company has designated a unit responsible for the collection and disclosure of company information and implemented a spokesperson system.	None
8. If the Company had other important information to facilitate better understanding of the Company's corporate governance	V		(1) Employee benefits and care: In addition to following the regulations in the Labor Standards Act and related laws, the Company also established an Employee Welfare Committee to provide various subsidies and organize events. Please refer to pages 87-90.	None

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Item	Implementation Status			Reason for Non-implement																																																										
	Yes	No	Summary Description																																																											
practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?			(2) Investor relations: The Company has established a spokesperson and shareholder service department to announce information on behalf of the Company. The Company also established an investor service area on the company website for shareholders to find information on the Company's operating status at any time.																																																											
			(3) Supplier relations and stakeholder rights: The Company maintains good relations as well as open and effective communication channels with suppliers, financial institutions, other creditors, and clients. The Company has established a stakeholder area on the company website and assigned a contact window to be directly responsible for communications with stakeholders. The Company respects and maintains their legal rights.																																																											
			(4) Directors' continued studies:																																																											
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Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
			<p>(6) The implementation of risk management policies and risk evaluation measures: The Company has established the "Risk Assessment Board (RAB)" to review the Company's major transactions to reduce risks. Please refer to pages 177-183 for other risk management policies.</p> <p>(7) Customer protection policy: The Company is an information service company and provides service lines for various service items to protect customer interests.</p> <p>(8) Liability Insurance for Directors: The Company has purchased liability insurance for Directors and managerial officers in 2018 and reported to the Borad Meeting on March 22, 2018.</p>	
<p>9. Please describe the improvements of the corporate governance evaluation results released by the corporate governance center of the Taiwan Stock Exchange Corporation in the last year, and propose priority matters or measures to strengthen areas yet unimproved. (No need to be filled in by companies that were not subject to evaluation).</p> <p>(1) The Company continues to update and optimize related information on corporate governance on the company website to provide investors with the actual operations and corporate governance of the Company.</p> <p>(2) To satisfy foreign investment institutions' demand for English information and to improve the Company's information transparency and international recognition, the Company has provided related information for general shareholders meetings such as meeting notices, Annual Reports, Handbook for Meeting of Shareholders and Meeting Minutes in English since 2017 as references for foreign investors. We seek to increase shareholder attendance rates at shareholder meetings and to ensure that shareholders may exercise their rights at such meetings in accordance with the law. We also began announcing material Information in both Chinese and English simultaneously in 2018.</p> <p>(3) To improve the performance of the Board of Directors, the Company has implemented a Board of Directors Performance Evaluation each year since 2017. Please refer to page 38 for detailed implementation status.</p>				

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3.4.4 Composition, Responsibilities and Operations of the Remuneration Committee

A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title	Name	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks
			An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent director	Huang, Jih-Tsan		V	V	V	V	V	V	V	V	V	V	3	N/A	
Independent director	Cheng, Huang-Yen		V	V	V	V	V	V	V	V	V	V	1	N/A	
Independent director	Cheng, Wen-Feng		V	V	V	V	V	V	V	V	V	V	1	N/A	

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

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B. Attendance of Members at Remuneration Committee Meetings

The Compensation Committee comprised of 3 members.

A total of 3 (A) Remuneration Committee meetings of the Board of Directors were held in the previous period. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) 【 B / A 】	Remarks
Convener	Cheng, Huang-Yen	3	0	100%	
Committee Member	Huang, Jih-Tsan	3	0	100%	
Committee Member	Cheng, Wen-Feng	3	0	100%	

Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.
2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

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3.4.5 Implementation of Corporate Social Responsibility

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
1. Exercising Corporate Governance				
(1) If the Company established corporate social responsibility ("CSR") policy or system and reviewed its implementation and effectiveness?	V		(1) The Company discloses and publicizes related CSR performance results on the corporate website. It also includes corporate governance, customer and supplier relations, employee relations, workplace environment, social welfare, and honest information disclosure related to CSR into the Company's "Employee Code of Conduct," "Internal Material Information Disclosure Operating Guidelines" and review the effects of implementation.	None
(2) If the Company conducted CSR related trainings?	V		(2) The Company organizes the SYSTEX Elite Internship (SEI) program each year to provide youths with training courses and opportunities for actual operations. The program helps recent graduates gain advance knowledge of the environment and culture in their future careers in order to help them adapt to new life in the workplace from life on campus. The Company cultivates youth IT talents to intensify the development of the competitiveness of Taiwan's future technologies, economy, and talents. The Company organizes the programming competition in the Young Turing Program (YTP) to provide resources and encourage Taiwanese youths to join the software industry. Employees actively participated as instructors to educate students by themselves in order to cultivate future software talents for Taiwan.	
(3) If the Company set up a unit exclusively or concurrently to execute CSR policies and if the Board appointed member(s) of management team to supervise and report its implementation status to the Board?	V		(3) The Company's Human Resources Division, Business Management Division, and its Marketing & Corporate Affairs Department are also responsible for advancing and promoting various CSR activities.	
(4) If the Company adopted appropriate remuneration policies, integrated employee performance appraisal with CSR policies, and established a clear and effective incentive and	V		(4) The Company's remuneration policy meets requirements in laws and regulations and is based on a policy of "high performance, high contribution, and high remuneration." The Company also included CSR into the "Systex Corporation and Affiliate Enterprise Employee Code of Conduct" and "Internal Material Information Disclosure Operating Guidelines." For instance, relations	

III. Corporate Governance

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
discipline system?			with customers and suppliers shall comply with anti-corruption values and employees may not accept inappropriate gifts or conduct private sales to become the Company's suppliers. Violations shall be punished in accordance with Work Rules and periodic education shall be adopted to increase employees' recognition and implementation of CSR.	
2. Fostering a Sustainable Environment (1) If the Company endeavored to utilize resources more efficiently and utilized renewable materials which have a lower impact on the environment?	V		(1) a. Paper recycle and destruction procedures: In addition to daily recycling and waste classification, the Company also adopts a waste paper recycling method for paper that do not contain confidential or personal information. Documents with personal or confidential information are periodically gathered to be delivered by a designated transportation company to a contracted professional document destruction plant after approval by the supervisor. The destruction and recycling shall be conducted on site and photographs shall be taken for records to comply with regulations in the Personal Information Protection Act and the environmentally friendly resource recycling principles. b. Processing discarded computers: Contents in media with personal information (such as hard drives) shall be deleted before physical destruction and discarding; computers without hard drives shall be delivered directly to a recycling plant after completion of discarding procedures. c. The Company adopts systematic and digitized forms to replace paper application forms with the goal of reducing produced waste by 10% this year.	None
(2) If the Company established proper environment management system based on the characteristics of the industry where the Company belongs to?	V		(2) SYSTEX is an information service company, there is not applicable ISO 14001 or similar environmental management system validation.	
(3) If the Company monitored the impact of climate change on the Company's business operations, checked greenhouse gas inventory and established corporate strategies on	V		(3)a. Carbon emissions reduction goal: To comply with the government's energy conservation and carbon emissions reduction policy, the Company installed energy efficient equipment and educates employees in taking public transportation in their commute in order to reduce the air pollution and carbon dioxide emissions in Neihu Technology Park. The Company's target is	

III. Corporate Governance

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
energy conservation and reduction on carbon and greenhouse gas emission?			<p>to reduce carbon emissions by 5% this year.</p> <p>b. Energy saving goals:</p> <p>(a)The SYSTEX Neihu headquarters building consumed a total of 5,720,600kWh of electricity in 2017 which was 390,000kWh lower than the electricity consumption of 6,110,600kWh in 2016. The reduction was equivalent to a reduction of 203.58 tons of CO2 emissions and a 6.38% decrease from 2016.</p> <p>(b)The Company adjusted the temperature of the air-conditioning system to above 25 to 26 degrees Celsius. The pumps in the SYSTEX Neihu headquarters building shall all be replaced by variable frequency pumps in 2017 to achieve higher energy savings and lower energy consumption of the chillers. The Company also adjusted the contracted capacity of each building with the goal of reducing carbon emissions by 5% this year.</p> <p>c. Waste reduction goal: The Company educates employees on recycling waste paper whenever possible and adopts systematic and digitized forms to replace paper application forms with the goal of reducing produced waste by 10% this year.</p> <p>d. Water conservation goal: The SYSTEX Neihu headquarters building of the Company installed automatic sensor faucets and adjusted the flush volume of toilets for the purpose of conserving water with the goal of reducing water consumption by 10% this year. The total water fee for 2017 decreased by NT\$119,467 compared with the total water fee for 2016, a reduction of 33.95%, equivalent to a reduction in carbon emissions of 1.54 tons.</p>	
3. Preserving Public Welfare				
(1) If the Company followed relevant labor laws, and internationally recognized human rights principal, and established appropriate management policies and procedures?	V		(1) In addition to following the regulations in the Labor Standards Act and related laws, the Company also established an Employee Welfare Committee to provide various subsidies and organize events. In order to develop employer-employee relationships and foster cooperation, the Company has organized employer-employee meetings in accordance with regulations.	None
(2) If the Company established grievance channel for employees and handled	V		(2) The Company has established an Audit Committee mailbox, President mailbox, Reward and Punishment Committee mailbox, and sexual harassment complaint	

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Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
complaints appropriately?			mailbox for colleagues to file complaints or report on illegal activities.	
(3) If the Company provided safe and healthy working environment to employees and conducted relevant training on safety and health management to employees periodically?	V		(3) The Company conducts a "fire safety equipment inspection report" once every year to ensure the effectiveness of fire safety equipment in the building. The Company also organizes fire safety education and training every six months to enhance the education of fire safety and the management of workplace safety. The Company submits a report on the maintenance of the building every two years to ensure its safety. The Company also appoints general physicians to provide employees with consulting services every two months and educate employees on the correct way of seeking medical treatment. The building is equipped with automated external defibrillator (AED) to respond to sudden cardiac arrests and the Company provides periodic CPR and other first aid education.	
(4) If the Company established a periodical communication mechanism to employees and notified employees of significant changes that may impact the Company's operation in a proper manner?	V		(4) The Company established the SYSTALK Club on Facebook to use the social media to display the Company's related activities and share information. It also uses the platform as a place to exchange opinions. A "Corporate Bulletin Board" is set up on the employee enterprise information portal (EIP) and an internal app for employees is developed to provide related news and information of the Company and event information.	
(5) If the Company provided career planning, relevant training and skill development for employees?	V		(5) Six categories of training are established in the Company's talent development system in accordance with the Company three core competitive strengths (project management, software development and integration, industry knowledge) and structure of job functions. The six categories include basic knowledge, personal performance, quality management, managerial development, technical development, and project management. They are used to cultivate top talents to be optimal IT strategy partners for clients. The Company conducts an inventory of key talents each year, arranges appropriate education plans, and outline personal career development plans in accordance with job requirements. It allows employees to select the most suitable method of learning by providing diversified channels for continuous studies and retain their competitive capabilities.	

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Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
(6) If the Company established any consumer protection measures with regard to the process of research and development, procurement, production, operations and services and its grievance channels?	V		(6) The Company is a leading company in Taiwan's information service industry and it places high value on the protection of consumer rights in procedures including the provision, establishment, management, maintenance and operations of information services. The Company provides comprehensive systems and complaint procedures in accordance with individual requirements based on the operating methods and service procedures derived from the nature of the product and services in order to protect consumer rights. For instance, a customer service center has been established for financial related products and an online service and support center has been established for product and system maintenance to provide high quality support services to clients. The Company also actively introduced international certification and standards such as the ISO 9001 quality management certification, ISO 27001 information security management system, ISO 22301 business continuity management system, BS 10012 personal information management system etc. to enhance information security management and ensure data, system, equipment, and network security as well as personnel security, legal compliance, customer interests, protection of personal information etc.	
(7) If the Company followed relevant laws and regulations and international guidelines on marketing and labeling of products and services?	V		(7) a. The Company's "Information Management and Integration Service Department" received ISO 9001 quality management certification, ISO 27001 information security management certification, ISO 22301 business continuity management system certification, and BS 10012 personal information management system certification; the "Internet Operations Center and Finance Network Service Department" received ISO 27001 information security management certification. b. The design and construction services for government websites provided by the Company all comply with related regulations and international norms such as: the handicap-free web development guidelines, website version and content management regulations, government website construction and operations reference guide, Guidelines in Operation of Web 2.0, and the foreign language self-detection website system. They have also received multiple awards including the administrative institution website contest awards, innovative service quality awards, and website operations	

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Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
<p>(8) Prior to engaging commercial dealings, if the Company assessed whether the supplier had track record o negative impact on the environment and society?</p> <p>(9) If the contracts with major suppliers stipulated a clause that allowed the Company to terminate or rescind the contract at any time shall the suppliers violate CSR policies and cause significant impact to the environment and society?</p>	V		<p>performance review awards.</p> <p>(8) Before conducting business with a supplier, the Company reviews its company registration form, business tax declaration form, and the supplier's basic information form. The Company also searches for related information on the Ministry of Finance and Ministry of Economic Affairs websites to verify whether it has violated related laws or social norms. The Company also periodically conducts investigation and monitoring on suppliers which have been reported as having bad credit to prevent unlawful activities.</p> <p>(9) The Company encourages its suppliers to participate in related CSR activities and comply with related requirements. If the Company learns of a violation by the supplier and is provided with specific evidence, investigations shall commence immediately. If the violation was proven to be true, the supplier shall be required to make improvements within a specified time period; in the event of severe violations, the supplier shall no longer be allowed to conduct business with the Company.</p>	
<p>4. Enhancing Information Disclosure</p> <p>(1) If the Company disclosed CSR report and other relevant information on its corporate website and MOPS?</p>	V		<p>(1) The Company discloses its related CSR information and charitable social events on the corporate website.</p>	None
<p>5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation: N/A</p>				
<p>6. Other material information that helps to understand the operation of corporate social responsibility:</p> <p>(1) Organization of the 2017 "Coding Seeds Camp" (CSC): The Camp is organized for children of customers and employees and offers practical programming courses suitable for elementary school/middle school/university/graduate institute students. The Camp aims to inspire children's interest in software and program and provides the environment and resources necessary for early development of software engineering concepts and programming skills. The process of learning programming develops children's abilities for independent studies, innovation, and practical problem-solving and sows the seeds for future software professionals in Taiwan.</p> <p>(2) 2017 Young Turing Program (YTP): The Program was organized for the purpose of discovering young software talents and uses forces in the private sector to provide resources and encourage Taiwanese youths to join the software industry by teaming up with enterprises in the industry with similar perspective. The Program cultivates brilliant young software talents to achieve breakthroughs in a world where standards have been typically set by the West. They must embrace innovation and entrepreneurship and improve the standards for the Taiwanese software industry to build Taiwan's software power.</p>				

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Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
<p>A. Results of the first YTP:</p> <p>(a) Programming Challenge Camp: Close to 60 students from schools all over Taiwan formed 20 teams of programming experts.</p> <p>(b) Project implementation: Four topics encompassing AI, block chain, and big data were completed:</p> <p>①The use of blockchain technologies to construct a distributed smart contract platform for campus property lease that can process violations.</p> <p>②Sorting Hat Based on Learning Techniques</p> <p>③Design of a blockchain charity donation platform with supervisory functions.</p> <p>④Enhancement of game AI based on reinforcement learning.</p> <p>(c) Overseas visit: Two students were selected to attend the Silicon Valley Innovation Camp.</p> <p>B. Results of the first YTP:</p> <p>(a) Programming Challenge Camp: Close to 90 students from schools all over Taiwan formed 30 teams of programming gurus.</p> <p>(b) Project implementation remains ongoing.</p> <p>(3) The Data for Social Good (D4SG) program: SYSTEX is committed to its operations in the data ecosphere and provided an independent sponsorship of NT\$1 million to assist Taipei City Center for Prevention of Domestic Violence and Sexual Assault in the establishment of the "Domestic Violence Prevention Analysis System" that incorporates big data information and technologies. SYSTEX aims to use information technology to establish early-warning mechanisms for domestic violence and reduce the risks of domestic violence. The system shall first be implemented in Taipei City and its success will be advanced into all areas in Taiwan to protect families. The "Domestic Violence Prevention Analysis System" project has been completed and actual information is used for verification. The Domestic Violence Map assists Social Welfare Departments make decisions and provide early warning to increase the quality of services. System analysis revealed that 50% of domestic violence incidents reported each year was repeated reports. The model is designed to predict the top 18% most severe domestic violence cases for which social workers can actively provide advance consultation to prevent recurrence. The project has entered its second stage in which the system enters online operations. We expect to complete the service promotion plan in 2018 and complete the development of the risk map system.</p> <p>(4) Continue the SYSTEX Elite Internship (SEI): Students are central to the program and the Company provides workplace experience and venues for learning for students to understand the actual operations of the information service industry. The implementation of the program starts by selecting talented students from a large pool of students from various schools and the internship is integrated with company product experience activities and high-level executive practical training courses. Business units also appoint mentors to provide consultation to interns throughout the process and we also arrange for students to visit companies such as Microsoft. Systex builds a platform and the environment for internships to help SYSTEX and customers jointly cultivate talented professionals for the future software industry.</p> <p>(5) SYSTEX sponsored the establishment of "SYSTEX Seminars" at the National Taiwan University of Science and Technology and invites outstanding individuals in the industry to give speeches at schools and interact with the students, thereby seamlessly connecting industry and academia. Enterprises that have participated in the seminars include Google, E.SUN Commercial Bank, Advantech, etc. A total of close to 30 seminars have been held since the launch of the "SYSTEX Seminars" in 2017.</p>				
<p>7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: None.</p>				

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3.4.6 Implementation of Ethical Corporate Management Best Practice Principles

Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
<p>1. Ethical Corporate Management Policy</p> <p>(1) If the Company clearly specified ethical corporate management and process in its internal policies and external document? If the Board of Directors and the management team committed to enforce such policies rigorously and thoroughly?</p> <p>(2) If the Company established any measures to prevent unethical conduct and clearly prescribed the specific ethical management practice including operational procedures, guiding principles, penalties and grievance channels?</p> <p>(3) If the Company adopted any preventive measures against business activities specified in the second paragraph of Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSE Listed Companies or in other business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct?</p>	V		(1) The Company has established the "Ethical Corporate Management Best Practice Principles" to assist the Company in fostering a corporate culture of ethical management and sound development, and offer a reference framework for establishing good commercial practices.	None
	V		(2) The Company has established the "Ethical Corporate Management Operating Procedures and Code of Conduct" for the employees to maintain principles of honesty and integrity when conducting business and abide by laws and regulations while complying with professional code of conduct. The Company also established the "Employee Code of Conduct" to convert the Company's business ideals and values into institutionalized regulations.	
	V		(3) The "Employee Code of Conduct" was established for the employees to abide by laws and regulations, comply with professional code of conduct, and maintain principles of honesty and integrity when conducting business.	

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Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
2. Implementation of Ethical Corporate Management				
(1) If the Company checked whether the respective counterparty holds any record of unethical misconduct and if the contract terms required the compliance of ethical corporate management policy?	V		(1) Before conducting transactions, the Company shall assess the legitimacy of the transaction counterparty and consider whether it has prior records that are unethical. The Company maintains business ideals of honesty and integrity and it has established sound corporate governance and risk management mechanisms to be implemented in internal management and external business activities.	None
(2) If the Company set up a unit, under the direct supervision of the Board of Directors, to handle the implementation of ethical corporate management and reported to the Board of Directors periodically?	V		(2) The Company's various functional departments promote ethical corporate business ideals and supervise one another through organizational arrangements. The Audit Division is responsible for day-to-day implementation of various internal auditing tasks and the results of audits are reported to the Board of Directors.	
(3) If the Company established a policy on prevention of conflict of interests, provided appropriate reporting channel and executed rigorously and thoroughly?	V		(3) The Company has established a stakeholder area on the company website and assigned a contact window to be directly responsible for communications with stakeholders. The Company respects and maintains their legal rights and they may contact the Company through telephone or email at any time. The email of the Audit Committee is also established on the company website as a channel for stakeholders to provide suggestions or file complaints.	
(4) If the Company established an effective accounting system and internal control system to implement ethical corporate management, and if internal auditing department or CPA conducted periodic auditing?	V		(4) The Company established its accounting system and internal control system in compliance with regulations. The Audit Division established the Enforcement Rules of Internal Auditing and uses the Rules to implement and evaluate the current control systems, the effectiveness of procedures, and the compliance system. The Audit tasks mainly include audit plans approved by the Board of Directors as well as project auditing or review in accordance with requirements. The internal audit and review of the self-inspections conducted by various units and results of comprehensive	

III. Corporate Governance

Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
(5) If the Company organized training and awareness programs on ethical corporate management to internal and external parties?	V		self-inspections are reported to the Board of Directors as evaluation of the effectiveness of the overall internal control system and the basis of the submission of the Statement of Internal Control System. (5) The Company conducts education and training for employees and announces the "Employee Code of Conduct" on the Company's internal website. The Company also notifies each employee through mail each month to remind them to abide by laws and regulations, comply with professional code of conduct, and maintain principles of honesty and integrity when conducting business.	
3. Implementation of whistleblowing system (1) If the Company established a whistleblowing and reward system? Upon receiving a reported case, is there a dedicated personnel handling the reported case?	V		(1)The Company has established channels for filing internal complaints. If an employee learns of another employee's violation of the Employee Code of Conduct or any actions that could potentially conflict with company interests, he/she may email detailed information to the President's or the Audit Committee's mailbox. Dedicated personnel shall be responsible for processing and all complaints shall remain completely confidential. Verification shall be conducted through independent channels to protect the individual reporting the violation.	None
(2) If the Company established standard operational procedures and relevant information confidentiality policy for investigation of reported cases?	V		(2) The Company has established the "Employee Code of Conduct" and provides complete confidentiality for whistleblowers and reported items.	
(3) If the Company established any measures for protecting whistleblowers from inappropriate disciplinary actions?	V		(3) The company protects the identity of whistleblowers from inappropriate treatment and threats that may arise from the report.	
4. Information Disclosure (1) If the Company disclosed ethical corporate management policy	V		(1) The Company discloses its ethical business policies in the internal regulations, corporate website, and annual reports.	None

III. Corporate Governance

Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
and its status of implementation via corporate website or Market Observation Post System?				
<p>5. If the Company established any guideline of ethical business conduct in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies", please state the implementation status of the guideline and any reasons for non-implementation? There have been no differences.</p>				
<p>6. If any other information that helped to understand the operation of ethical business conduct and its implementation?</p> <p>(1) The Company's "Rules and Procedures for Board of Directors Meetings" stipulates a recusal system for avoiding conflict of Directors' interests. Directors shall uphold a high level of self-discipline and in the event of a conflict of interest as Director or as a representative of an institutional entity with respect to a specific matter on the agenda that could potentially damage company interests, the Director may not take part in the discussion and voting processes nor represent any other Director during voting.</p> <p>(2) The Company's "Internal Material Information Disclosure Operating Guidelines" established regulations on the confidentiality of confidential information obtained in business activities to prevent inappropriate leaks of information.</p>				

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3.4.7 Corporate Governance Guidelines and Regulations

Please refer to the Company's website at www.systemex.com.

3.4.8 Other Important Information Regarding Corporate Governance

A. The Company has established the "Internal Material Information Disclosure Operating Guidelines" to prevent inappropriate disclosure when the Company's Directors, managerial officers or employees process or disclose material information and maintain consistency and accuracy in disclosure of information. The main contents are:

- (a) Applicable targets, scope of internal material information, and entities responsible for implementation.
- (b) Operating procedures for keeping internal material information confidential.
- (c) Operating procedures for disclosing internal material information.
- (d) Processing irregularities and violations.

The "Internal Material Information Disclosure Operating Guidelines" have been passed by the Company's Board of Directors in a resolution and announced on the Company's internal website.

To implement the Company's spokesperson system and confidentiality of internal material information, the Company has established the "Internal Material Information Disclosure Operating Guidelines" and the "Internal Material Information Confidentiality Firewall Operating Guidelines" which are also announced on the Company's internal website.

B. Other Important Information Regarding Corporate Governance: please refer to pages 41-44 of "Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" " No.8.

III. Corporate Governance

3.4.9 Internal Control System Execution Status

A. Statement of Internal Control System

Please refer to page 41 of the Chinese annual report.

B. If CPA was Engaged to Conduct a Special Audit of Internal Control System, Provide Its Audit Report: None.

3.4.11 Lawful punishment inflicted on the Company, and/or disciplinary action taken by the Company against its employees for violating internal regulations in the latest year and up to the printing date of this Annual Report); important errors committed; and correction and improvement procedures:

Important errors committed: Mr. Jhong is the general manager of Evergrow Securities Investment Consultant Co., Ltd. SYSTEX paid the advance payment to Mr. Jhong for the service contract. The authority considered the payment to be a loan, and violated Article 36(1) of the "Securities Exchange Act." and Article 3 of the "Regulations Governing Lending of Funds and Making of Endorsements/ Guarantees by Public Companies." SYSTEX's representative was taken charge of a fine of NT\$240,000 by the authority on February 26, 2018.

Correction and improvement procedures: SYSTEX recovered the advance payment on June 21, 2016 and restated the monthly disclosures of Loans to Others from December 2013 to December 2016, also restated the consolidated and unconsolidated financial statements from the fourth quarter of 2013 to the fourth quarter of 2016 on January 8, 2016.

3.4.10 Major Resolutions of Shareholders' Meeting and Board Meetings

A. Important resolutions from the annual shareholders' meeting on June 16, 2017 and current status:

- (a) Ratified the business report and the financial statements for 2016.
- (b) Ratified the earnings distribution proposal for 2016.
- (c) Approved the proposal for distributing cash dividend from the Company's Capital Surplus.
- (d) Approved the amended "Procedures for the Acquisition and Disposal of Assets."

Review of the current status of the implementation of resolutions:

- (a) The 2016 earnings distribution proposal and the proposal for distributing cash dividend from the Company's Capital Surplus have been carried out and all dividends have been distributed to shareholders on July 26, 2017 after the resolution in the annual shareholders' meeting.
- (b) The amended "Procedures for the Acquisition and Disposal of Assets " have come into force after approval of the annual shareholders' meeting.

B. Important resolutions of Board meetings in 2017 and during the current fiscal year up to the date of publication of the annual report:

(a) January 23, 2017:

- i. Approved the disposal of shares in Shenzhen Forms Syntron Information Co., Ltd.
- ii. Approved the subsidiary Systex Capital Group, Inc.'s loans to subsidiary Systex Solutions (HK) Ltd.

(b) March 23, 2017:

- i. Approved the "Statement of Internal Control System" for 2016.
- ii. Approved the amended "Internal Control System."
- iii. Approved the business report and the financial statements for 2016.
- iv. Approved the 2016 earnings distribution proposal.
- v. Approved the proposal for distributing cash dividend from the Company's Capital Surplus.
- vi. Approved the 2016 employee remuneration distribution plan.
- vii. Approved the 2016 Director remuneration distribution plan.
- viii. Approved the amended "Procedures for the Acquisition and Disposal of Assets."
- ix. Approved the proposed calling of 2017 general shareholders' meeting.
- x. Approved the Company's financing loan credit line contract with financial institutions.
- xi. Approved the endorsement guarantee for Systex Group (China) Ltd.

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- xii. Approved the amended regulations on salary and remuneration of managerial officers.
 - xiii. Approved the review results of managerial officers for the second half of 2016 and the calculation and distribution of non-financial indicator bonuses.
 - xiv. Approved the distribution of year-end bonus, group performance reward and employee remuneration, excess profit bonus and annual remuneration for managerial officers for 2016.
 - xv. Approved the 2017 KPI settings and remuneration structure for managerial officers.
- (c) April 17, 2017:
- i. Approved the cancellation of agreement for transfer of shares of Shenzhen Forms Syntron Information Co., Ltd.
- (d) May 4, 2017: None.
- (e) August 10, 2017:
- i. Approved the amended consolidated operating budget for 2017.
 - ii. Approved the proposed endorsement guarantee for Systex Software & Service Corp.
 - iii. Approved the established "Regulations on Board of Director Performance Evaluation."
 - iv. Approved the performance target setting, achievement status, and content and amount of salary compensation for managerial officers in the first half of 2017.
- (f) November 9, 2017:
- i. Approved the endorsement guarantee for Systex Ucom (Shanghai) Information Co., Ltd.
 - ii. Approved the amended "Audit Committee Charter."
 - iii. Approved the amended "Rules of Procedure for Board of Directors Meetings."
 - iv. Approved the amended "Rules Governing the Scope of Powers of Independent Directors."
- (g) December 22, 2017:
- i. Approved the 2018 Audit program.
 - ii. Approved the consolidated operating budget for 2018.
 - iii. Approved the Company's financing loan credit line contract with financial institutions.
 - iv. Approved the endorsement guarantee for Systex Solutions Corporation.
 - v. Approved the endorsement guarantee for Systex Group (China) Ltd.
 - vi. Approved the changed business address of Fuxing Branch.
 - vii. Approved the increased capital by cash through subsidiaries for Syscore Corp.
 - viii. Approved the redeemed of Fuh Hwa Legend Fund VI and then invest in Fuhua Investment Trust New Private Equity Fund.
 - ix. Approved the transferred Corporate Bonds of Nan Shan Life Insurance.
- (h) March 22, 2018:
- i. Approved the "Statement of Internal Control System" for 2017.
 - ii. Approved the amended "Internal Control System."
 - iii. Approved the business report and the financial statements for 2017.
 - iv. Approved the 2017 earnings distribution proposal.
 - v. Approved the proposal for distributing cash dividend from the Company's Capital Surplus.
 - vi. Approved the 2017 employee remuneration distribution plan.
 - vii. Approved the 2017 Director remuneration distribution plan.
 - viii. Approved the proposed calling of 2018 general shareholders' meeting.
 - ix. Approved the amended consolidated operating budget for 2017.
 - x. Approved the invested in Fuhua Investment Trust Private Equity Fund by Syscore Corp. and Ching Pu Investment Corp. of SYSTEX's subsidiaries.
 - xi. Approved the merged of Ucom Information Ltd. (Shanghai) to Systex Information (Shanghai) Ltd.
 - xii. Approved the Audit Division's organization of the company's organizational structure.
 - xiii. Approved the review results of managerial officers for the second half of 2017 and the calculation and distribution of non-financial indicator bonuses.

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xiv. Approved the distribution of year-end bonus, group performance reward and employee remuneration, excess profit bonus and annual remuneration for managerial officers for 2017.

xv. Approved the 2018 KPI settings and remuneration structure for managerial officers.

(i) May 3, 2018:

i. Approved the amended "Internal Control System."

ii. Approved the Company's financing loan credit line contract with Citibank (Taiwan).

iii. Approved the endorsement guarantee for Systex Group (China) Ltd.

iv. Approved the endorsement guarantee for Systex Ucom (Shanghai) Information Co., Ltd.

3.4.12 Major Issues of Record or Written Statements Made by Any Director or Independent Director Dissenting to Important Resolutions Passed by the Board of Directors: None.

3.4.13 Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D: None.

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3.5 Information Regarding the Company's Audit Fee and Independence

Audit Fee

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche Accounting Firm	Lin, Shu-Wan	Shue, Shioh-Ming	2017.01.01~2017.12.31	

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000,000			V	
2	NT\$2,000,00 ~ NT\$4,000,000				
3	NT\$4,000,00 ~ NT\$6,000,000		V		V
4	NT\$6,000,00 ~ NT\$8,000,000				
5	NT\$8,000,00 ~ NT\$10,000,000				
6	Over NT\$100,000,000				

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Subtotal	Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others				
Deloitte & Touche Accounting Firm	Lin, Shu-Wan	5,500	-	-	-	150	150	2017.01.01~2017.12.31		
	Shue, Shioh-Ming									

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3.6 Information Regarding the Replacement of CPA

3.6.1 Regarding the former CPA

Replacement Date	January 1, 2016		
Replacement reasons and explanations	The internal adjustment of accounting firms.		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties	CPA	The Company
	Status		
	Termination of appointment	N/A	N/A
	No longer accepted (continued) appointment	N/A	N/A
Other issues (except for unqualified issues) in the audit reports within the last two years	Modified unqualified opinion The financial statements of part of investments accounted for using equity method are based solely on the reports of the other auditors.		
Differences with the company	Yes		Accounting principles or practices
			Disclosure of Financial Statements
			Audit scope or steps
			Others
	None	V	
	Remarks/specify details:		
Other Revealed Matters	None		

3.6.2 Regarding the successor CPA

Name of accounting firm	Deloitte & Touche Accounting Firm
Name of CPA	Lin, Shu-Wan; Shue, Shioh-Ming
Date of appointment	January 1, 2016
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement.	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

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3.7 Audit Independence

If the chairman, president, and financial or accounting manager of the Company who had worked for the independent auditor or the related party in the most recent year, the name, title, and the term with the independent auditor or the related party must be disclosed: None.

3.8 Changes in Shareholding of Directors, Managers and Major Shareholders

Title	Name	2017		As of April 17, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	Huang, Tsong-Jen	-	-	-	-
Director/ President	Lin, Lung-Fen	-	-	(50,000)	-
Director/ Chief Strategy Officer	Cheng, Deng-Yuan	(45,000)	-	-	-
Director	Lu, Ta-Wei	(350,000)	-	-	-
Director	Shaw, Shung-Ho	24,000	-	-	-
Director	Hsieh, Chin-Ho	-	-	-	-
Director	Huang, Ting-Rong	-	-	-	-
Director	Huang, Chi-Rong	-	-	-	-
Director	Joway Investment Co., Ltd	-	-	-	-
Director Representative	Lin, Chih-Min	-	-	-	-
Director Representative	Huang, Yi-Shiung	-	-	-	-
Independent Director	Huang, Jih-Tsan	-	-	-	-
Independent Director	Cheng, Huang-Yen	-	-	-	-
Independent Director	Cheng, Wen-Feng	-	-	-	-
Vice President/ CFO	Chung, Chih-Chun	-	-	-	-
Senior Vice President	Yang, Shih-Chung	-	-	-	-
Senior Vice President	Fan, Jee-Der	(171,000)	-	(10,000)	-
Senior Vice President	Su, Kou-Lin	-	-	-	-
Vice President	Chang, Huang-Yu	-	-	-	-
Vice President	Yeh, Chen-Min	(39,000)	-	(30,000)	-
Vice President	Chang, Ying-Chin	-	-	(4,000)	-
Vice President	Lin, Wen-Kuei	(42,000)	-	-	-
Vice President	Tang, Yin-Soon	-	-	-	-
Accounting Manger	Cheng, Yuan-Yih	-	-	-	-
Vice President/ CHO	Huang, Yu-Jen (Note)	-	-	-	-
Vice President	Hsiao, Wei-Chun (Note)	-	-	-	-
Vice President	Wu, Wen-Shuen (Note)	N/A	N/A	-	-
Vice President	Pan, Tieh-Yi (Note)	N/A	N/A	-	-

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Title	Name	2017		As of April 17, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President	Tao, Yea-Kuan (Note)	N/A	N/A	-	-
Chief Audit Executive	Tsai, Chun-Hsiung (Note)	N/A	N/A	-	-
Vice President	Huang, Chun-Chieh (Note)	-	-	N/A	N/A
Vice President	Lee, Su-Yue (Note)	-	-	N/A	N/A
Major Shareholder	None	N/A	N/A	N/A	N/A

Note: Huang, Yu-Jen and Hsiao, Wei-Chun took office in 2017.03, Pan, Tieh-Yi, Wu, Wen-Shuen and Tao, Yea-Kuan took office in 2018.01, Tsai, Chun-Hsiung took office in 2018.04, Huang, Chun-Chieh left in 2017.02 and Lee, Su-Yue was dismissal in 2018.01. (The increase or decrease in the number of shares held by the above-mentioned persons is the change before or after the expiry.)

3.8.1 Shares Trading with Related Parties

Name	Reason for Transfer	Date of Transaction	Transferee	Relationship between Transferee and Directors, Supervisors, Managers and Major Shareholders	Shares	Transaction Price (NT\$)
Director Lu, Ta-Wei	Given	2017.05.15	Hung, Tsai-Ling	Spouse	350,000	N/A

3.8.2 Shares Pledge with Related Parties: None.

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3.9 Relationship among the Top Ten Shareholders

As of April 17, 2018

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Joray Co., Ltd. Chairman: Lai, Yung-Sung	23,072,559	8.56	-	-	-	-	-	-	
Hanmore Investment Corp. Chairman: Wu, Cheng-Huan	21,316,678	7.91	-	-	-	-	-	-	
Huang, Tsong-Jen	20,755,750	7.70	2,008,634	0.75	-	-	Ching Pu Investment Corp. Asiavest Capital Co., Ltd.	Chairman Chairman	
Ching Pu Investment Corp. Chairman: Huang, Tsong-Jen	12,981,476	4.82	-	-	-	-	Huang, Tsong-Jen	Chairman	
Chunghwa Post Co., Ltd. Chairman: Weng, Wen-Chi	10,784,000	4.00	-	-	-	-	-	-	
Yu Yeh Investment Corp. Chairman: Wan, Chia-Chen	7,108,000	2.64	-	-	-	-	-	-	
Asiavest Capital Co., Ltd. Chairman: Huang, Tsong-Jen	3,500,000	1.30	-	-	-	-	Huang, Tsong-Jen	Chairman	
ISHARES Emerging Markets Dividend ETF	2,724,000	1.01	-	-	-	-	-	-	
Vanguard Emerging Markets Stock Index Fund	2,600,000	0.97	-	-	-	-	-	-	
Norges Bank	2,467,700	0.92	-	-	-	-	-	-	

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3.10 Ownership of Shares in Affiliated Enterprises

Unit: shares/ % As of December 31, 2017

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
Kimo.com (BVI) Corp.	28,500,000	100.0	0	0	28,500,000	100.0
System Capital Group, Inc.	3,550	100.0	0	0	3,550	100.0
Ching Pu Investment Corp.	126,151,931	100.0	0	0	126,151,931	100.0
System Software & Service Corp.	54,450,000	100.0	0	0	54,450,000	100.0
Taifon Computer Co., Ltd.	20,000,000	100.0	0	0	20,000,000	100.0
Golden Bridge Information Corp.	23,000,000	100.0	0	0	23,000,000	100.0
System Solutions Corp.	26,000,000	100.0	0	0	26,000,000	100.0
Concord System Management Corp.	20,221,673	100.0	0	0	20,221,673	100.0
Nexsys Corp.	19,995,000	100.0	0	0	19,995,000	100.0
Naturint Ltd.	2,000,000	100.0	0	0	2,000,000	100.0
ETU Corp.	9,682,000	84.2	505,000	4.4	10,187,000	88.6
Hanmore Investment Corp.	9,640,680	48.9	0	0	9,640,680	48.9
Systemweb Technologies Co., Ltd.	2,450,000	33.3	0	0	2,450,000	33.3
Mohist web technology Co., Ltd.	300,000	30.0	0	0	300,000	30.0
FinRobo Advisor Securities Investment Consulting Co., Ltd.	1,500,000	30.0	0	0	1,500,000	30.0
System Infopro Co., Ltd.	20,000	20.0	0	0	20,000	20.0
Sanfran Technology Inc.	2,114,594	13.8	0	0	2,114,594	13.8
Syspower Corp.	900,000	4.5	15,914,470	79.6	16,814,470	84.1

Note: Affiliated enterprises have been invested by equity method.

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

A. Issued Shares

As of April 17, 2018

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
2016/01	10	400,000,000	4,000,000,000	268,733,304	2,687,733,040	Employee options exercised: NT\$1,450,000	-	
2016/03	10	400,000,000	4,000,000,000	269,393,304	2,693,933,040	Employee options exercised: NT\$6,200,000	-	

B. Type of Stock

As of April 17, 2018

Type of Stock	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Shares	269,393,304	130,606,696	400,000,000	None

C. Information for Shelf Registration : None.

4.1.2 Composition of Shareholders

As of April 17, 2018

Type of Shareholders \ Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	3	113	38,611	199	38,927
Shareholding (shares)	315,000	12,642,000	92,034,504	127,028,828	37,372,972	269,393,304
Holding Percentage (%)	0.12	4.69	34.16	47.16	13.87	100.00

IV. Capital Overview

4.1.3 Distribution of Shareholding

A. Common Shares

As of April 17, 2018

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	21,074	5,356,118	1.99
1,000 ~ 5,000	14,572	28,953,484	10.75
5,001 ~ 10,000	1,758	13,768,558	5.11
10,001 ~ 15,000	461	5,885,192	2.18
15,001 ~ 20,000	315	5,825,998	2.16
20,001 ~ 30,000	238	6,058,681	2.25
30,001 ~ 50,000	193	7,727,652	2.87
50,001 ~ 100,000	136	9,855,046	3.66
100,001 ~ 200,000	75	10,821,156	4.02
200,001 ~ 400,000	43	12,181,552	4.52
400,001 ~ 600,000	14	7,072,277	2.63
600,001 ~ 800,000	8	5,675,842	2.11
800,001 ~ 1,000,000	8	7,087,364	2.63
1,000,001 or over	32	143,124,384	53.12
Total	38,927	269,393,304	100.00

B. Preferred Shares: None.

4.1.4 Major Shareholders

As of April 17, 2018

Shareholding Shareholder's Name	Shares	Percentage (%)
Joray Co., Ltd.	23,072,559	8.56
Hanmore Investment Corp.	21,316,678	7.91
Huang, Tsong-Jen	20,755,750	7.70
Total	65,144,987	24.17

IV. Capital Overview

4.1.5 Market Price, Net Book Value, Earnings, and Dividends per Share

Unit: NT\$

Items		Year		2016	2017	Current year to March 31, 2018
Market Price per Share	Highest Market Price	Diluted		62.00	70.00	64.70
		Adjusted		62.00	70.00	-
	Lowest Market Price	Diluted		46.20	56.20	56.30
		Adjusted		46.20	56.20	-
	Average Market Price	Diluted		55.11	61.71	61.03
		Adjusted		55.11	61.71	-
Net Book Value per Share	Before Distribution			51.74	49.88	55.31
	After Distribution			51.74	49.88	-
Earnings per Share	Weighted Average Shares			246,074,153	245,983,453	245,983,453
	Earnings Per Share	Diluted		4.50	4.79	1.36
		Adjusted		4.50	4.79	-
Dividends per Share	Cash Dividends			5.00	5.00	-
	Stock Dividends	Dividends from Retained Earnings		-	-	-
		Dividends from Capital Surplus		-	-	-
	Accumulated Undistributed Dividends			-	-	-
Return on Investment	Price / Earnings Ratio (Note 1)			11.99	12.63	-
	Price / Dividend Ratio (Note 2)			10.79	12.11	-
	Cash Dividend Yield Rate (Note 3)			9.27%	8.26%	-

Note 1: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 2: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 3: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

IV. Capital Overview

4.1.6 Dividend Policy and Implementation Status

A. Dividend policy under the Articles of Incorporation

In accordance with the overall environment and the industry's characteristics of growth as well as the Company's long-term financial plans for sustainable and stable development, the Company has adopted a residual dividend policy, which requires that annual funding requirements based on the Company's future capital budget plans are duly assessed and that required funding in earnings is retained before residual earnings are distributed as dividend. The distribution procedures are as follows:

- (1) The optimal capital budget is determined.
- (2) The amount of capital required to satisfy the capital budget in Paragraph (1) is determined.
- (3) The amount of funding required for financing to be supported by the retained earnings (the remaining can be supported through cash capital increase or corporate bonds etc.) is determined.
- (4) An appropriate amount of the residual earnings shall be retained in accordance with operational requirements before dividends are distributed to shareholders.

The Company distributes dividends through cash or stocks and cash dividends are prioritized. If dividends are distributed in stocks, the stock dividends shall not exceed 50% of the total dividends issued in the current year. The distribution of dividends may be dependent on the Company's current and future investment environment, funding requirements, domestic and foreign competition, and capital budgets while taking into consideration shareholder interests, balanced dividends, and the Company's long-term financial plans. The Board of Directors shall formulate dividend distribution methods or related options in accordance with the law and submit them to the shareholders' meeting for discussion and resolution.

B. Implementation status

- (1) The 2017 annual shareholders' meeting resolved to distribute NT\$942,876,564 in 2016 earnings and NT\$404,089,956 in capital surplus. Based on the 269,393,304 shares in external circulation, each share shall receive a cash dividend of NT\$5, the smallest unit of which is one dollar of the common currency (NT\$), decimals excluded.
- (2) The 2016 earnings distribution and cash dividend from capital reserve have been distributed to shareholders on July 26, 2017.

IV. Capital Overview

C. The proposal for the distribution of 2017 profits for 2018 Annual Shareholders' Meeting

SYSTEX Corporation
Earnings Distribution Proposal
December 31, 2017

Unit: NT\$

Items	Amount	
	Subtotal	Total
Beginning unappropriated earnings		1,563,116,825
Adjustment for investments accounted for using equity method	(2,484,994)	
Remeasurement on net defined benefit plan	(29,482,000)	
Add: Net income of 2017	1,177,748,998	
Earnings available for distribution		2,708,898,829
Distribution items		
Legal reserve	(117,774,899)	
Special reserve	(388,833,163)	
Cash dividends (NT\$2.5/per share)	(673,483,260)	
Total distribution		(1,180,091,322)
Ending unappropriated earnings		1,528,807,507

Chairman	Huang, Tsong-Jen
President	Lin, Lung-Fen
Accounting Manager	Cheng, Yuan-Yih

4.1.7 Employee Bonus and Directors' Remuneration

A. Information Relating to Employee Bonus and Directors' Remuneration in the Articles of Incorporation:

In the event the Company makes a profit during the fiscal year it shall set aside no less than 0.1% of the profits for employee remuneration. The remuneration for Directors shall be no higher than 2%. However, priority shall be given to reservation of funds for compensation of cumulative losses, if any.

The preceding employee remuneration may be paid in cash or shares, and shall be payable to employees of subsidiary companies who meet the requirements stipulated by the Board of Directors. Remuneration of directors as specified above may be distributed in cash only.

IV. Capital Overview

- B. The basis for estimating employee and director remuneration amounts, basis for calculating the number of shares to be distributed as employee remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated amount, for the current period:
In the event of a material change to the distributed amount in the Board's decision after the end of the year, adjustment that reflect the change shall be made to the originally allocated annual expenses.
- C. Remuneration proposals approved by the Board of Directors:
- a. Remuneration of employees and Directors shall be paid in cash or stock. In case of any discrepancy between the amounts and the amortized estimates for the year, the differences, reasons, and responses shall be disclosed:
The Company's Board of Director's meeting on March 22, 2018 has approved the resolution to distribute NT\$1,215,848 as employee remuneration and NT\$24,316,970 as Directors remuneration for the year 2017.
- b. Amount of employee remuneration distributed in the form of stocks, as a percentage of the net income after taxes provided in the standalone or consolidated financial statements of the current period, and as a percentage of total employee remuneration:
Not applicable as no employee remuneration has been distributed in the form of stocks in the year 2017.
- D. Discrepancies, if any, between actual distribution of employee and Directors remuneration (including the number of shares distributed, amount and stock price) and the recognized remuneration of employees and Directors and disclosure of the differences, reasons and responses:
- a. Actual distribution status of employee and Directors remuneration: The Company's Board of Directors resolved on March 23, 2017 to distribute NT\$1,101,742 in employee remuneration and NT\$22,034,836 in remuneration for Directors. There were no discrepancies between the distributed amount and the amount recognized in the financial report.
- b. In case of any discrepancy between the proposed and recognized amounts of employee and director remuneration, the differences, reasons, and responses shall be disclosed: Not applicable.

4.1.8 Buyback of Treasury Stock: None.

4.2 Corporate Bonds: None.

4.3 Preferred share: None.

4.4 Global Depository Receipts: None.

4.5 Employee Stock Options: None.

4.6 Issuance of New Restricted Employee Shares: None.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.8 Financing Plans and Implementation: None.

V. Operation Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Main business activities

(1)F113050	Wholesale of Computing and Business Machinery Equipment	(25)F399040	Retail Business Without Shop
(2)F118010	Wholesale of Computer Software	(26)F601010	Intellectual Property
(3)F113070	Wholesale of Telecom Instruments	(27)IE01010	Telecommunications Number Agencies
(4)F113020	Wholesale of Household Appliance	(28)I103060	Management Consulting Services
(5)F113110	Wholesale of Batteries	(29)JE01010	Rental and Leasing Business
(6)F119010	Wholesale of Electronic Materials	(30)I401010	General Advertising Services
(7)E605010	Computing Equipments Installation Construction	(31)IZ99990	Other Industry and Commerce Services Not Elsewhere Classified
(8)JA02010	Electric Appliance and Audiovisual Electric Products Repair Shops	(32)J304010	Book Publishers
(9)J399010	Software Publication	(33)F401021	Restrained Telecom Radio Frequency Equipments and Materials Import
(10)IG02010	Research Development Service	(34)J303010	Magazine and Periodical Publication
(11)I599990	Other Designing	(35)J305010	Audio Tape and Record Publishers
(12)JZ99050	Agency Services	(36)J201031	Technique and Performing Arts Training
(13)F113030	Wholesale of Precision Instruments	(37)I501010	Product Designing
(14)E603050	Cybernation Equipments Construction	(38)I199990	Other Consultancy
(15)F401010	International Trade	(39)CC01101	Restrained Telecom Radio Frequency Equipments and Materials Manufacturing
(16)I301010	Software Design Services	(40)F108031	Wholesale of Drugs, Medical Goods
(17)I301020	Data Processing Services	(41)F208031	Retail sale of Medical Equipments
(18)I301030	Digital Information Supply Services	(42)CC01110	Computers and Computing Peripheral Equipments Manufacturing
(19)F213030	Retail sale of Computing and Business Machinery Equipment	(43)CC01120	Data Storage Media Manufacturing and Duplicating
(20)F218010	Retail Sale of Computer Software	(44)CC01060	Wired Communication Equipment and Apparatus Manufacturing
(21)F209060	Retail sale of Stationery Articles, Musical Instruments and Educational Entertainment Articles	(45)CC01030	Electric Appliance and Audiovisual Electric Products Manufacturing
(22)G902011	Type II Telecommunications Enterprise	(46)CC01080	Electronic Parts and Components Manufacturing
(23)E701010	Telecommunications Construction		
(24)F213060	Retail Sale of Telecom Instruments		

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(47)CB01010	Machinery and Equipment Manufacturing	(69)F106020	Wholesale of Articles for Daily Use
(48)C701010	Printing	(70)F107030	Wholesale of Cleaning Preparations
(49)C703010	Printings Bindery and Processing	(71)F107070	Wholesale of Animal Medicines
(50)F113010	Wholesale of Machinery	(72)F108040	Wholesale of Cosmetics
(51)IZ13010	Internet Identify Services	(73)F110010	Wholesale of Clocks and Watches
(52)EZ05010	Apparatus Installation Construction	(74)F110020	Wholesale of Spectacles
(53)E701030	Restrained Telecom Radio Frequency Equipments and Materials Construction	(75)F114030	Wholesale of Motor Vehicle Parts and Supplies
(54)E601010	Electric Appliance Construction	(76)F116010	Wholesale of Photographic Equipment
(55)F102170	Wholesale of Food and Grocery	(77)F117010	Wholesale of Fire Fighting Equipments
(56)F104110	Wholesale of Cloths, Clothes, Shoes, Hat, Umbrella and Apparel, Clothing Accessories and Other Textile Products	(78)F203030	Retail Sale of Ethanol
(57)F105050	Wholesale of Furniture, Bedclothes Kitchen Equipment and Fixtures	(79)F206010	Retail Sale of Ironware
(58)F109070	Wholesale of Stationery Articles, Musical Instruments and Educational Entertainment Articles	(80)F206020	Retail Sale of Articles for Daily Use
(59)F203010	Retail sale of Food and Grocery	(81)F206050	Retail of pet food and appliances
(60)F204110	Retail sale of Cloths, Clothes, Shoes, Hat, Umbrella and Apparel, Clothing Accessories and Other Textile Products	(82)F207030	Retail Sale of Cleaning Preparations
(61)F205040	Retail sale of Furniture, Bedclothes, Kitchen Equipment and Fixtures	(83)F207070	Retail Sale of Animal Medicine
(62)F208050	Retail Sale of the Second Type Patent Medicine	(84)F208040	Retail Sale of Cosmetics
(63)F102020	Wholesale of Edible Oil	(85)F210010	Retail Sale of Watches and Clocks
(64)F102040	Wholesale of Nonalcoholic Beverages	(86)F210020	Retail Sale of Spectacles
(65)F102050	Wholesale of Tea	(87)F213010	Retail Sale of Household Appliance
(66)F102180	Wholesale of Ethanol	(88)F213110	Retail Sale of Batteries
(67)F103010	Wholesale of Animal Feeds	(89)F216010	Retail Sale of Photographic Equipment
(68)F106010	Wholesale of Ironware	(90)F219010	Retail Sale of Electronic Materials
		(91)F301010	Department Stores
		(92)I301040	the third party payment
		(93)ZZ99999	All business items that are not prohibited or restricted by law, except those that are subject to special approval.

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B. Revenue Mix

- (a) Sales of computer software and hardware: 72%.
- (b) Services revenue and other operating revenue: 28%.

C. Main products and Services

SYSTEX employs innovative technologies in strategic applications and high quality services to provide professional services to vertical industry applications such as the finance industry, telecommunication industry, technology manufacturing, healthcare, retail and distribution industry, government agencies and the transportation industry as well as integration with different platforms and IT infrastructure construction. The Company utilizes its broad knowledge in the field and international organization as well as collaboration capabilities to become the first choice long-term IT partner for enterprises and a leading IT service provider. SYSTEX positions itself as the strategic partner of its customers and views customer success as an integral part to its own accomplishments. In addition to providing customers with the most advanced information technology service, the company also helps customers improve their operation procedures, increase productivity, and integrate information technology in order to continuously create value for customers.

At the same time, SYSTEX shall continue to actively strengthen project management ability, software development, and integrate core capabilities in domain knowledge, and persist in the research, development, and innovation of its strategic transition in order to build a sustainable and stable foundation for the company's growth. In the future, SYSTEX shall continue to offer enterprise clients one-stop IT services with access to more valuable services that are customer-oriented and service-oriented. The company shall also utilize its advantages in superior technology applications, service capacity, industry knowledge, and actual experience to help customers succeed and to share with them the glory of mutual growth and prosperity.

SYSTEX's current products and services primarily include the following:

(a) Intelligent Finance:

SYSTEX entered the securities information service sector in 1989 and gained access to the international market through collaboration with Reuters in 2000. The company has extensive experience in constructing inter-regional/currency/product information and transaction platforms. SYSTEX has developed three core capabilities in "content, platform, and networks" and four major areas of expertise including quotation information, trading, operation, wealth and risk management (ITOM) to satisfy the comprehensive demands of financial clients and professional investors. The company's main business include investment and financial information in securities, futures, warrants, bonds, bills, and foreign exchange, and the product quotation and purchasing transaction systems. In recent years, the company has expanded to cloud-based financial services in overseas transactions, mobile and big data applications in the finance industry, investor community management, and other FinTech innovations.

(b) New Retail and O2O Service:

SYSTEX provides outsourced statement printing and segment marketing services multiple, card payment applications, and e-government system services. Primary services include: e-commerce platform development, maintenance, and operations services, e-government and related mobile services, corporate mobile applications and retail, mobile payment in consumer-oriented business opportunities, banking and insurance IT services, data processing and social community advertisement, multi-payment billing, O2O customer guidance services, electronic coupon businesses. The company also provides high-value IT outsourcing services for enterprises and

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government agencies including IT equipment maintenance and operations, and network added-value services. We also provide a large-scale call center service, high-end data center and other diverse services.

(c) Data Technology Products and Services:

The company provides comprehensive IT basic structure products and added-value services (server, storage, software, security, database, network, application) that are integrated into availability, security, automation, performance (ASAP) solutions. SYSTEX remains the best partner for corporate one-stop shopping from the construction of information technology infrastructure to the design of application software information systems for construction and operations management. SYSTEX also distributes world-class application software to provide corporate clients with customized and strong software procurement plans and the company delves deep into solutions for industry applications to help corporate clients grasp IT trends and develop innovative applications to increase profits, reduce costs and monetize data. In addition, the company also provides complete and comprehensive professional IT on-job education training courses and online courses, based on customer requirements.

D. New Products Planned for Development

To provide customers with IT services and vertical solutions of the highest quality in the industry, SYSTEX continues to expand R&D resources and conduct new business strategic investment to achieve vertical integration and horizontal expansion in the industry and continue the momentum for innovation. SYSTEX 's new products (services) under development and distribution are as follows:

- (a) Big data and cloud platform management services for the finance industry.
- (b) Cloud service platform for the securities and futures industry.
- (c) "Robo-Advisor ONE" chat bot wealth management consultant.
- (d) New finance terminal transaction platform & Finance Service platform for financial industry.
- (e) The Platform of Responsive Web Design in Government website.
- (f) Interactive electronic statements.

5.1.2 Industry Outlook

A. Use IT innovation as a force for advancing corporate digital transformation

SYSTEX has focused on using data to develop IT values, continued to use the three strategies including new economic transformation, innovative software technology development, investment, merger and licensing alliances, and developed related technologies for the five new economic issues including the cloud, social, mobile, analytics, and cybersecurity. The Company integrates and promotes new industries, product portfolios, and business models to focus on businesses with potential for greater profits and greater advancements. In addition to active investments in 2017, the company also hopes to maintain existing core capabilities and scale of revenue and profits to advance steadily towards our strategic goals. The highest management principles shall be to uphold the interests and values of the Company, employees, and shareholders. In future customer market services, the company shall provide long-term services to vertical industry applications such as the finance industry, telecommunication industry, manufacturing, health care, retail industry, government agencies and integration with professional services in different platforms and IT infrastructure construction to become the first choice long-term IT partner for enterprises.

B. Industry Trends

New technology development and IT application innovations in recent years are mainly concentrated on the following sectors: mobile applications, big data, and social media. The global economy recovery

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advances IT system upgrade and growth of the IT service market. The IT service market in Taiwan is dominated by the demand for system integration services from large-scale enterprises and government agencies in the public sector. As major enterprises rush to develop their global markets, they must expand IT software/hardware, update legal compliance protocols, and maintain existing systems. Information system solutions also require adjustment after consolidation of corporate organizations. The market scale is expected to grow from the NT\$166 billion in 2017 to NT\$177.5 billion in 2020 with an annual growth rate of approximately 2.5%.

New information technologies are not only current global trends but also important items that lead the growth of Taiwan's information service industries. The survey conducted by the Institute for Information Industry (III) on Taiwan's top 101 corporations indicates that the top five most important new technologies for enterprises are virtual services, information security, mobile applications, big data storage, and cloud services. The focus of IT services shall also be on how to satisfy demands of corporate users under all conditions and environments. The transmission and implementation of information shall also be integrated in a more effective manner. The keys to projecting full IT power and accurately obtaining profits thus include the appropriate use of environmental awareness capabilities and omnipresent analytical skills. Therefore, the five major new economy issues including the cloud, social, mobile, analytics, and cybersecurity as well as various cloud, IoT, big data, mobile security, and corporate software applications are expected to form the main demand of companies in Taiwan.

In the software market in Taiwan, risk management, cloud computing, International Accounting Standards, and the Personal Information Protection Act have become the main factors in driving market growth in recent periods. Looking ahead, the development of cloud computing, big data, social media, and mobile applications shall continue to mature. As large-scale companies and the public sector become more willing to adopt these technologies, the market shall also continue to grow. The market scale is expected to grow from the NT\$71 billion in 2015 to NT\$85.5 billion in 2020 with a compound annual growth rate of approximately 43.8%. In addition, embedded software including software embedded in IoT devices, sensors, industrial automation equipment, and telecommunication equipment shall also grow due to the advancement of IoT applications. Set software for the general market including productivity software, gaming software, mobile apps, and video editing software that rely on mobile applications shall also maintain growth. Corporate solutions including application software, information security, database, and development tools shall also experience small-scale growth.

C. Industrial Market Analysis

(a) Intelligent Finance:

SYSTEX has constructed an investment platform in China, Hong Kong, and Taiwan. It also owns integrated financial information across platforms and markets in the world's most important market. Looking ahead in 2018, we shall continue to provide investors with much needed international investment and wealth management systems and work with international finance IT operators to provide instantaneous information services across different markets. We shall build global transaction networks to lower investors' investment cost for global transactions.

With the advancement in FinTech (financial technology), the financial institutions will accelerate their digital transformation with rapid FinTech development as smart finance, smart banks, and big data digital marketing take over the market. SYSTEX shall continue to assist financial institutions in their digital transformation and integrate big data and analysis capabilities to construct comprehensive digital finance services, develop omni-channel, cross-channel, and cross-device services to create consistent experience.

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(b) Intelligent Retail:

The future market shall be more digital and more mobile. The electronic statements and mobile applications are important areas of SYSTEX 's operations in the retail market. Customers will use electronic statement and mobile payment en masse to cut costs and lower restrictions. The market opportunities for interactive electronic statements, video electronic statements, LBS discount information services, mobile payment, and mobile discount coupons would therefore be increased. Based on cloud services, SYSTEX shall continue to expand the mobile business sector with mobile payment at its core to the High Speed Rail, gas stations, parking lots, hypermarkets, supermarkets, catering, education and entertainment.

(c) Data Technology Products and Services:

The next-generation communication standards involve using 5G to build new network applications. The leading mobile telecommunication operators of the future 5G network construction and services in Europe, the United States, and Asia such as Verizon, AT&T, NTT DoCoMo, KDDI, and SoftBank, etc. will continue conducting field tests in preparation for 5G commercialization in 2018 to 2020 at the earliest. This evolution in communications technology is expected to trigger new Internet applications and create further sales opportunities for related hardware/software equipment.

Industry 4.0 spearheaded the business opportunities for restructuring corporate information structures and connects various equipment, control systems, and sensing devices to the corporate information platform environment. Corporate information network structure may become more complicated and fragmented and cause overlaps in IT and OT (operation technology) systems which is expected to generate business opportunities in new types of "corporate diagnosis," "structure design," and "system reorganization."

The DDos attacks that hit domestic securities firms in early 2017, the WannaCry ransomware attack in mid-2017, and the SWIFT system hacking in a domestic bank at the end of year demonstrated that traditional information security protection is insufficient for protecting corporate assets. Only adaptive security architecture can construct an operations center that can continue to provide security for modern enterprises.

D. Relationships with suppliers in the industry's supply chain

SYSTEX plans software licensing options and provides services based on customer requirements and budget. The Company seeks to become a leading brand with the most industrial value in the knowledge economy in the progress of advancing digitalization for the finance, telecommunication, retail and logistics, manufacturing industry, and other customer groups with requirements. SYSTEX shall provide customers with services including system planning, software deployment, education, training, and technical support service. Upstream firms include: information software/hardware providers or distributors such as Microsoft, HP, Serena, BMC, SAP, and Oracle. Downstream firms consist mainly of the finance industry, telecommunication industry, e-commerce, retail and logistics industry, manufacturing, government authorities and schools etc.

E. Product trends and competition

Due to the changes in the structure of the industry, the overall political and economic environment, regulatory systems, the overall IT service market in Taiwan has been affected. As companies continue to relocate overseas and IT firms fail to provide differentiated products and services, the price competition in the industry has become increasingly severe. As certain IT firms retain limited technical capabilities and do not hold pricing advantages under the intense competition on the market, large-scale service providers with quality IT services gradually expanded the gap between them and the small and medium ones.

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5.1.3 Research and Development

R & D Expenses for current year

Unit: NT\$ thousands

Year	2017	As of March 31, 2018
R & D Expenses	440,821	106,914

The Company's technologies and R&D consist mainly of integration of business applications and important results include: Please refer to page 64 of the Chinese annual report.

5.1.4 Long-term and Short-term Development

A. Intelligent Finance:

(a) Short-Term Development Plan

(1) Providing the Service Capacity for Assisting Digital Transformation for the Finance Industry

The Company has launched the smart wealth management service tool, Line@Wealth Management Secretary and "Robo-Advisor ONE" chat bot wealth management consultant and it will target business development opportunities in related technology services for smart banks, smart wealth management, mobile insurance, and mobile payment.

(2) Strengthening Information Content

The Company shall continue the intensification of the depth of the information of the entire product line and enrich added-value content to effectively segregate market competition. The Company shall actively work with companies from different sectors and foreign companies to provide high added-value services.

(3) Create Value with Integration

The Company shall integrate multiple financial product information and provide comprehensive transnational and inter-market one-stop service to satisfy customer demands in financial markets in China, Hong Kong, Taiwan, and various domestic and foreign markets.

(4) Develop New Business Requirements

SYSTEX shall continue to develop existing customer groups and uncover requirements for new types of businesses in order to assess whether to conduct independent R&D or import solutions from international brands.

(b) Long-Term Development Plan

(1) Intensify Customer Relations and Comprehensive Services

The Company shall establish account sales teams to take charge of processing the demand of large-scale corporate customers and gain full control of the customers' budgets.

(2) Increase Market Share in Asia Pacific through Comprehensive Group Performance

SYSTEX shall construct comprehensive financial service systems to complete the construction of financial transaction networks in Greater China to achieve the three channels in financial transactions (commissions, matchmaking, and information exchange) through consolidated operations in the securities and futures as well as banking and insurance.

B. Smsrt Retail:

(a) Short-Term Development Plan

(1) Enhance Core Capabilities and Market Management

The Company shall conduct training for professional businesses and technical personnel based on the key operations of each department while integrating the sales plans and professional

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technologies of related products.

(2) Electronic Statements Integration and Platform Services

In addition to shoring up existing customers, the Company also actively participates in stand-alone operating tenders and marketing through personalized colored statements to provide differentiated services.

(3) Segment Marketing and Channels

SYSTEX shall increase the depth and breadth of segment marketing and use bank clients participation to facilitate closer integration of the brand, channels, and member companies with banks through SYSTEX's hks Promotions app communication platform.

(4) Mobile Promotion Information Platform Service

SYSTEX provides reservation services for various chain stores and credit card promotion information. In the future, the Company shall integrate mobile membership cards, restaurant reservation, mobile payment, and electronic invoices into a one-stop service.

(5) Develop Consumer-Oriented IT Services

SYSTEX develops mobile payment tools to expand the use of mobile devices to electronic wallets or credit cards. The mobile tablets of sales representatives can be developed into points of sale (POS) and mobile apps developed for cash flow allows customers to complete a purchase simply by scanning the barcode. Products can also be quickly delivered.

(b) Long-Term Development Plan

(1) Retail Cloud Service Integration

The Company focuses on the development of the cloud environment, Omni Channel, data integration, and added-value services in CRM software.

(2) Become the Optimal Comprehensive IT Service Partner for Distribution and Retail Industry

Cultivate customers and adopt the SaaS model to create recurring revenue. Actively develop payment, retail, data processing, and finance/insurance solutions for O2O, consumer product development, mobile payment, consumer product distribution, and data management sectors.

(3) Cross-Sector Integration of Electronic Statements

SYSTEX shall become a comprehensive service provider for printed and electronic statements and data processing for mobile services. It shall increase the integration of insurance policies and the color personalization, digitalization, and mobilization of statements.

C. Data Technology Products and Services:

(a) Short-Term Development Plan

(1) Increase Customer Value

The Company shall establish a comprehensive customer consultation and support service system to increase maintenance or consulting service items and create recurring revenue.

(2) Enhance Core Capabilities and Market Management

① Integrate industrial market demand to develop or introduce innovative industrial solutions and develop new customer and markets.

② Target middle to large-scale corporate customers and expand market share.

(3) Expand Sales and Market Competitiveness

The Company shall participate in IT tenders in public construction and procurement projects to expand customer scale. SYSTEX shall establish SOPs for obtaining municipal land administration maintenance projects and websites to continue to expand the gap between SYSTEX and competitors. The Company shall also establish service models for direct sales to rapidly increase market share.

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(4) Cloud and Mobile Product Development

SYSTEX shall increase revenue and margins through the promotion of cloud and mobile products and solutions, distribution of new software, and enhancement of tier two products. Office 365 and Microsoft Azure remain the backbone in sales and technical installation services of cloud-based total solutions.

(5) Build Distribution Partnerships

SYSTEX shall consolidate partnerships with downstream distributors and system integrators and become their indispensable and high-quality business partner. The Company shall also build professional division of labor and a collaboration model of group sales through exchanges of market information, new technical advances, and updates on corporate users. In addition to providing information security services, the Company shall also assist companies in addressing information security risk management to achieve the goal of corporate sustainability.

(6) Establish Comprehensive Professional Certification Training Center

SYSTEX provides over 400 comprehensive professional education, training, and international certification courses to meet different demands for enhancing professional skills in different stages. With the rising awareness in cybersecurity in recent years, SYSTEX has planned a series of comprehensive courses on cybersecurity to satisfy the demand for talented cybersecurity professionals.

(b) Long-Term Development Plan

(1) Build Competitive Advantages

SYSTEX shall continue to enhance core capabilities and actively provide the latest cybersecurity incidents and cybersecurity protection information. SYSTEX shall also provide customers on both sides of the Strait with authorization services and technical know-how of the highest quality.

(2) Win Government ITO Service Opportunities

The Company focuses on: Demand in software/hardware equipment replacement, integrated account single login services, equipment transfer services, data center performance adjustment/shared structure services, maintenance contracts, and increased value.

(3) Upgrade IT Application Management Plan

The Company shall construct IT application management procedures (SOP, SOW, and contract) and supplier certification system and assessment plans to increase the geographical scope of the services and enhance the installation and maintenance capabilities for large-scale system deployment projects as well as to increase the turnkey contracting capabilities for non-specialty projects and to effectively lower the cost and management risk of expansion.

(4) Win Business Opportunities in Energy Conservation

In response to trending issues such as energy conservation and carbon emissions reduction induced by global warming and to lower corporate operating costs, the Company target large-scale directly managed chain retailers with high electricity consumption and long hours of operations and provides chain service industries with energy-saving management services.

(5) Develop smart Services to Build a Business Model for Services Supported by Products

The Company shall assist enterprise in building sustainable and secure operations centers and provided analytical services based on machine learning and protection system structure assessment and consulting services.

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5.2 Market, Production and Sales Outlook

5.2.1 Market Analysis

A. Region Revenues

Area	Domestic	Overseas	Total
Sales percentage	77%	23%	100%

B. Future Market Supply and Demand and Future Growth

The following trends will have material impact in 2018:

- (a) The growth in the global IT service market continues to stabilize as cloud services and big data applications continue to take center stage. IoT and AI applications will become the momentum for the next wave of growth. The scale of the global IT service market is set to grow from US\$877.5 billion in 2017 to US\$1.22 trillion in 2020 with a compound annual growth rate (CAGR) of 4.6%.
- (b) According to the "mobile payment survey" conducted by the Market Intelligence & Consulting Institute (MIC) of the Institute for Information Industry in the fourth quarter of 2017, 77% of smartphone users are willing to start or continue to use mobile payment.
- (c) The advancement of 4G/5G infrastructure will expedite the development of business opportunities in related applications.

C. Market Share

- (a) SYSTEX ranks first in Taiwan in quotation information services:
 - (1) The system is adopted by over 1,000 service outlets of securities firm and it has a market usage rate of over 90%.
 - (2) It is adopted by most professional futures firms in Taiwan and has a market share of over 95%.
 - (3) SYSTEX provides banks and firms with complete international financial information for securities, futures, warrants, bonds, bills, and exchange rates with a top market share.
 - (4) The Company also provides foreign futures firms with fully integrated information service systems for quotation, transactions, and accounts and it retains a market usage rate of over 90%.
- (b) The electronic securities/futures/options business transaction system developed by SYSTEX has been adopted by more than 30 financial institutions and remains the product with the highest market share in Taiwan.
- (c) Mobile finance information services - iWow integrated SYSTEX's finance quotation system and accumulated 30,000 registered members after the new update in 2017.
- (d) SYSTEX has 12 service centers across Taiwan and employs over 400 professional engineers and it is the largest IT service provider in Taiwan. SYSTEX also obtained tenders for land administration maintenance projects in 18 municipalities with a market share of 75%.
- (e) SYSTEX is the largest data processing and outsourced print service provider. Its market share is over 80% in telecommunication and over 60% in financial institutions and banks.
- (f) SYSTEX is the Microsoft Licensing Solution Provider (LSP) with the largest market share in Taiwan. Its market share in commercial software is between 10% and 50%.
- (g) SYSTEX's Knowledge Product Business Unit is the technical education and training center that offers the most authorized courses from international brands with over 400 comprehensive professional information education and training courses. SYSTEX is one of the few education and training centers with high-level and exclusive courses.

D. Favorable Developments, Unfavorables Factors and Countermeasures

SYSTEX adopts project execution performance and customer satisfaction report mechanisms to ensure customer satisfaction. The Company also proposes improvement plans based on customer opinions to

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continue to provide better services with higher value for customers. In addition, the Company has actively adopted strategic investment, acquisition, mergers, and other external growth strategies to facilitate group operations.

SYSTEX provides competitive niches in the following products and services:

(a) Intelligent Finance:

(1) Favorable Developments

- ① Due to the rapid development of FinTech, demand for smart wealth management, big data applications, digital marketing platforms, and related technologies have increased by several folds.
- ② The Company has actual experience with Taiwan securities and futures firms that can satisfy multiple customer requirements in China.
- ③ The Company also collaborates with professional international finance and securities brokers to enhance the expansion of the transaction and information platform.
- ④ The Company retains R&D teams with professional knowledge in technologies and finance.
- ⑤ The Company provides transaction platforms for domestic and international securities, futures, warrants, bonds, bills, and foreign exchange as well as front/middle/back-stage finance solutions.
- ⑥ The Company has distributed renowned world-class software for long periods of time and has built a professional brand in the industry.

(2) Unfavorable Factors

- ① Taiwan's domestic market is reaching the point of saturation as market competition intensifies and product variation decreases.
- ② International brand awareness requires improvement.
- ③ There are numerous competitors in the international financial information market and most have finance-related backgrounds.

(3) Countermeasures

① Continue to expand markets in China and Taiwan

The Company shall target investment requirements of investors in four stock markets in China, Hong Kong, and Taiwan, gain real-time information in these markets, and provide comprehensive and a diversity of quotation combinations.

② Enhance R&D and Strategic Transition

- i. The Company shall comply with industry requirements and regulations in launching various financial products and information services in order to create differentiation to satisfy requirements of individual customers.
- ii. In response to the coming of the internationalized product transaction era, the Company shall focus on the development and applications of different product transaction platforms.
- iii. The Company has established the "Big Data R&D Division" to integrate big data analysis and interactive technologies and continue to advance various new tools and solutions.
- iv. The Company shall continue to provide finance and corporate service mobilization plans and services to expedite the digital transformation of financial institutions.

(b) New Retail Omni-channel Multi-payment Options:

(1) Favorable Developments

- ① As the domestic catering distribution service industry develops, business opportunities will increase in stored value services and financial mobile payment.
- ② SYSTEX has completed the development of the hks Promotions app. It now has over 1 million

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downloads and it continues to provide business opportunities in mobile media and applications by increasing precision marketing and purchase guidance services.

- ③ SYSTEX was the first to introduce applications of robot development in different industries and we work with international AI developers to retain the lead in technology integration capabilities.
- ④ The Company has had numerous successful cases in the development of customized software and operations of e-commerce websites on behalf of customers. We have established best practice principles that bring in more business opportunities.
- ⑤ Demands for outsourcing corporate information services will continue to climb and related software/hardware equipment installation and maintenance services will continue to grow.

(2) Unfavorable Factors

- ① Difficulties in growth volume of statement notification letters are mainly due to changes in regulations on shareholder services, increase in postage fees, environmental protection trends, and digital finance services.
- ② Original manufacturers' direct involvement in outsourced marketing services compress room for growth.
- ③ Competitors continue to lower prices for equipment maintenance in order to obtain market share, which has led to the reduction of gross margins.

(3) Countermeasures

- ① The Company develops its own interactive products and provides differentiated added-value services. We integrated existing interactive electronic statements and mSense electronic statements to lower the impact of electronic statements on revenue.
- ② SYSTEX employs AI technologies to develop different applications for different industries and provides new services and solutions.
- ③ The Company expands the customer base for maintenance contracts to increase chances for signing contracts. The Company shall also expand the sales of equipment to increase market share and increase the technical capabilities of maintenance staff to construct comprehensive solutions.

(c) Data Technology Products and Services:

(1) Favorable Developments

- ① SYSTEX is Taiwan's largest information service provider and it is financially sound. The Company has numerous successes in various industries. SYSTEX maintains excellent relations with international vendors and distributors. It also enjoys high brand recognition in the market and has become an important IT services supplier for customers.
- ② SYSTEX remains the best partner for corporate one-stop shopping from the construction of information technology infrastructure to the design of application software information systems and comprehensive services for construction and operations management. The Company distributes a wide range of products and our customers lead their respective industries in terms of overall economic scale.
- ③ SYSTEX has accumulated over ten years of extensive experience in cybersecurity technologies and actual experience. It retains comprehensive solutions, multiple product lines and technical support teams.

(2) Unfavorable Factors

- ① The market in Taiwan is saturated and the intense price competition in the industry lowers profits.

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- ② The recent global economic downturn has continued to shrink the domestic IT service market as customers' budgets decreased and it became increasingly difficult to sustain growth.
- ③ The IT budget accounts for a low proportion of total national budget. It is lower than international standards and mostly used on hardware. Political uncertainties in recent years have led to delays and cuts in budget.
- ④ Vendors direct involvement in outsourced marketing services compress room for growth.
- ⑤ The variation in the features of cybersecurity products and solutions is gradually declining and it leads to lower profit margins. Due to the variation in customers' business models, the introduction of solutions requires high levels of customization that extends the time required for project introduction.

(3) Countermeasures

- ① The Company shall introduce related products of original manufacturers for service integration and improving competitive advantages to provide more comprehensive solutions and technology integration.
- ② SYSTEX actively seeks alliances with competitors to quickly expand markets through integration in professional sectors.

5.2.2 Key Product Applications and Manufacturing Processes:

Please refer to pages 69 to 70 of the Chinese annual report.

5.2.3 Supply of Essential Raw Materials: N/A

5.2.4 Key Suppliers and Customers in 2017 & 2016:

A. Key Customers: There are not any customers for more than 10% of the total sales in 2017 & 2016.

B. Key Suppliers:

Unit: NT\$ thousands

Year	2016			2017			As of March 31, 2018		
	Amount	Percentage of Total Purchase (%)	Relationship with Issuer	Amount	Percentage of Total Purchase (%)	Relationship with Issuer	Amount	Percentage of Total Purchase (%)	Relationship with Issuer
Supplier									
Company A	3,405,981	33	None	3,451,062	29	None	739,949	37	None
Others	7,002,734	67		8,539,636	71		1,327,401	63	
Total	10,408,715	100		11,990,698	100		2,121,350	100	

5.2.5 Production in 2017 & 2016: SYSTEX is the Information Service Company, it's not applicable.

5.2.6 Shipments and Revenue in 2017 & 2016

Unit: NT\$ thousands

Year	2016		2017	
	Domestic	Overseas	Domestic	Overseas
Item				
Net sales	8,412,151	3,217,554	9,098,220	2,996,644
Service revenue	3,822,331	692,212	3,866,535	840,294
Other operating revenue	62,186	3,946	68,564	4,022
Total	16,210,380		16,874,279	

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5.3 Human Resources

Year		2016	2017	As of March 31, 2018
Number of Employees	Sales & Market	495	486	505
	Technician	1,136	1,120	1,135
	Programmer	930	925	949
	Administration	359	376	378
	Total	2,920	2,907	2,967
Average Age		37	37	37
Average Years of Service		7.1	7.3	7.3
Education	Ph.D.	0.07%	0.10%	0.10%
	Master	12.13%	12.04%	12.10%
	University & College	81.23%	80.88%	80.55%
	High School	6.29%	6.74%	7.01%
	Below High School	0.28%	0.24%	0.24%

5.4 Information on Environmental Protection Costs

The Company's main businesses include information services, sales and other services of computer software, hardware, and related equipments. It is not a factory and therefore does not pollute the environment.

5.5 Labor Relations

Harmonious labor and management relations are the foundations of corporate development. The Company's labor and management relations throughout the years have always been harmonious and stable as well as conducive to mutual prosperity. The Company dedicates itself to improving employee benefits, salary, and work environment and to maintain open communication channels between staff and management. The hard work of all employees and their demonstration of personal talents allow employees and the Company to grow together and create a better future together.

The Company processes various recommendations from employees in an appropriate manner to create constructive consensus and facilitate cooperation between staff and management. The Company therefore has no labor and management disputes.

The Company's employee benefits for studying, training, the pension system and its implementation status as well as labor agreements and employee rights maintenance measures are as follows:

5.5.1 Welfare measures for employees

- A. The Company has established an Employee Welfare Committee in accordance with regulations to organize dinner parties, tours, clubs, and other activities to improve the work environment and quality of life. In addition, the Company also provides various benefits for employees' work, health, and family life:
 - (a) The Company provides a more favorable leave program than the Labor Standards Act.
 - (b) The Company has established badminton courts, a gym, shower rooms, and nursing room and appointed professional massage therapists to provide employees with free massage services.
 - (c) The Company provides regular health exams for employees.
 - (d) The Company has established employee cafeteria and coffee shop to provide diverse catering options and places to relax.

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- (e) The Company provides laundry and delivery services at discount prices.
- (f) The Company has constructed parking lots for use by all employees after filing applications.
- (g) The Company encourages employees to establish clubs and subsidizes club funding.
- (h) Employees enjoy promotional prices for products of the Group.
- (i) The Company organizes employee events and tours from time to time to enrich employees' leisure life and promote friendship.
- (j) In addition to the legally required labor and health insurance, the Company also provides employees with group insurance. The group insurance is paid for by the Company and employees' family members can also pay for additional coverage.

5.5.2 Training and Career Development

The Company values talent cultivation and the advancement of employee expertise. The Company has systematic designs and provides employees with education development plans. Employees can participate in external training and professional license tests as well as comprehensive training courses planned by the Company in accordance with the Company's organizational strategy, job function models, and work requirement. The courses include onboarding, personal performance, management development, project management, and technical development. In addition, the Company has also established comprehensive "Employee Training Development Management Regulations" to encourage employees to participate in a variety of studies and courses for which the Company provides subsidies. At the same time, the training and development are incorporated into the performance management system to motivate employees to maximize their performance to accomplish the Company's goals.

SYSTEX has introduced a comprehensive "Performance Management & People Development (PMPD) System" where employees can use the Individual Development Plan (IDP) to discuss the learning and development plan for the following year with the supervisor during the annual performance review to provide customized performance development plans.

A total of 3,407 employees participated in the physical training courses (excluding digital learning courses) hosted by SYSTEX in 2017 and the total training time exceeded 19,000 hours. In addition, there were 580 instances of employee participation external professional training courses which accounted for a total of 9,460 training hours. The training programs provided by the Company include:

- A. Foundation Training Programs: To help new recruits integrate into the organization, each new partner is required to attend foundation training programs when entering the organization. The training includes physical courses and online courses for new recruits and the contents include corporate culture, organization overview, and regulations.
- B. Management Development Programs: To enhance the management skills of supervisors, the Company has designed diverse management development training courses for different levels of managers in order to increase the leadership and management skills of supervisors and ensure the effective performance of the organization (e.g. the Strategy and Consensus Camp, recruitment skills, performance management etc.).
- C. Project Management Programs: To improve project efficiency and enhance the project management capabilities of employees, the Company has established systematic project management training courses and PM Workshops as well as subsidies for professional certification examinations to implement project management in daily lives and create corporate value.
- D. Technical Development Program: The program focuses on software development and integration capabilities and the Company has established ten major technology research institutes to continue the introduction of new technologies and organization of technical research camps to effectively cultivate talented technical personnel.

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- E. Personal Effectiveness Programs: To help employees increase work efficiency and implement organization talent strategies for high performance and high contribution, the Company arranges diverse personal performance courses (e.g. customer relations, marketing seminars, presentation skills, time management, communication efficiency etc.) in the annual plan in accordance with requirements for job functions.
- F. Sales & Marketing Program: The Company periodically provides information on the Company's latest products and services to related marketing and sales personnel to strengthen marketing and sales capabilities.

In addition to physical courses, the Company also established a comprehensive "Learning Management System (LMS)" to assist employees develop core expertise quickly through automated information system. We also use Facebook Live Stream, WebEx video systems, and other digital technologies to allow employees to enhance their capabilities without time or space constraints. There are over 100 digital courses in the Digital Learning Programs for employees to choose from and the ten categories include New Employees Area (Company Introduction, Corporate Culture, Organization Environment and System Introduction, Workplace Safety, Employee Code of Conduct etc.), Quality Management (Comprehensive Quality Management), Management Development (Goal Setting, Performance Evaluation, Guidance, Leadership and Encouragement, Creating Advantages through Reform etc.), Personal Performance (Advanced Word/Excel Applications, EQ Management, Time Management etc.), Sales and Marketing (Sales Presentation Formulation, Product Introduction etc.), Project Management (Project Scheduling, Project Risk Management, Leadership of Project Managers etc.), Technical Development (Introduction to Software Development and Maintenance, Construction Management, How to Formulate Test Plans and Test Projects etc.), Safety and Health, System Operations, and Human Resources.

5.5.3 Retirement System

The Company's retirement regulations are implemented in accordance with regulations of the Labor Standards Act and Labor Pension Act.

A. Labor Standards Act (old system):

- (a) The Company has established the Supervisory Committee of the Labor Retirement Reserve in accordance with regulations. The labor retirement reserve fund is appropriated each month in accordance with the "Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds" to the Committee's dedicated account at the Bank of Taiwan.
- (b) Employee retirement application: Where the employee attains the age of fifty-five and has worked for fifteen years, where the employee has worked for more than twenty-five years, or where the employee attains the age of sixty and has worked for ten years, the employee may apply for voluntary retirement.
- (c) Employee pension payment: The monthly average salary of the employee authorized for retirement shall be adopted as the standards for calculating employee pension base unit. Two base units are given for every full year of service. Those having served over 15 years are given one base unit for each full year of service and the total number of base units shall be no more than 45. Length of service is calculated as half year when it is less than six months; Length of service is calculated as one year when it is more than six months. However, employees who face mandatory retirement due to the performance of duties specified in Article 54 of the Labor Standards Act shall receive an additional 20% for their pension in accordance with the requirement.

B. Labor Pension Act (new system): The Company appropriates 6% of the employee's salary to the dedicated personal pension account established by the Bureau of Labor Insurance in accordance with the "Monthly Contribution Wages Classification of Labor Pension".

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5.5.4 Working Environment and Protective Measures for Employees' Personal Safety

The Company has established a labor safety and health management agency and the Labor Safety and Health Committee in accordance with the "Regulations on the Management of Labor Safety and Health Organization." Meetings are convened each quarter to implement affairs related labor safety and health. The Company implements access management for the security of the building. It established a central surveillance system staffed by 24-hour security personnel. The Company conducts fire safety exercises every six months and annual "fire safety equipment inspection and reports" in accordance with fire safety regulations to improve employees' familiarity with fire safety. The Company established a "Fire Safety Protection Plan" and designated fire-safety managers to implement fire safety education. The Company files building safety inspection reports to ensure the safety of the building and obtains the "Taipei City Building Public Safety Autonomous Management Inspection Qualification Label" each year to ensure the safety of the building. With regard to health environment, the Company has installed high temperature sterilization dishwashers and disinfection cabinets in the employee cafeteria to ensure food safety for employees. The Company also regularly cleans the drinking water storage facility, conducts environmental disinfection operations, and inspects drinking fountains each month. The Company has appointed physicians to carry out health services at the Company every two months to provide employees with health consultation in accordance with the "Labor Health Protection Act." The Company has also built a friendly work environment and constructed breastfeeding rooms in accordance with regulations of the Health Promotion Administration. We also obtained the "Taipei City Government High Quality Breastfeeding Room Certification" (duration: September 1, 2017 to August 31, 2020). The Company has set up gym facilities and badminton courts for employees to provide them with venues for leisure and sports. The Company has also established wheelchair accessible facilities at the entrance of the building and lavatories. SYSTEX passed the "Accredited Healthy Workplace" inspection by the Health Promotion Administration for a smoke-free workplace and provides employees with a healthy work environment.

5.5.5 Employee Code of Conduct

The Company has established the "Employee Code of Conduct" as the standard to be followed by the Company's employees when conducting business activities. The main contents include:

- A. Legal requirements and the Company's internal regulations shall be strictly implemented when conducting business activities in order to protect employees and the Company from legal penalties or prosecution by stakeholders.
- B. Protect the Company's reputation and assets.
- C. The Company's assets and information shall only be used to achieve the Company's goals and they shall be properly used, protected, and stored.
- D. Employees may not conduct activities that conflict with the interests of the Company.
- E. Applicable procedures and punishment measures in the event of violations.

Each new employee shall be required to attend an online learning course on "Employee Code of Conduct" after entering the Company. The course shall be announced on the Company's internal website. In addition, the Company shall issue regular email notifications and education each month to request compliance by supervisors and remind colleagues to read and sign so that all employees shall adhere and implement related regulations.

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5.6 Material Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Reseller Agreement	Oracle Taiwan LLC, Taiwan Branch	2016.05.20-2018.05.19	Software proxy	None
Reseller Agreement	IBM Singapore Pte Ltd.	2016.06.08-2018.06.07	Software proxy	None
Reseller Agreement	Microsoft Regional Sales Corporation	2017.09.01-2018.08.31	Software proxy	None

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet and Condensed Statement of Comprehensive Income

A. Consolidated Condensed Balance Sheet

Unit: NT\$ thousands

Item	Year	Financial Summary for The Last Five Years					As of March 31, 2018 (Note 1)
		2013 (Note 4)	2014 (Note 4)	2015	2016 (Note 5)	2017	
Current assets		13,072,278	13,581,623	13,592,648	14,470,521	14,821,057	13,307,768
Financial assets measured at cost - non-current		552,902	516,336	458,967	432,971	509,150	-
Investments accounted for using equity method		1,268,976	1,226,036	1,652,940	1,191,205	1,153,527	1,111,812
Property, plant and equipment (Note2)		2,449,264	2,278,120	2,089,497	2,009,673	1,940,525	1,933,971
Intangible assets		558,756	545,375	451,010	112,751	51,368	60,442
Other non-current assets (Note2)		435,628	411,265	417,795	865,507	888,543	2,516,190
Total assets		18,337,804	18,558,755	18,662,857	19,082,628	19,364,170	18,930,183
Current liabilities	Before distribution	4,985,779	4,826,640	5,240,030	6,064,585	6,766,494	5,027,892
	After distribution	5,783,849	6,163,597	6,586,997	7,411,551	-	-
Non-current liabilities		248,277	222,845	265,124	258,848	275,520	246,783
Total liabilities	Before distribution	5,234,056	5,049,485	5,505,154	6,323,433	7,042,014	5,274,675
	After distribution	6,032,126	6,386,442	6,852,121	7,670,399	-	-
Equity attributable to owners of the corporation		12,940,300	13,431,692	13,101,677	12,728,192	12,270,356	13,604,561
Share capital		2,630,693	2,671,113	2,688,383	2,693,933	2,693,933	2,693,933
Capital surplus	Before distribution	8,486,264	8,685,259	8,197,220	7,634,980	7,363,072	7,342,779
	After distribution	8,486,264	7,749,389	7,523,737	7,230,890	-	-
Retained earnings	Before distribution	2,990,925	2,930,735	3,046,792	3,467,402	3,670,307	5,072,666
	After distribution	2,192,855	2,529,648	2,373,309	2,524,525	-	-
Other equity		(114,116)	97,837	136,780	(64,494)	(453,327)	(501,188)
Treasury share		(1,053,466)	(953,252)	(967,498)	(1,003,629)	(1,003,629)	(1,003,629)
Non-controlling interests		163,448	77,578	56,026	31,003	51,800	50,947
Total equity	Before distribution	13,103,748	13,509,270	13,157,703	12,759,195	12,322,156	13,655,508
	After distribution	12,305,678	12,172,313	11,810,736	11,412,229	-	-

VI. Financial Information

Note 1: The Company has adopted the International Financial Reporting Standards (IFRSs) for the compilation of consolidated financial information since 2013. The financial information of the preceding years has been audited and reviewed by the CPA.

Note 2: No reevaluation of assets has been conducted throughout the years.

Note 3: The earning distribution of 2017 is to be approved by the shareholders' meeting.

Note 4: Financial Statement after Corrected was reclassified Current assets - "Prepayments" to Other assets - "Long-term receivables".

Note 5: Financial Statement after Restated was reclassified Current assets - "Non-current assets held for sale" to Investments accounted for using equity method.

VI. Financial Information

B. Consolidated Condensed Statement of Comprehensive Income

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years					As of March 31, 2018 (Note 1)
	2013	2014	2015	2016	2017	
Operating revenues	15,657,262	15,809,321	16,313,088	16,210,380	16,874,279	4,144,185
Gross profit	4,270,556	4,219,091	4,300,486	4,332,060	4,533,728	1,094,893
Profit from operations	489,018	435,573	419,362	279,268	539,126	168,203
Non-operating income and expenses	450,712	489,980	285,857	966,592	761,034	212,179
Income before tax	939,730	925,553	705,219	1,245,860	1,300,160	380,382
Net income	823,700	747,071	563,327	1,090,328	1,173,118	332,029
Other comprehensive income (loss) (income after tax)	231,948	205,384	(21,568)	(215,734)	(420,912)	(53,116)
Total comprehensive income	1,055,648	952,455	541,759	874,594	752,206	278,913
Net income attributable to owners of the corporation	830,540	744,717	564,274	1,108,268	1,177,749	334,097
Net income attributable to non-controlling interests	(6,840)	2,354	(947)	(17,940)	(4,631)	(2,068)
Comprehensive income attributable to owners of the corporation	1,063,171	950,606	542,237	892,819	756,949	280,981
Comprehensive income attributable to non-controlling interests	(7,523)	1,849	(478)	(18,225)	(4,743)	(2,068)
Earnings per share (Note 2)	3.51	3.07	2.29	4.50	4.79	1.36
Retroactively adjusted earnings per share (Note 3)	3.49	3.05	2.29	4.50	4.79	1.36

Note 1: The Company has adopted the International Financial Reporting Standards (IFRSs) for the compilation of consolidated financial information since 2013. The financial information of the preceding years has been audited and reviewed by the CPA.

Note 2: Calculated by the weighted average number of shares in external circulation.

Note 3: Calculated by the retroactively adjusted number of shares.

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6.1.2 Unconsolidated Balance Sheet and Condensed Statement of Comprehensive Income

A. Unconsolidated Condensed Balance Sheet

Unit: NT\$ thousands

Item	Year	Financial Summary for The Last Five Years (Note 1)				
		2013 (Note 3)	2014 (Note 3)	2015	2016	2017
Current assets		4,012,746	3,478,385	3,358,680	3,333,550	2,987,226
Financial assets measured at cost - non-current		394,971	360,473	326,976	311,305	304,349
Investments accounted for using equity method		8,503,891	9,361,323	9,411,179	9,174,361	9,636,907
Property, plant and equipment (Note 2)		1,945,915	1,885,134	1,704,946	1,658,175	1,640,402
Intangible assets		124,867	124,777	107,282	54,271	45,578
Other non-current assets (Note 2)		356,465	286,556	243,268	435,427	406,615
Total assets		15,338,855	15,496,648	15,152,331	14,967,089	15,021,077
Current liabilities	Before distribution	2,206,329	1,866,565	1,812,301	1,940,356	2,457,203
	After distribution	3,004,399	3,203,522	3,159,268	3,287,323	-
Non-current liabilities		192,226	198,391	238,353	298,541	293,518
Total liabilities	Before distribution	2,398,555	2,064,956	2,050,654	2,238,897	2,750,721
	After distribution	3,196,625	3,401,913	3,397,621	3,585,864	-
Equity attributable to owners of the corporation		12,940,300	13,431,692	13,101,677	12,728,192	12,270,356
Share capital		2,630,693	2,671,113	2,688,383	2,693,933	2,693,933
Capital surplus	Before distribution	8,486,264	8,685,259	8,197,220	7,634,980	7,363,072
	After distribution	8,486,264	7,749,389	7,523,737	7,230,890	-
Retained earnings	Before distribution	2,990,925	2,930,735	3,046,792	3,467,402	3,670,307
	After distribution	2,192,855	2,529,648	2,373,309	2,524,525	-
Other equity interests		(114,116)	97,837	136,780	(64,494)	(453,327)
Treasury shares		(1,053,466)	(953,252)	(967,498)	(1,003,629)	(1,003,629)
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	12,940,300	13,431,692	13,101,677	12,728,192	12,270,356
	After distribution	12,142,230	12,094,735	11,754,710	11,381,225	-

Note 1: The Company has adopted the International Financial Reporting Standards (IFRSs) for the compilation of consolidated financial information since 2013. The financial information of the preceding years has been audited and reviewed by the CPA.

Note 2: No reevaluation of assets has been conducted throughout the years.

Note 3: Financial Statement after Corrected was reclassified Current assets - "Prepayments" to Other assets - "Long-term receivables".

VI. Financial Information

B. Unconsolidated Condensed Statement of Comprehensive Income

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years (Note 1)				
	2013	2014	2015	2016	2017
Operating revenues	7,978,440	6,406,809	6,100,657	5,733,038	5,900,195
Gross profit	2,364,719	1,963,616	1,943,215	1,912,678	2,078,811
Profit from operations	329,240	183,179	147,366	92,889	143,184
Non-operating income and expenses	571,058	662,842	483,194	985,716	1,047,104
Income before tax	900,298	846,021	630,560	1,078,605	1,190,288
Net income	830,540	744,717	564,274	1,108,268	1,177,749
Other comprehensive income (loss) (income after tax)	232,631	205,889	(22,037)	(215,449)	(420,800)
Total comprehensive income	1,063,171	950,606	542,237	892,819	756,949
Net income attributable to owners of the corporation	830,540	744,717	564,274	1,108,268	1,177,749
Net income attributable to non-controlling interests	-	-	-	-	-
Comprehensive income attributable to owners of the corporation	1,063,171	950,606	542,237	892,819	756,949
Comprehensive income attributable to non-controlling interests	-	-	-	-	-
Earnings per share (Note 2)	3.51	3.07	2.29	4.50	4.79
Retroactively adjusted earnings per share (Note 3)	3.49	3.05	2.29	4.50	4.79

Note 1: The Company has adopted the International Financial Reporting Standards (IFRSs) for the compilation of consolidated financial information since 2013. The financial information of the preceding years has been audited and reviewed by the CPA.

Note 2: Calculated by the weighted average number of shares in external circulation.

Note 3: Calculated by the retroactively adjusted number of shares.

VI. Financial Information

6.1.3 Auditors' Opinions from 2012 to 2016

Year \ Item	Accounting Firm & CPA	Audit Opinion
2012	Deloitte & Touche Accounting Firm Lin, Shu-Wan; Kuo, Cheng-Hung	Modified unqualified opinion
2013	Deloitte & Touche Accounting Firm Lin, Shu-Wan; Kuo, Cheng-Hung	Modified unqualified opinion
2014	Deloitte & Touche Accounting Firm Shue, Shiow-Ming; Kuo, Cheng-Hung	Modified unqualified opinion
2015	Deloitte & Touche Accounting Firm Shue, Shiow-Ming; Kuo, Cheng-Hung	Modified unqualified opinion
2016	Deloitte & Touche Accounting Firm Lin, Shu-Wan; Shue, Shiow-Ming	Unmodified report with other matter paragraph
2017	Deloitte & Touche Accounting Firm Lin, Shu-Wan; Shue, Shiow-Ming	Unmodified report with other matter paragraph
As of March 31, 2018	Deloitte & Touche Accounting Firm Lin, Shu-Wan; Shue, Shiow-Ming	Review report with Qualified Conclusion

VI. Financial Information

6.2 Five-Year Financial Analysis

6.2.1 Financial Analysis – Based on IFRS (Consolidated)

Item		Year	Financial Analysis for the Last Five Years (Note 1)					As of March 31, 2018 (Note 1)
			2013	2014	2015	2016	2017	
Financial structure	Debt Ratio (%)		28.54	27.21	29.50	33.14	36.37	27.86
	Ratio of long-term capital to property, plant and equipment (%)		545.14	602.78	642.40	647.77	649.19	718.85
Solvency	Current ratio (%)		262.19	281.39	259.40	238.61	219.04	264.68
	Quick ratio (%)		214.22	226.32	205.23	184.63	163.66	194.63
	Times Interest earned ratio (times) (Note 4)		52.74	83.82	48.63	51.19	41.18	48.16
Operating performance	Average collection turnover (times) (Note 4)		5.03	4.88	4.88	4.70	5.07	5.33
	Average collection period (days)		73	75	75	78	72	68
	Average inventory turnover (times) (Note 4)		5.62	5.71	5.57	4.89	4.20	4.08
	Accounts payable turnover (times)		4.31	4.14	4.17	4.10	4.08	4.64
	Average days in sales		65	64	66	75	87	89
	Property, plant and equipment turnover (times)		6.31	6.69	7.47	7.91	8.54	8.56
	Total assets turnover (times) (Note 4)		0.88	0.86	0.88	0.86	0.88	0.87
Profitability	Return on total assets (%) (Note 4)		4.70	4.10	3.09	5.89	6.24	7.08
	Return on equity (%) (Note 4)		6.43	5.61	4.22	8.41	9.35	10.23
	Profit before tax to capital (%) (Note 4)		35.72	34.65	26.23	46.25	48.26	56.48
	Profit to sales (%) (Note 4)		5.26	4.73	3.45	6.73	6.95	8.01
	Earnings per share (NT\$) (Note 2)		3.51	3.07	2.29	4.50	4.79	1.36
	Retroactively adjusted earnings per share (Note 3)		3.49	3.05	2.29	4.50	4.79	1.36
Cash flow	Cash flow ratio (%)		2.91	11.26	19.61	24.64	3.25	-
	Cash flow adequacy ratio (%)		92.74	72.55	83.80	67.63	50.89	53.02
	Cash flow reinvestment ratio (%)		(2.47)	(1.37)	(1.49)	1.97	(7.73)	-
Leverage	Operating leverage		8.91	9.92	10.54	15.77	8.53	6.58
	Financial leverage		1.04	1.03	1.04	1.10	1.06	1.05

VI. Financial Information

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

1. Cash flow ratio decreased 87%: Because of net cash generated from operating activities decreased 85%.
2. Cash flow adequacy ratio decreased 25%: Because of net cash generated decreased.
3. Cash reinvestment ratio decreased 492%: Because of net cash generated from operating activities decreased 80% and Other non-current assets increased 16%.
4. Operating leverage decreased 46%: Because of profit from operations increased 30%.

Note 1: The Company has adopted the International Financial Reporting Standards (IFRSs) for the compilation of consolidated financial information since 2013. The financial information of the preceding years has been audited and reviewed by the CPA.

Note 2: Calculated by the weighted average number of shares in external circulation.

Note 3: Calculated by the retroactively adjusted number of shares.

Note 4: The financial analysis information as of March 31, 2018 is annualized.

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6.2.2 Financial Analysis (Unconsolidated)

Items		Year	Financial Analysis for the Last Five Years (Note 1)				
			2013	2014	2015	2016	2017
Financial structure	Debt Ratio (%)		15.64	13.33	13.53	14.96	18.31
	Ratio of long-term capital to property, plant and equipment (%)		674.88	723.03	782.43	785.61	765.90
Solvency	Current ratio (%)		181.87	186.35	185.33	171.80	121.57
	Quick ratio (%)		128.86	129.80	136.21	115.08	74.25
	Times interest earned ratio (times)		12,167	25,638	19,706	672	312
Operating performance	Average collection turnover (times)		5.37	5.44	6.01	5.69	5.85
	Average collection period (days)		68	67	61	64	62
	Average inventory turnover (times)		4.47	4.71	5.48	4.88	4.23
	Accounts payable turnover (times)		4.18	4.42	4.40	3.91	3.92
	Average days in sales		82	77	67	75	86
	Property, plant and equipment turnover (times)		4.05	3.34	3.40	3.41	3.58
	Total assets turnover (times)		0.52	0.42	0.40	0.38	0.39
Profitability	Return on total assets (%)		5.45	4.83	3.68	7.37	7.88
	Return on equity (%)		6.60	5.65	4.25	8.58	9.42
	Profit before tax to capital (%)		34.22	31.67	23.45	40.04	44.18
	Profit to sales (%)		10.41	11.62	9.25	19.33	19.96
	Earnings per share (NT\$) (Note 2)		3.51	3.07	2.29	4.50	4.79
	Retroactively adjusted earnings per share (Note 3)		3.49	3.05	2.29	4.50	4.79
Cash flow	Cash flow ratio (%)		(2.18)	17.80	26.20	26.38	16.67
	Cash flow adequacy ratio (%)		100.11	89.11	66.41	42.69	28.19
	Cash flow reinvestment ratio (%)		(4.27)	(3.35)	(6.31)	(6.26)	(7.22)
Leverage	Operating leverage		7.41	11.09	13.64	21.03	14.72
	Financial leverage		1.00	1.00	1.00	1.02	1.03

VI. Financial Information

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

1. Debt Ratio increased 22%: Because of short-term loans of 2017 increased.
2. Current ratio decreased 29%: Because of current assets decreased 10% and current liabilities increased 27%.
3. Quick ratio decreased 35%: Because of prepayments increased 17% and current liabilities increased 27%.
4. Interest earned ratio decreased 54%: Because of interest expense of 2017 increased.
5. Cash flow ratio decreased 37%: Because of net cash generated from operating activities decreased.
6. Cash flow adequacy ratio decreased 34%: Because of inventories of 2017 increased.
7. Operating leverage decreased 30%: Because of profit from operations of 2017 increased.

Note 1: The Company has adopted the International Financial Reporting Standards (IFRSs) for the compilation of consolidated financial information since 2013. The financial information of the preceding years has been audited and reviewed by the CPA.

Note 2: Calculated by the weighted average number of shares in external circulation.

Note 3: Calculated by the retroactively adjusted number of shares.

VI. Financial Information

6.3 Audit Committee's Report

Audit Committee's Review Report

The Board of Directors has prepared and submitted the 2017 business report, financial statements, and earnings distribution proposal, of which the financial statements have been audited by Deloitte. These have been reviewed by the Audit Committee as correctly portraying SYSTEX's business activities. In accordance with Article 14-4 of the Securities and Exchange Act and Article 219, 228 of the Company Act, this report is submitted for your examination.

Systemex Corporation

Audit Committee Convener:

Huang, Jih-Tsan

March 22, 2018

VI. Financial Information

6.4 Financial Statements for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report

Systemx Corporation and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Systex Corporation

Opinion

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

In our opinion, based on our audits and the reports of other independent auditors (refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Valuation of Inventory

As of December 31, 2017, inventories amounted to \$2,910,565 thousand, significant to the Group. The valuation of inventory write-down involves subjective judgements, including identification of slow-moving and obsolete inventories, estimation of net realizable value, and provision for loss due to changes in economic conditions, etc. Therefore, we consider the valuation of inventory as a key audit matter. For the disclosures related to inventories, refer to Notes 5 and 11 to the consolidated financial statements.

Our audit procedures for the abovementioned key audit matter included:

1. We obtained and assessed the report of lower of cost or net realizable value prepared by management. We examined the amounts and categories in the aging analysis report of inventories. We assessed the reasonableness of net realizable value by sampling the latest and post year-end sales.
2. We attended year-end inventory counts and assessed the condition of inventories to evaluate the completeness of inventory provisions for obsolete and damaged goods.

Valuation of Accounts Receivable

As of December 31, 2017, accounts receivables amounted to \$3,217,198 thousand, an amount significant to the Group. The assessment of the recoverability of accounts receivable involves the use of critical judgements, and, assumptions about credit risk, impairment rates and possible changes in economic conditions, etc. Therefore, we consider the valuation of accounts receivable as a key audit matter. For the disclosures related to accounts receivable, refer to Notes 5 and 10 to the consolidated financial statements.

Our audit procedures for the abovementioned key audit matter included:

1. We obtained the reports of accounts receivable impairment and we assessed the reasonableness of the methodology and data used in the reports as well as the consistency of the reports. In order to evaluate the adequacy of the allowance for doubtful accounts, we reviewed the related calculation and validated the aging amounts as of the balance sheet date to understand and measure the potential risk in overdue balances.
2. We tested the recoverability of accounts receivables by verifying cash receipts in the subsequent period. For a receivable that was past due and not yet received, we assessed the reasonableness of the allowance for the doubtful accounts based on the customer's payment history, the bank's guarantee provided, and our understanding of the economic environment.

Other Matter

We did not audit the financial statements as of and for the years ended December 31, 2017 and 2016 of SoftMobile Technology Corporation, Rainbow Tech Information (HK) Limited and Systex Information (H.K.) Ltd., which are all consolidated subsidiaries. The aggregate assets of these subsidiaries as of December 31, 2017 and 2016 amounted to \$468,683 thousand and \$505,825 thousand, respectively, or 2.42% and 2.65% of the respective consolidated assets. The aggregate net operating revenues of these subsidiaries in 2017 and 2016 were \$1,183,995 thousand and \$1,126,067 thousand, respectively, or 7.02% and 6.95% of the respective consolidated net operating revenues. We also did not audit the financial statements as of and for the year ended December 31, 2017 of Sanfran Technologies, Mohist Web Technology Co., Limited and Forms

Syntron Information (Shenzhen) Limited, and the financial statements as of and for the year ended December 31, 2016 of Sanfran Technologies Inc. and Forms Syntron Information (Shenzhen) Limited, the investments in which were accounted by the equity method in the accompanying consolidated financial statements. The aggregate carrying amounts of these investments accounted by equity method as of December 31, 2017 and 2016, including those reclassified to noncurrent assets held for sale, were \$801,036 thousand and \$838,453 thousand, respectively, or 4.14% and 4.39% of the respective consolidated assets. The aggregate amounts of the share in their profit and other comprehensive income in 2017 and 2016 were \$40,158 thousand and \$4,339 thousand, respectively, or 5.34% and 0.5% of the respective consolidated comprehensive income. The financial statements of the abovementioned subsidiaries and investees were audited by other auditors whose reports have been provided to us and, our opinion, insofar as it relates to the amounts included for these subsidiaries and investees, is based solely on the reports of the other auditors.

We have also audited the parent company only financial statements of Systex Corporation as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified report with other matter paragraph.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Shu-Wan Lin and Shio-Ming Shue.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016 (Audited after Restated)	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 3,708,235	19	\$ 4,245,282	22
Financial assets at fair value through profit or loss (Notes 4 and 7)	3,222,285	17	2,879,956	15
Available-for-sale financial assets (Notes 4 and 8)	16,561	-	18,984	-
Debt investments with no active market - current (Notes 4 and 9)	357,120	2	102,339	1
Notes receivable, net (Notes 4 and 10)	64,837	1	67,579	-
Accounts receivable, net (Notes 4, 5, 10 and 25)	3,217,198	17	3,304,915	17
Other receivables (Notes 20 and 26)	204,277	1	217,270	1
Inventories (Notes 4, 5 and 11)	2,910,565	15	2,422,283	13
Prepayments	836,115	4	850,922	5
Non-current assets held for sale (Notes 4 and 14)	-	-	96,546	1
Refundable deposits - current	220,715	1	210,691	1
Other current assets	63,149	-	53,754	-
Total current assets	<u>14,821,057</u>	<u>77</u>	<u>14,470,521</u>	<u>76</u>
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 12)	509,150	3	432,971	2
Debt investments with no active market-non-current (Notes 4 and 9)	574,400	3	548,375	3
Investments accounted for using equity method (Notes 4 and 14)	1,153,527	6	1,191,205	6
Property, plant and equipment (Notes 4, 15 and 26)	1,940,525	10	2,009,673	11
Computer software (Note 4)	51,368	-	79,585	1
Technological expertise (Note 4)	-	-	25,951	-
Other intangible assets (Note 4)	-	-	7,215	-
Deferred tax assets (Notes 4 and 20)	54,870	-	66,702	-
Refundable deposits - non-current (Note 27)	162,086	1	116,676	1
Long-term receivables (Notes 4 and 10)	4,944	-	54,195	-
Other non-current assets (Note 26)	92,243	-	79,559	-
Total non-current assets	<u>4,543,113</u>	<u>23</u>	<u>4,612,107</u>	<u>24</u>
TOTAL	<u>\$ 19,364,170</u>	<u>100</u>	<u>\$ 19,082,628</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Notes 16 and 26)	\$ 1,460,053	7	\$ 1,046,022	5
Notes and accounts payable (Note 25)	3,100,522	16	2,953,992	15
Other payables	902,169	5	901,816	5
Current tax liabilities (Notes 4 and 20)	62,039	-	168,439	1
Receipts in advance	1,081,130	6	882,226	5
Other current liabilities	160,581	1	112,090	1
Total current liabilities	<u>6,766,494</u>	<u>35</u>	<u>6,064,585</u>	<u>32</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 20)	5,023	-	5,894	-
Net defined benefit liabilities - non-current (Notes 4 and 17)	263,637	1	246,379	1
Other non-current liabilities	6,860	-	6,575	-
Total non-current liabilities	<u>275,520</u>	<u>1</u>	<u>258,848</u>	<u>1</u>
Total liabilities	<u>7,042,014</u>	<u>36</u>	<u>6,323,433</u>	<u>33</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 18)				
Common shares	<u>2,693,933</u>	<u>14</u>	<u>2,693,933</u>	<u>14</u>
Capital surplus	<u>7,363,072</u>	<u>38</u>	<u>7,634,980</u>	<u>40</u>
Retained earnings				
Legal reserve	896,914	5	786,087	4
Special reserve	64,494	-	-	-
Unappropriated earnings	<u>2,708,899</u>	<u>14</u>	<u>2,681,315</u>	<u>14</u>
Total retained earnings	<u>3,670,307</u>	<u>19</u>	<u>3,467,402</u>	<u>18</u>
Other equity	(453,327)	(2)	(64,494)	-
Treasury shares	(1,003,629)	(5)	(1,003,629)	(5)
Total equity attributable to owners of the Corporation	12,270,356	64	12,728,192	67
NON-CONTROLLING INTERESTS (Note 18)	<u>51,800</u>	<u>-</u>	<u>31,003</u>	<u>-</u>
Total equity	<u>12,322,156</u>	<u>64</u>	<u>12,759,195</u>	<u>67</u>
TOTAL	<u>\$ 19,364,170</u>	<u>100</u>	<u>\$ 19,082,628</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 22, 2018)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4 and 25)				
Sales	\$ 12,181,047	72	\$ 11,761,268	73
Less: Sales returns and allowances	<u>86,183</u>	-	<u>131,563</u>	<u>1</u>
Net sales	12,094,864	72	11,629,705	72
Service revenue	4,706,829	28	4,514,543	28
Other operating revenue	<u>72,586</u>	-	<u>66,132</u>	-
Total operating revenues	<u>16,874,279</u>	<u>100</u>	<u>16,210,380</u>	<u>100</u>
OPERATING COSTS (Notes 4, 11, 19 and 25)				
Cost of goods sold	10,350,367	61	9,961,443	61
Service cost	1,967,169	12	1,895,107	12
Other operating cost	<u>23,015</u>	-	<u>21,770</u>	-
Total operating costs	<u>12,340,551</u>	<u>73</u>	<u>11,878,320</u>	<u>73</u>
GROSS PROFIT	4,533,728	27	4,332,060	27
OPERATING EXPENSES (Notes 17, 19 and 25)				
Selling expenses	3,194,696	19	3,172,663	19
General and administrative expenses	359,085	2	420,986	3
Research and development expenses	<u>440,821</u>	<u>3</u>	<u>459,143</u>	<u>3</u>
Total operating expenses	<u>3,994,602</u>	<u>24</u>	<u>4,052,792</u>	<u>25</u>
PROFIT FROM OPERATIONS	<u>539,126</u>	<u>3</u>	<u>279,268</u>	<u>2</u>
NON-OPERATING INCOME AND EXPENSES				
Share of profit of associates (Notes 4 and 14)	66,479	1	84,102	-
Interest income (Note 4)	48,528	-	29,965	-
Dividend income (Note 4)	47,243	-	42,918	-
Other income, net	56,818	-	62,455	-
Gain on sale of investments, net (Note 19)	478,622	3	1,227,033	8
Foreign exchange gain (loss), net (Note 4)	34,492	-	(69,545)	-
Gain on financial assets at fair value through profit or loss, net (Note 4)	98,992	1	115,052	1
Interest expense	(32,359)	-	(24,823)	-
Other expenses	(4,227)	-	(29,095)	-
Gain on disposal of property, plant and equipment, net (Note 4)	4,229	-	17,804	-
Impairment loss on assets (Notes 4 and 19)	<u>(37,783)</u>	-	<u>(489,274)</u>	<u>(3)</u>
Total non-operating income and expenses	<u>761,034</u>	<u>5</u>	<u>966,592</u>	<u>6</u>

(Continued)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 1,300,160	8	\$ 1,245,860	8
INCOME TAX EXPENSE (Notes 4 and 20)	<u>127,042</u>	<u>1</u>	<u>155,532</u>	<u>1</u>
NET INCOME	<u>1,173,118</u>	<u>7</u>	<u>1,090,328</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 17)	(32,743)	-	(15,384)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 20)	<u>(151)</u>	<u>-</u>	<u>437</u>	<u>-</u>
	<u>(32,894)</u>	<u>-</u>	<u>(14,947)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(434,475)	(3)	(129,765)	(1)
Unrealized gain (loss) on available-for-sale financial assets	(613)	-	10,428	-
Share of the other comprehensive gain (loss) of associates accounted for using the equity method	<u>47,070</u>	<u>-</u>	<u>(81,450)</u>	<u>(1)</u>
	<u>(388,018)</u>	<u>(3)</u>	<u>(200,787)</u>	<u>(2)</u>
Other comprehensive loss for the year, net of income tax	<u>(420,912)</u>	<u>(3)</u>	<u>(215,734)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 752,206</u>	<u>4</u>	<u>\$ 874,594</u>	<u>5</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,177,749	7	\$ 1,108,268	7
Non-controlling interests	<u>(4,631)</u>	<u>-</u>	<u>(17,940)</u>	<u>-</u>
	<u>\$ 1,173,118</u>	<u>7</u>	<u>\$ 1,090,328</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 756,949	4	\$ 892,819	5
Non-controlling interests	<u>(4,743)</u>	<u>-</u>	<u>(18,225)</u>	<u>-</u>
	<u>\$ 752,206</u>	<u>4</u>	<u>\$ 874,594</u>	<u>5</u>

(Continued)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$4.79</u>		<u>\$4.50</u>	
Diluted	<u>\$4.79</u>		<u>\$4.50</u>	

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

(With Deloitte & Touche audit report dated March 22, 2018)

(Concluded)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Corporation (Notes 4 and 18)													
	Share Capital			Capital Surplus	Retained Earnings				Other Equity			Non-controlling Interests (Note 18)	Total Equity	
	Common Shares	Advance Receipts for Common Shares	Total		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Instruments	Treasury Shares			Total
BALANCE, JANUARY 1, 2016	\$ 2,687,733	\$ 650	\$ 2,688,383	\$ 8,197,220	\$ 729,659	\$ -	\$ 2,317,133	\$ 3,046,792	\$ 127,939	\$ 8,841	\$ (967,498)	\$ 13,101,677	\$ 56,026	\$ 13,157,703
Appropriation of 2015 earnings														
Legal reserve	-	-	-	-	56,428	-	(56,428)	-	-	-	-	-	-	-
Cash dividends - NT\$2.5 per share	-	-	-	-	-	-	(673,483)	(673,483)	-	-	-	(673,483)	-	(673,483)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	-	58,753	-	-	-	-	-	-	-	58,753	-	58,753
Distribution in cash of the capital surplus - NT\$2.5 per share	-	-	-	(673,483)	-	-	-	-	-	-	-	(673,483)	-	(673,483)
Issuance of common shares for exercised employee stock options	6,200	(650)	5,550	11,045	-	-	-	-	-	-	-	16,595	-	16,595
Net income (loss) for 2016	-	-	-	-	-	-	1,108,268	1,108,268	-	-	-	1,108,268	(17,940)	1,090,328
Other comprehensive income (loss) for 2016	-	-	-	-	-	-	(14,175)	(14,175)	(211,225)	9,951	-	(215,449)	(285)	(215,734)
Total comprehensive income (loss) for 2016	-	-	-	-	-	-	1,094,093	1,094,093	(211,225)	9,951	-	892,819	(18,225)	874,594
Acquisition of the Corporation's shares by subsidiaries regarded as treasury share transaction	-	-	-	-	-	-	-	-	-	-	(36,131)	(36,131)	(37,728)	(73,859)
Cash dividends received by subsidiaries from the Corporation	-	-	-	116,457	-	-	-	-	-	-	-	116,457	-	116,457
Disposal of investments accounted for by using equity method	-	-	-	(83,588)	-	-	-	-	-	-	-	(83,588)	-	(83,588)
Changes in percentage of ownership interest in subsidiaries	-	-	-	8,576	-	-	-	-	-	-	-	8,576	(8,576)	-
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	39,506	39,506
BALANCE, DECEMBER 31, 2016	<u>2,693,933</u>	<u>-</u>	<u>2,693,933</u>	<u>7,634,980</u>	<u>786,087</u>	<u>-</u>	<u>2,681,315</u>	<u>3,467,402</u>	<u>(83,286)</u>	<u>18,792</u>	<u>(1,003,629)</u>	<u>12,728,192</u>	<u>31,003</u>	<u>12,759,195</u>
Appropriation of 2016 earnings														
Legal reserve	-	-	-	-	110,827	-	(110,827)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	64,494	(64,494)	-	-	-	-	-	-	-
Cash dividends - NT\$3.5 per share	-	-	-	-	-	-	(942,877)	(942,877)	-	-	-	(942,877)	-	(942,877)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	-	54,304	-	-	-	-	-	-	-	54,304	-	54,304
Distribution in cash of the capital surplus - NT\$1.5 per share	-	-	-	(404,090)	-	-	-	-	-	-	-	(404,090)	-	(404,090)
Net income (loss) for 2017	-	-	-	-	-	-	1,177,749	1,177,749	-	-	-	1,177,749	(4,631)	1,173,118
Other comprehensive income (loss) for 2017	-	-	-	-	-	-	(31,967)	(31,967)	(387,405)	(1,428)	-	(420,800)	(112)	(420,912)
Total comprehensive income (loss) for 2017	-	-	-	-	-	-	1,145,782	1,145,782	(387,405)	(1,428)	-	756,949	(4,743)	752,206
Cash dividends received by subsidiaries from the Corporation	-	-	-	117,049	-	-	-	-	-	-	-	117,049	-	117,049
Disposal of investments accounted for by using equity method	-	-	-	(39,171)	-	-	-	-	-	-	-	(39,171)	-	(39,171)
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	25,540	25,540
BALANCE, DECEMBER 31, 2017	<u>\$ 2,693,933</u>	<u>\$ -</u>	<u>\$ 2,693,933</u>	<u>\$ 7,363,072</u>	<u>\$ 896,914</u>	<u>\$ 64,494</u>	<u>\$ 2,708,899</u>	<u>\$ 3,670,307</u>	<u>\$ (470,691)</u>	<u>\$ 17,364</u>	<u>\$ (1,003,629)</u>	<u>\$ 12,270,356</u>	<u>\$ 51,800</u>	<u>\$ 12,322,156</u>

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

(With Deloitte & Touche audit report dated March 22, 2018)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,300,160	\$ 1,245,860
Adjustments for :		
Depreciation expenses	114,811	130,915
Amortization expenses	43,620	61,760
Provision for allowance for doubtful accounts	6,057	18,811
Gain on financial assets at fair value through profit or loss, net	(98,992)	(115,052)
Interest expense	32,359	24,823
Interest income	(48,528)	(29,965)
Dividend income	(47,243)	(42,918)
Share of profit of associates	(66,479)	(84,102)
Gain on disposal of property, plant and equipment, net	(4,229)	(17,804)
Gain on sale of non-current assets held for sale	(193,003)	-
Gain on sale of investment, net	-	(859)
Gain on sale of investments accounted for using equity method	(257,467)	(1,168,277)
Impairment loss on financial assets	4,129	174,051
Impairment loss on non-financial assets	33,654	315,223
Write-down of inventories	12,731	78,285
Unrealized loss (gain) on foreign currency exchange, net	8,982	(5)
Changes in operating assets and liabilities		
(Increase) decrease in financial assets held for trading	(328,122)	1,078,598
Decrease in notes receivable	2,742	7,426
(Increase) decrease in accounts receivable	(52,500)	86,031
Decrease in other receivables	17,889	93,565
Increase in inventories	(504,184)	(527,021)
(Increase) decrease in prepayments	(5,995)	10,187
Increase in other current assets	(10,066)	(10,024)
Increase in notes and accounts payable	253,029	148,228
Increase in other payables	13,227	148,269
Increase in receipts in advance	208,421	42,695
Increase (decrease) in other current liabilities	50,410	(8,285)
Decrease in net defined benefit liabilities	(15,485)	(9,118)
Cash generated from operations	469,928	1,651,297
Interest paid	(32,258)	(24,089)
Income tax paid	(218,027)	(132,989)
Net cash generated from operating activities	<u>219,643</u>	<u>1,494,219</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of debt investments with no active market	(32,705)	(548,836)
Proceeds on sale of held-to-maturity financial assets	-	52,112
Acquisition of financial assets measured at cost	(88,465)	(43,212)
Proceeds on sale of financial assets measured at cost	-	2,478
Return of capital from capital reduction and liquidation of financial assets measured at cost	7,064	671

(Continued)

SYSTEX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
Acquisition of investments accounted for using equity method	\$ (33,600)	\$ -
Proceeds on sale of investments accounted for using equity method	344,010	1,361,442
Proceeds on sale of non-current assets held for sale	275,370	-
Payments for property, plant and equipment	(61,655)	(93,448)
Proceeds on disposal of property, plant and equipment	13,530	36,039
Increase in refundable deposits	(56,507)	(21,704)
Payments for intangible assets	(16,360)	(41,179)
Proceeds on disposal of intangible assets	-	160
Decrease in long-term receivables	49,251	38,409
(Increase) decrease in pledged time deposits	(7,973)	17,893
Increase in time deposits with original maturity of more than 3 months	(268,614)	(85,931)
Increase in other non-current assets	(4,732)	(2,692)
Interest received	45,024	24,136
Dividends received	47,341	42,949
Dividends received from associates	31,057	42,430
Distribution in cash of the capital surplus received from financial assets measured at cost	<u>-</u>	<u>75</u>
Net cash generated from investing activities	<u>242,036</u>	<u>781,792</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	441,084	462,229
Increase (decrease) in guarantee deposits received	420	(684)
Dividends paid	(942,877)	(673,483)
Proceeds from exercise of employee stock options	-	16,595
Payments for buy-back of common shares	-	(73,859)
Increase in non-controlling interests	25,540	39,506
Cash dividends received by subsidiaries from the Corporation	117,049	116,457
Distribution in cash from the capital surplus	<u>(404,090)</u>	<u>(673,483)</u>
Net cash used in financing activities	<u>(762,874)</u>	<u>(786,722)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	<u>(235,852)</u>	<u>(49,648)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(537,047)	1,439,641
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
	<u>4,245,282</u>	<u>2,805,641</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 3,708,235</u>	<u>\$ 4,245,282</u>

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

(With Deloitte & Touche audit report dated March 22, 2018)

(Concluded)

SYSTEX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

System Corporation (the Corporation) was incorporated on January 7, 1997 under the provision of the Company Act of the Republic of China and other laws and regulations. The Corporation is mainly engaged in sales and leases of computer software and related equipment, transmission and security of value-added network, maintenance of database, and consultation.

The Corporation's shares had been traded on Emerging Stock Market since April 10, 2002 and Taipei Exchange since January 6, 2003. On December 30, 2010, the Corporation has changed the listing and trading of its shares to the Taiwan Stock Exchange.

The consolidated financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on March 22, 2018.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the accounting policies of the Corporation and entities controlled by the Corporation (collectively, the "Group"):

- 1) Amendments to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendments clarify that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendments were retrospectively applied from January 1, 2017.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards, including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments”, were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions are accounted for differently, and the aforementioned amendment were applied to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment is applied to business combination with acquisition date on or after January 1, 2017.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria were disclosed retrospectively upon initial application of the amendment in 2017 refer to Note 29.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate are measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transaction should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 25 for the related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Listed shares and certain unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss, or designated as at fair value through other comprehensive income with the fair value gains or losses accumulated in other equity, which will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides, unlisted shares measured at cost will be measured at fair value;
- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Financial assets at fair value through profit or loss - current	\$ 3,222,285	\$ 1,548,257	\$ 4,770,542
Financial assets at fair value through other comprehensive income - current	-	126,517	126,517
Available-for-sale financial assets - current	16,561	(16,561)	-
Financial assets measured at amortized cost - non-current	-	500,000	500,000
Financial assets measured at cost - non-current	509,150	(509,150)	-
Debt investments with no active market - non-current	<u>574,400</u>	<u>(574,400)</u>	<u>-</u>
Total effect on assets	<u>\$ 4,322,396</u>	<u>\$ 1,074,663</u>	<u>\$ 5,397,059</u>
Retained earnings	\$ 2,708,899	\$ 1,095,099	\$ 3,803,998
Other equity	(453,327)	(21,651)	(474,978)
Non-controlling interests	<u>51,800</u>	<u>1,215</u>	<u>53,015</u>
Total effect on equity	<u>\$ 2,307,372</u>	<u>\$ 1,074,663</u>	<u>\$ 3,382,035</u>

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, the Group recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

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

The Group assessed that the initial application of IFRS 15 on January 1, 2018 will not have material impact on assets, liabilities and equity.

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of a debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulate that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated.

2) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

3) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Group shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

4) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 2) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

- Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

See Note 13 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries and associates in other countries that use currency different from the currency of the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income attributed to the owners of the Corporation and non-controlling interests as appropriate.

On the disposal of a foreign operation (i.e. a disposal of the Corporation's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

Inventories are stated at the lower of cost (monthly weighted average) or net realizable value. Net realizable value is the estimated selling price of inventories less all estimated costs necessary to make the sale.

h. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Freehold land is not depreciated.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets (computer software) with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if, all of the following have been demonstrated:

- a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b) The intention to complete the intangible asset and use or sell it;
- c) The ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits;
- e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets (technological expertise and client relationship) acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

Gains or losses arising from derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual or smallest group of cash-generating units on a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal groups) is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When to a sale plan would result in loss of control of a subsidiary, regardless of whether the Group will retain a non-controlling interest in that subsidiary after the sale. However, such investment is still accounted for by the equity method.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, only the investment or the portion of the investment that will be disposed of is classified as held for sale when the classification criteria are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. If the Group ceases to have significant influence nor joint control over the investment after the disposal takes place, the Group accounts for any retained interest that has not been classified as held for sale in accordance with the accounting policies for financial instruments.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

When a subsidiary, associate, or a portion of an interest in an associate previously classified as held for sale no longer meets the criteria to be so classified, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. Financial statements for the periods since classification as held for sale are amended accordingly.

m. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss that are assets held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 24.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit and loss or other comprehensive income. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including accounts receivable, cash and cash equivalent, and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables, and so on.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Corporation's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenues from sales of computer hardware and software are recognized when the items and the risks and rewards associated with the items are transferred to the customers. Revenue from integrated hardware and software solutions are generally recognized by reference to the stage of completion of the contract terms.

Service income is generally recognized when service is rendered or is recognized over the term of the service contract under the straight-line method or the percentage-of-completion method. Contract profit for the current period is the difference between the cumulative profit at the end of the current period and the cumulative profit recognized in the prior periods. When total contract cost is estimated to be greater than total contract revenue at the end of a year, the excess should be recognized as operating cost in the current year.

Other operating revenue is mainly comprised of rental revenue on leases of computer equipment, which is recognized over the term of the lease.

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

o. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs/when the settlement occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Share-based payment arrangements

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of the number of employee stock options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee stock options.

At the end of each reporting period, the Corporation revises its estimate of the number of employee stock options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee stock options.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, personnel training expenditures and investments to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2017	2016
Cash on hand	\$ 683	\$ 747
Checking and savings accounts	1,705,305	3,308,374
Cash equivalent		
Time deposits with original maturities less than three months	<u>2,002,247</u>	<u>936,161</u>
	<u>\$ 3,708,235</u>	<u>\$ 4,245,282</u>
Market interest rate interval		
Time deposits with original maturities less than three months	0.60%-1.85%	0.60%-1.25%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2017	2016
<u>Financial assets held for trading</u>		
Mutual funds	\$ 3,073,085	\$ 2,661,604
Corporation bonds	12,139	27,433
Listed shares	<u>137,061</u>	<u>190,919</u>
	<u>\$ 3,222,285</u>	<u>\$ 2,879,956</u>

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2017	2016
Listed shares	\$ 8,526	\$ 11,047
Corporate bonds	<u>8,035</u>	<u>7,937</u>
	<u>\$ 16,561</u>	<u>\$ 18,984</u>

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
Time deposits with original maturity of more than 3 months	<u>\$ 357,120</u>	<u>\$ 102,339</u>
<u>Non-current</u>		
Domestic corporate bonds	\$ 500,000	\$ 500,000
Overseas convertible bonds	<u>74,400</u>	<u>48,375</u>
	<u>\$ 574,400</u>	<u>\$ 548,375</u>
<u>Market interest rate interval</u>		
Time deposits with original maturity of more than 3 months	1.63%-1.73%	0.30%-1.01%
Domestic corporate bonds	3.5%	3.5%
Overseas convertible bonds	5%-6%	5%-6%

10. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES, NET

	<u>December 31</u>	
	2017	2016
Notes receivable	\$ 65,068	\$ 67,810
Less: Allowance for doubtful accounts	<u>(231)</u>	<u>(231)</u>
	<u>\$ 64,837</u>	<u>\$ 67,579</u>
Accounts receivable	\$ 3,257,736	\$ 3,444,783
Less: Allowance for doubtful accounts	<u>(40,538)</u>	<u>(139,868)</u>
	<u>\$ 3,217,198</u>	<u>\$ 3,304,915</u>
Long-term receivables	\$ 5,210	\$ 55,966
Less: Unrealized interest income	<u>(266)</u>	<u>(1,771)</u>
	<u>\$ 4,944</u>	<u>\$ 54,195</u>

The average credit period on accounts receivable was 78 days. In determining the recoverability of accounts receivable, the Group considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting period. Based on the historical experience, the risk of non-collection of receivable was higher when the receivables were not collected on due date. The Group assessed the receivables individually and recognized an allowance for doubtful accounts of 100% against receivables that are irrecoverable. Allowance for doubtful accounts was recognized against other receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables (based on invoice date) was as follows:

	December 31	
	2017	2016
Less than 90 days	\$ 2,904,996	\$ 2,917,517
91-120 days	158,607	208,459
121-180 days	108,475	94,099
181-360 days	84,896	111,586
Over 361 days	<u>65,830</u>	<u>180,932</u>
	<u>\$ 3,322,804</u>	<u>\$ 3,512,593</u>

The aging of receivables that were past due but not impaired (based on invoice date) was as follows:

	December 31	
	2017	2016
91-120 days	\$ 158,548	\$ 206,898
121-180 days	107,830	93,512
181-360 days	79,009	105,295
Over 361 days	<u>31,652</u>	<u>49,329</u>
	<u>\$ 377,039</u>	<u>\$ 455,034</u>

Because there was no significant change in credit quality and the amounts were still considered recoverable, the Group did not hold any collateral or other credit enhancements for these balances. In addition, the Group does not have the legal right to offset receivables with accounts payable with the same counterparty.

The Group's transactions were made with a large number of unrelated customers; thus, the concentration of credit risk was limited.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ 73,988	\$ 63,397	\$ 137,385
Add: Impairment losses recognized on receivables	2,387	16,424	18,811
Less: Amounts written off during the year as uncollectible	(355)	(14,546)	(14,901)
Foreign exchange translation gains and losses	<u>-</u>	<u>(1,196)</u>	<u>(1,196)</u>
Balance at December 31, 2016	76,020	64,079	140,099
Add: Impairment losses recognized on receivables	1,020	5,037	6,057
Less: Amounts written off during the year as uncollectible	(67,333)	(37,638)	(104,971)
Foreign exchange translation gains and losses	<u>-</u>	<u>(416)</u>	<u>(416)</u>
Balance at December 31, 2017	<u>\$ 9,707</u>	<u>\$ 31,062</u>	<u>\$ 40,769</u>

11. INVENTORIES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Merchandise	\$ 2,875,190	\$ 2,388,459
Maintenance parts	<u>35,375</u>	<u>33,824</u>
	<u>\$ 2,910,565</u>	<u>\$ 2,422,283</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$10,350,367 thousand and \$9,961,443 thousand, respectively. The cost of goods sold included inventory write-downs of \$12,731 thousand and \$78,285 thousand, respectively.

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Unlisted common shares	\$ 439,301	\$ 416,026
Unlisted special shares	50,000	-
Others	<u>19,849</u>	<u>16,945</u>
	<u>\$ 509,150</u>	<u>\$ 432,971</u>

Management believed that the above unlisted equity investments held by the Group had fair values which cannot be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

13. SUBSIDIARIES

Subsidiaries Included in the consolidated Financial Statements

Investor	Investee	Main Business	<u>% of Ownership</u>		Remark
			<u>December 31</u>	<u>2017</u>	
The Corporation	Concord System Management Corporation (CSMC)	Design, assessment and planning of computer system and application software and data-processing system, sale and lease of computer hardware, peripheral equipment and spare parts, and repairs and maintenance services.	100.00	100.00	
The Corporation	System Capital Group, Inc. (SCGI)	Investment activities including financial trust and holding.	100.00	100.00	
The Corporation	Hanmore Investment Corporation (Hanmore)	General investment activities.	48.92	48.92	a)
The Corporation	System Software & Service Corporation (SSSC)	Sale and development of computer software, data-processing services.	100.00	100.00	
The Corporation	Golden Bridge Corporation (GBC)	General investment activities.	100.00	100.00	
The Corporation	Taifon Computer Co., Ltd. (Taifon)	Design of computer hardware and software equipment system, computer room installation, and maintenance, sale, lease and consultation.	100.00	100.00	
The Corporation	Ching Pu Investment Corporation (Ching Pu)	General investment activities.	100.00	100.00	
The Corporation	Kimo.com (BVI) Corporation (Kimo BVI)	Investment activities including financial trust and holding.	100.00	100.00	

(Continued)

Investor	Investee	Main Business	% of Ownership		Remark
			2017	2016	
The Corporation, Ching Pu and GBC	Syspower Corporation (Syspower)	Design, setup and maintenance of computer information and communication engineering, and design and sale of computer system software.	84.07	84.07	
The Corporation	Nexsys Corporation (Nexsys)	Manufacturing of wire communication equipment and apparatus, electronic parts and components, and computers and peripheral equipment, installation of computer, and wholesale and retailing of computer and business machinery equipment.	100.00	100.00	
The Corporation	Systex Solutions Corporation II (Systex Solutions II)	Design, construction and sale of telecom instrument, electronic calculator and computer.	100.00	100.00	
The Corporation	Etu Corporation (Etu)	Software design and data processing, retailing and service of software.	84.19	78.26	b)
The Corporation	Naturint Corporation (Naturint)	Installation, sale, information software, data processing and other consultation of computer software and related equipment, network certification and software publication.	100.00	100.00	c)
GBC	SoftMobile Technology Corporation (Soft Mobile)	Manufacturing of wire communication equipment and apparatus, electronic parts and components, and computers and peripheral equipment, installation of computer, and wholesale and retailing of computer and business machinery equipment.	100.00	100.00	
Ching Pu	Taiwan Electronic Data Processing Corporation (TEDP)	Design, installation, maintenance, lease and consultation of computer software and hardware equipment system, computer room engineering, network equipment system integration, and wholesale and retailing of medical appliances.	69.59	69.59	
TEDP	Medincom Technology Corporation (Medincom)	Installation, sale and consultation of computer software and related equipment, and wholesale and retailing of medical appliances.	100.00	100.00	
Kimo BVI	Sysware Singapore Pte. Ltd. (Sysware Singapore)	Computer system integration service and software.	100.00	100.00	
Kimo BVI	Systex Information (H.K.) Limited (Systex Info)	Sale of computer and peripheral equipment, retailing and processing of information of software.	100.00	100.00	
Kimo BVI	Sysware Shenglong Information Systems Co., Ltd. (Sysware Shenglong)	Design of computer system, information processing service provider, retailing of computer and peripheral equipment.	100.00	100.00	
Kimo BVI	Ucom Information Ltd. (Shanghai) (Ucom Shanghai)	Service, wholesale and retailing of information software.	100.00	100.00	
Kimo BVI	Systek Information (Shanghai) Ltd. (Systek)	Sale of computer and peripheral equipment, retailing and processing of information software.	100.00	100.00	
Kimo BVI	Rainbow Tech Information (HK) Limited (RTIHK)	Sale of computer and peripheral equipment, retailing and processing of information software.	100.00	100.00	
Kimo BVI	Systex Solutions (HK) Limited	Investment activities including financial trust and holding.	100.00	100.00	
Kimo BVI and SCGI Sysware Shenglong	Syscore Corporation (Syscore) Optima Financial Software Company (Optima)	General investment activities. Research, development and production of computer hardware, and information system integration.	100.00 -	- -	d) e)
Systex Info	Systex Group (China) Ltd. (Systex China)	Management consultation, marketing and sale, and capital and operation financial management.	100.00	100.00	
Systek and Ucom Shanghai	Rainbow Tech (Guangzhou) Inc. (RTGI)	Research, development, installation and wholesale of software and hardware technique and internet system.	100.00	100.00	
Systex Group (China) Ltd. (Systex Group)	Systex Ucom (Shanghai) Information Ltd. Co. (Systex Ucom)	Software design and data processing, retailing and service of software.	100.00	100.00	

(Concluded)

- a. The Group holds a 48.9% interest in Hanmore. The directors of the Corporation consider the Group's absolute size of holding in Hanmore and the relative size of and dispersion of the shareholdings owned by the other shareholders and concluded that the Group has the practical ability to direct the relevant activities of Hanmore and therefore the Group has control over Hanmore.
- b. The Corporation purchased shares of Etu in June and July 2017 from the shareholders of non-controlling interests, resulting in an increase of the ownership percentage.
- c. Naturint was incorporated in July 2016.
- d. Syscore was incorporated in October 2017.
- e. Optima completed nullification of registration process in May 2016.

All accounts of subsidiaries were included in consolidated financial statements for the years ended December 31, 2017 and 2016.

Among the abovementioned entities, the financial statements as of and for the years ended December 31, 2017 and 2016 of Sysware Singapore were not audited. The aggregate assets of the subsidiary as of December 31, 2017 and 2016 amounted to \$7,788 thousand and \$8,995 thousand, respectively, which were 0.04% and 0.05% of the respective consolidated assets, and the aggregate liabilities amounted to \$76 thousand and \$707 thousand, respectively, which were 0% and 0.01% of the respective consolidated liabilities. The aggregate net operating revenues of the subsidiary in 2017 and 2016 amounted to \$0 thousand and \$30,493 thousand, respectively, which were 0% and 0.19% of the respective consolidated net operating revenues, and the aggregate amounts of comprehensive loss amounted to \$2,020 thousand and \$451 thousand in 2017 and 2016, respectively, which were (0.27%) and (0.05%) of the respective consolidated total comprehensive income. The Corporation believes that any adjustment that might have resulted had the financial statements of the subsidiary been audited would not be material to the consolidated financial statements taken as a whole.

14. INVESTMENTS ACCOUNTED FOR BY USING THE EQUITY METHOD

	<u>December 31</u>	
	2017	2016 (After Restated)
<u>Investments in associates</u>		
Material associates		
Forms Syntron Information (Shenzhen) Limited	\$ 737,516	\$ 793,549
Associates that are not individually material	<u>416,011</u>	<u>397,656</u>
	<u>\$ 1,153,527</u>	<u>\$ 1,191,205</u>

- a. Material associates

	<u>Proportion of Ownership and Voting Rights</u>	
	<u>December 31</u>	
Name of Associates	2017	2016
Forms Syntron Information (Shenzhen) Limited	11.69%	14.16%

Although the Group only owns less than 20% of interests of Forms Syntron Information (Shenzhen) Limited, the Group has significant influence over the investee since the Group holds a director of the investee; therefore, the investment is accounted for using the equity method. As the Group had planned to dispose all interests of Forms Syntron Information (Shenzhen) Limited in 2017, the Group entered into a sale agreement in January 2017 and the sale transaction was to be completed in the second quarter of 2017. Therefore, the Group classified the carrying amount of the investment, amounting to \$793,549 thousand, to non-current asset held for sale. Due to the transaction, the Group paid a contract guarantee deposit amounted to US\$15,000 thousand (accounted for refundable deposits - current)

However, due to the local policy that imposes foreign exchange controls, the buyer could not fully pay the total contract price and the ownership interests can not be transferred to the buyer according to the sale agreement. After negotiations, the Group and the buyer agreed to terminate the sale agreement in March 2017, and the Group refunded the aforementioned deposit in May 2017. Hence, the investment no longer met the criteria of non-current asset held for sale and should be measured at the carrying amount that would have been recognized had such interests not been classified as held for sale in accordance with the requirements of IFRS 5, and the presentation of the investment in the consolidated balance sheets as of December 31, 2016 has been retrospectively adjusted.

Fair values (Level 1) of investment in the associate with available published price quotation are summarized as follows:

Name of Associate	December 31	
	2017	2016
Forms Syntron Information (Shenzhen) Limited	<u>\$ 2,288,705</u>	<u>\$ 3,801,920</u>

Summarized financial information in respect of the Group's material associate is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Forms Syntron Information (Shenzhen) Limited

	December 31	
	2017	2016
Assets	\$ 5,315,268	\$ 4,630,310
Liabilities	<u>(235,625)</u>	<u>(276,832)</u>
Equity	<u>\$ 5,079,643</u>	<u>\$ 4,353,478</u>
Proportion of the Group's ownership	11.69%	14.16%
Equity attributable to the Group	\$ 594,031	\$ 616,614
Goodwill	147,440	182,345
Other payables	<u>(3,955)</u>	<u>(5,410)</u>
Carrying amount	<u>\$ 737,516</u>	<u>\$ 793,549</u>

	For the Year Ended December 31	
	2017	2016
Operating revenue	<u>\$ 1,664,593</u>	<u>\$ 1,783,405</u>
Net profit for the year	\$ 417,417	\$ 367,485
Other comprehensive income	<u>(542)</u>	<u>2,818</u>
Total comprehensive income for the year	<u>\$ 416,875</u>	<u>\$ 370,303</u>
Dividends received from Forms Synttron Information (Shenzhen) Limited	<u>\$ 14,960</u>	<u>\$ 13,075</u>

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Net profit for the year	\$ 11,762	\$ 18,342
Other comprehensive income (loss)	<u>13,261</u>	<u>(13,365)</u>
Total comprehensive income for the year	<u>\$ 25,023</u>	<u>\$ 4,977</u>

Except for E-Customer Capital Limited, Systex Infopro Co., Ltd. and Sunlight-tech Inc., for the year ended December 31, 2017, and AFE Solutions Limited, Bisnews International Limited, E-Customer Capital Limited, Systex Infopro Co., Ltd. and Yankey Inc., for the year ended in December 31, 2016, investments accounted for by the equity method and the share of profit or loss and other comprehensive income were calculated based on the financial statements that have been audited. Management believes the financial statements that have not been audited would not have material impact on the investments under the equity method or the share of profit or loss and other comprehensive income in the consolidated financial statements.

In addition, the Group planned to dispose all the interests of AFE Solutions Limited and Bisnews International Limited in 2017. Therefore, the Group reclassified the carrying amounts of these investment, amounting to \$81,149 thousand and \$15,397 thousand, respectively, to non-current asset held for sale in October 2016. The disposal of the interests was completed in March 2017, and the proceeds of the disposal amounted to \$275,370 thousand (US\$9,049 thousand.).

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>								
Balance at January 1, 2016	\$ 835,372	\$ 1,530,556	\$ 268,980	\$ 12,722	\$ 87,083	\$ 54,946	\$ 100,589	\$ 2,890,248
Additions	-	-	59,901	10,169	13,480	5,330	4,568	93,448
Disposals	(4,304)	(28,749)	(128,757)	(9,220)	(13,901)	(16,833)	(14,457)	(216,221)
Reclassification	-	-	(3,181)	-	(67)	-	-	(3,248)
Effect of foreign currency exchange differences	-	(24,702)	(2,391)	(243)	(399)	(637)	(4,084)	(32,456)
Balance at December 31, 2016	<u>\$ 831,068</u>	<u>\$ 1,477,105</u>	<u>\$ 194,552</u>	<u>\$ 13,428</u>	<u>\$ 86,196</u>	<u>\$ 42,806</u>	<u>\$ 86,616</u>	<u>\$ 2,731,771</u>

(Continued)

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2016	\$ 14,853	\$ 481,312	\$ 175,989	\$ 11,128	\$ 28,981	\$ 30,912	\$ 57,576	\$ 800,751
Depreciation expenses	-	23,052	53,653	1,211	29,795	10,043	13,161	130,915
Disposals	-	(16,260)	(127,872)	(9,220)	(13,901)	(16,833)	(13,900)	(197,986)
Reclassification	-	-	(2,152)	-	(54)	-	-	(2,206)
Effect of foreign currency exchange differences	-	(4,180)	(1,568)	(202)	(145)	(481)	(2,800)	(9,376)
Balance at December 31, 2016	<u>\$ 14,853</u>	<u>\$ 483,924</u>	<u>\$ 98,050</u>	<u>\$ 2,917</u>	<u>\$ 44,676</u>	<u>\$ 23,641</u>	<u>\$ 54,037</u>	<u>\$ 722,098</u>
Carrying amounts at December 31, 2016	<u>\$ 816,215</u>	<u>\$ 993,181</u>	<u>\$ 96,502</u>	<u>\$ 10,511</u>	<u>\$ 41,520</u>	<u>\$ 19,165</u>	<u>\$ 32,579</u>	<u>\$ 2,009,673</u>
<u>Cost</u>								
Balance at January 1, 2017	\$ 831,068	\$ 1,477,105	\$ 194,552	\$ 13,428	\$ 86,196	\$ 42,806	\$ 86,616	\$ 2,731,771
Additions	-	-	44,075	508	5,431	4,015	7,626	61,655
Disposals	(5,310)	(2,873)	(42,303)	-	(22,880)	(7,773)	(6,224)	(87,363)
Reclassification	-	-	63	-	(1,780)	(248)	288	(1,677)
Effect of foreign currency exchange differences	-	(5,751)	(2,364)	(55)	(117)	(382)	(1,831)	(10,500)
Balance at December 31, 2017	<u>\$ 825,758</u>	<u>\$ 1,468,481</u>	<u>\$ 194,023</u>	<u>\$ 13,881</u>	<u>\$ 66,850</u>	<u>\$ 38,418</u>	<u>\$ 86,475</u>	<u>\$ 2,693,886</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2017	\$ 14,853	\$ 483,924	\$ 98,050	\$ 2,917	\$ 44,676	\$ 23,641	\$ 54,037	\$ 722,098
Depreciation expenses	-	22,442	43,675	1,955	26,943	7,640	12,156	114,811
Disposals	-	(1,084)	(40,127)	-	(22,880)	(7,773)	(6,198)	(78,062)
Reclassification	-	-	62	-	(1,581)	(4)	44	(1,479)
Effect of foreign currency exchange differences	-	(973)	(1,869)	(50)	(34)	(304)	(777)	(4,007)
Balance at December 31, 2017	<u>\$ 14,853</u>	<u>\$ 504,309</u>	<u>\$ 99,791</u>	<u>\$ 4,822</u>	<u>\$ 47,124</u>	<u>\$ 23,200</u>	<u>\$ 59,262</u>	<u>\$ 753,361</u>
Carrying amounts at December 31, 2017	<u>\$ 810,905</u>	<u>\$ 964,172</u>	<u>\$ 94,232</u>	<u>\$ 9,059</u>	<u>\$ 19,726</u>	<u>\$ 15,218</u>	<u>\$ 27,213</u>	<u>\$ 1,940,525</u>

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	19-60 years
Computer equipment and other equipment	3-7 years
Transportation equipment	5-6 years
Lease equipment	2-5 years
Leasehold improvements	2-5 years or the period of lease, if shorter

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 26.

16. SHORT-TERM LOANS

Bank Loans

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Unsecured loans	\$ 901,000	\$ 576,000
Secured loans	<u>559,053</u>	<u>470,022</u>
	<u>\$ 1,460,053</u>	<u>\$ 1,046,022</u>
Annual interest rate		
Unsecured loans	1.13%-2.34%	1.24%-2.37%
Secured loans	1.40%-4.92%	1.43%-4.57%

Refer to Note 26 for the carrying amounts of property, plant and equipment - buildings and the Corporation's shares provided as collaterals for the above secured bank loans.

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation and its domestic subsidiaries adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of Systex Info, RTIHK, Systek, Ucom Shanghai, Sysware Shenglong, RTGI, Systex China, Systex Ucom and Sysware Singapore are members of state-managed retirement benefit plans operated by the governments of their respective jurisdictions. The subsidiaries are required to contribute specific percentages of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Corporation and several of its domestic subsidiaries in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. These entities contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 504,162	\$ 510,678
Fair value of plan assets	<u>(240,525)</u>	<u>(264,299)</u>
Net defined benefit liability	<u>\$ 263,637</u>	<u>\$ 246,379</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2016	<u>\$ 492,267</u>	<u>\$ (253,194)</u>	<u>\$ 239,073</u>
Service cost			
Current service cost	2,667	-	2,667
Net interest expense (income)	<u>7,397</u>	<u>(3,947)</u>	<u>3,450</u>
Recognized in profit or loss	<u>10,064</u>	<u>(3,947)</u>	<u>6,117</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,211	2,211
Actuarial loss - changes in demographic assumptions	4,851	-	4,851
Actuarial loss - changes in financial assumptions	15,459	-	15,459
Actuarial loss - experience adjustments	<u>(7,137)</u>	<u>-</u>	<u>(7,137)</u>
Recognized in other comprehensive income	<u>13,173</u>	<u>2,211</u>	<u>15,384</u>
Contributions from the employer	-	(14,220)	(14,220)
Benefits paid	(4,826)	4,826	-
Plan assets refund	<u>-</u>	<u>25</u>	<u>25</u>
Balance at December 31, 2016	<u>510,678</u>	<u>(264,299)</u>	<u>246,379</u>
Service cost			
Current service cost	2,236	-	2,236
Net interest expense (income)	<u>6,992</u>	<u>(3,740)</u>	<u>3,252</u>
Recognized in profit or loss	<u>9,228</u>	<u>(3,740)</u>	<u>5,488</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,453	1,453
Actuarial gain - changes in demographic assumptions	(5,109)	-	(5,109)
Actuarial loss - changes in financial assumptions	7,326	-	7,326
Actuarial loss - experience adjustments	<u>29,073</u>	<u>-</u>	<u>29,073</u>
Recognized in other comprehensive income	<u>31,290</u>	<u>1,453</u>	<u>32,743</u>
Contributions from the employer	-	(12,924)	(12,924)
Benefits paid	<u>(47,034)</u>	<u>38,985</u>	<u>(8,049)</u>
Balance at December 31, 2017	<u>\$ 504,162</u>	<u>\$ (240,525)</u>	<u>\$ 263,637</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2017	2016
Discount rates	1.25%-1.75%	1.38%-1.75%
Expected rates of salary increase	1.00%-2.50%	1.00%-2.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	2017	2016
Discount rates		
0.25%-0.5% increase	<u>\$ (30,460)</u>	<u>\$ (25,514)</u>
0.25%-0.5% decrease	<u>\$ 28,339</u>	<u>\$ 27,514</u>
Expected rates of salary increase		
0.25%-0.5% increase	<u>\$ 28,438</u>	<u>\$ 26,794</u>
0.25%-0.5% decrease	<u>\$ (30,317)</u>	<u>\$ (25,079)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 17,631</u>	<u>\$ 14,164</u>
The average duration of the defined benefit obligation	13 years	15 years

18. EQUITY

a. Share capital

	<u>December 31</u>	
	2017	2016
Number of common shares authorized (in thousands)	<u>400,000</u>	<u>400,000</u>
Common shares authorized	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>
Number of common shares issued (in thousands)	<u>269,393</u>	<u>269,393</u>
Common shares issued	<u>\$ 2,693,933</u>	<u>\$ 2,693,933</u>

Fully paid common shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

b. Stock-based compensation plan

For the Corporation to retain its qualitative professionals for its business and operations and deepen the employees' sense of belonging, the Corporation adopted stock option plans (the "Plans"), which the board of directors approved on March 19, 2010, to grant employees 10,000 units of stock options. Each unit represented 1,000 common shares of the Corporation. The Securities and Futures Bureau under the FSC approved the Plans on April 12, 2010.

The Corporation issued 6,800 units and 3,200 units, on February 17, 2011 and May 10, 2010, respectively. The options were granted to qualified employees of the Corporation and its subsidiaries. The options are valid for 5 years and exercisable at certain percentages after the second anniversary from the grant date. The exercise price of the stock options is equal to the closing price of the Corporation's common shares listed on the Taiwan Stock Exchange on the date of the grant. If the number of the Corporation's common shares changes after the granting of the stock option, the exercise price will be revised in accordance with the terms of the Plans.

Information on employee stock options in 2016 was as follows:

Employee Stock Option	2016	
	Number of Outstanding Options	Weighted-average Exercise Price (NT\$)
Beginning outstanding balance	655	\$ 29.90
Options exercised	(555)	\$ 29.90
Options forfeited	(100)	\$ 29.90
Ending outstanding balance	-	\$ -
Ending exercisable balance	-	

Options granted in 2011 and 2010 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	Issued on February 17, 2011	Issued on May 10, 2010
Grant-date share price (NT\$)	\$40.50	\$42.70
Exercise price (NT\$)	\$33.90	\$34.00
Expected volatility	37.24%-37.76%	39.20%-39.45%
Expected life (years)	3.5-4 years	3.5-4 years
Expected dividend yield	-	-
Risk-free interest rate	1%-1.045%	0.69%-0.87%

c. Capital surplus

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Maybe used to offset a deficit, distribute as cash dividends, or transfer to share capital (1)</u>		
Issue of common shares	\$ 5,638,242	\$ 6,042,332
Donations	544	544
<u>May not be used for any purpose</u>		
Changes in percentage of ownership interest in subsidiaries (2)	8,576	8,576
Share of changes in associates accounted for by using equity method	270,675	255,542
Treasury share transactions	1,440,542	1,323,493
Gain on sale of property and equipment	<u>4,493</u>	<u>4,493</u>
	<u>\$ 7,363,072</u>	<u>\$ 7,634,980</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).
- 2) Such capital surplus arises from the effect of changes in ownership interest in subsidiary resulted from equity transactions other than actual disposal on acquisition, or from changes in capital surplus of subsidiaries accounted for by using the equity method.

d. Appropriation of earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 17, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors after amendment, please refer to c. employees' compensation and remuneration of directors in Note 19.

Following its Articles of Incorporation and considering the overall environment, growth trends in the industry, and the Corporation's long-term financial planning and ongoing goal to have steady progress, the Corporation applies its residual dividends policy as follows:

- 1) Determine the appropriate capital budget.
- 2) Determine the funds needed for the capital budget.

- 3) Determine the amount to be funded by unappropriated earnings (the remaining may be funded through capital increase by cash or through issuance of bonds).
- 4) The remaining retained earnings, less an appropriate portion for the operational needs, may be distributed to shareholders.

The Corporation's dividends may be distributed in cash or stocks. The distribution of profits shall be made preferably by way of cash dividends. The distribution could also be made by way of stock dividends, which should not exceed 50% of the total distributed earnings in principle. In addition, dividend policy depends on criteria such as the Corporation's current and future investment environment, cash requirements, domestic and international competition, capital budget, etc. Further, the Corporation also takes into consideration shareholders' interests, balances of dividends and its long-term financial goals. Annually, the board of directors prepares a proposal on earnings appropriation for approval at the shareholders' meeting.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under the local regulations, an amount equal to the net debit balance of total other equity items (including exchange differences on translating foreign operations and unrealized gain (loss) on available-for-sale financial assets) shall be appropriated as a special reserve. The special reserve may be reversed to the extent of the decrease in the net debit balance.

If the Corporation's shares are held by its subsidiaries at the end of the year and the market value of the shares held are lower than their carrying amounts, the Corporation should appropriate a special reserve equal to the difference between the carrying amounts and market value multiplied by its percentages of ownership in the subsidiaries. The special reserve can be reversed in proportion to the percentages of ownership in the subsidiaries when the market value of the shares increased.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2016 and 2015 had been approved in the shareholders' meetings held on June 16, 2017 and June 17, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Legal reserve	\$ 110,827	\$ 56,428	\$ -	\$ -
Special reserve	64,494	-	-	-
Cash dividends	<u>942,877</u>	<u>673,483</u>	<u>3.5</u>	<u>2.5</u>
	<u>\$ 1,118,198</u>	<u>\$ 729,911</u>	<u>\$ 3.5</u>	<u>\$ 2.5</u>

The shareholders resolved the distribution in cash of the capital surplus arising from issuance of common shares in the shareholders' meeting held on June 16, 2017 and June 17, 2016, respectively. The distribution amounted to \$404,090 thousand (at NT\$1.5 per share) and \$673,483 thousand (at NT\$2.5 per share), respectively.

The appropriations of earnings for 2017 had been proposed by the Corporation's board of directors on March 22, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 117,775	\$ -
Special reserve	388,833	-
Cash dividends	673,483	2.5

In addition, the board of directors proposed in the same meeting the distribution in cash of the capital surplus arising from issuance of common shares, amounting to \$673,483 thousand at NT\$2.5 per share.

The appropriations of 2017 earnings and distribution of capital surplus will be resolved by the shareholders in their meeting scheduled for June 2018.

Information about the appropriations of earnings and distribution of capital surplus are available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Others equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ (83,286)	\$ 127,939
Exchange differences arising on translating the net asset of foreign operations	(434,475)	(129,765)
Share of exchange difference of associates accounted for using the equity method	<u>47,070</u>	<u>(81,460)</u>
Balance at December 31	<u>\$ (470,691)</u>	<u>\$ (83,286)</u>

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 18,792	\$ 8,841
Unrealized loss arising on revaluation of available-for-sale financial assets	(1,428)	(22,278)
Cumulative loss reclassified to profit or loss on impairment of available-for-sale financial assets	-	32,219
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>-</u>	<u>10</u>
Balance at December 31	<u>\$ 17,364</u>	<u>\$ 18,792</u>

f. Treasury share (in thousand)

Purpose of Treasury Share	Number of Shares at January 1	Increase During the Year	Decrease During the Year	Number of Shares at December 31
<u>2017</u>				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	<u>23,410</u>	<u>-</u>	<u>-</u>	<u>23,410</u>
<u>2016</u>				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	<u>22,687</u>	<u>723</u>	<u>-</u>	<u>23,410</u>

The Corporation's shares held by subsidiaries at end of reporting period were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Hanmore</u>		
Share (in thousand)	<u>21,317</u>	<u>21,317</u>
Investments cost	<u>\$ 834,351</u>	<u>\$ 866,326</u>
Market value	<u>\$ 1,264,079</u>	<u>\$ 1,238,499</u>
<u>Ching Pu</u>		
Share (in thousand)	<u>12,982</u>	<u>12,982</u>
Investments cost	<u>\$ 338,944</u>	<u>\$ 358,416</u>
Market value	<u>\$ 769,802</u>	<u>\$ 754,224</u>

For the Corporation's shares held by Hanmore, the investment cost at 48.9% (the ownership percentage owned by the Corporation) was transferred from investment accounted for using equity method to treasury shares, amounting to \$515,618 (10,428 thousand shares) as of December 31, 2017 and 2016, respectively. The remaining was treated as recoveries from Hanmore's non-controlling interests, accounted for deduction to non-controlling interests in balance sheets.

The Corporation's shares held by its subsidiaries are recorded as treasury shares, with the subsidiaries having the same rights as other common shareholders on these shares, except that the subsidiaries which are owned by the parent company for over 50% will not have the right to participate in any share issuance for cash or to vote.

g. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 31,003	\$ 56,026
Attributable to non-controlling interests:		
Share of loss for the year	(4,631)	(17,940)
Unrealized gains on available-for-sale financial asset	815	487
Remeasurement on defined benefit plans	(927)	(772)
Cash dividends received from subsidiaries	(28,465)	(39,317)
Non-controlling interests arising from cash dividends received by subsidiaries (Hanmore) from the Corporation	54,441	53,823
No-controlling interests arising from subscription of capital increase in Etu	-	25,000
Change in subsidiaries ownership	(436)	(8,576)
Acquisition of the Corporation's shares by Hanmore regarding as treasury share transaction	<u>-</u>	<u>(37,728)</u>
Balance at December 31	<u>\$ 51,800</u>	<u>\$ 31,003</u>

19. NET PROFIT

a. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 114,811	\$ 130,915
Intangible assets	<u>43,620</u>	<u>61,760</u>
	<u>\$ 158,431</u>	<u>\$ 192,675</u>
An analysis of depreciation by function		
Operating costs	\$ 37,583	\$ 47,623
Operating expenses	<u>77,228</u>	<u>83,292</u>
	<u>\$ 114,811</u>	<u>\$ 130,915</u>
An analysis of amortization by function		
Operating costs	\$ 2,922	\$ 3,017
Operating expenses	<u>40,698</u>	<u>58,743</u>
	<u>\$ 43,620</u>	<u>\$ 61,760</u>

b. Employee benefits expenses (accounted for operating expenses)

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plans	\$ 127,437	\$ 127,295
Defined benefits plans (Note 17)	<u>5,488</u>	<u>6,117</u>
	132,925	133,412
Termination benefits	9,975	10,188
Payroll and other employee benefits	<u>2,831,288</u>	<u>2,875,750</u>
	<u>\$ 2,974,188</u>	<u>\$ 3,019,350</u>

As of December 31, 2017 and 2016, the Group has 2,907 and 2,920 employees, respectively.

c. Employees' compensation and remuneration of directors

The Corporation accrued employees' compensation and remuneration of directors at the rates no less than 0.1% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2017 and 2016 which have been approved by the Corporation's board of directors on March 22, 2018 and March 23, 2017, respectively, were as follows:

	For the Year Ended December 31			
	2017		2016	
	Accrual Rate	Cash	Accrual Rate	Cash
Employees' compensation	0.1%	\$ 1,216	0.1%	\$ 1,102
Remuneration of directors	2.0%	24,317	2.0%	22,035

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016.

Information on the employees' compensation and remuneration of directors resolved by the Corporation's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Gain (loss) on sale of investments, net

	For the Year Ended December 31	
	2017	2016
Financial asset at fair value through profit or loss	\$ 28,152	\$ 57,897
Financial assets measured at cost	-	1,263
Held-to-maturity financial assets	-	(404)
Investments accounted for using the equity method	257,467	1,168,277
Non-current assets held for sale	<u>193,003</u>	<u>-</u>
	<u>\$ 478,622</u>	<u>\$ 1,227,033</u>

e. Impairment losses on assets

	<u>For the Year Ended December 31</u>	
	2017	2016
<u>Financial assets</u>		
Financial assets measured at cost	\$ 882	\$ 60,083
Available-for-sale financial assets	-	32,219
Investments accounted for using the equity method	<u>3,247</u>	<u>81,749</u>
	<u>4,129</u>	<u>174,051</u>
<u>Non-financial assets</u>		
Computer software	8,535	-
Technological expertise	23,213	-
Other intangible assets	1,906	-
Goodwill	<u>-</u>	<u>315,223</u>
	<u>33,654</u>	<u>315,223</u>
	<u>\$ 37,783</u>	<u>\$ 489,274</u>

20. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Current tax		
In respect of the current year	\$ 82,099	\$ 59,903
Income tax expense of unappropriated earnings	210	16
Land value increment tax	102	720
Enterprise Income Tax on securities	34,204	133,010
Adjustments for prior years' tax	<u>(383)</u>	<u>(9,362)</u>
	116,232	184,287
Deferred tax		
In respected of the current year	<u>10,810</u>	<u>(28,755)</u>
Income tax expense recognized in profit or loss	<u>\$ 127,042</u>	<u>\$ 155,532</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Profit before tax	<u>\$ 1,300,160</u>	<u>\$ 1,245,860</u>
Income tax expense calculated at the statutory rate (17%)	\$ 221,027	\$ 211,796
Nondeductible expenses in determining taxable income	4,668	45,762
Tax-exempt income	(67,198)	(235,148)
Additional income tax on unappropriated earnings	210	16
Unrecognized temporary differences	(9,898)	2,086

(Continued)

	For the Year Ended December 31	
	2017	2016
Investment tax credits recognized	\$ -	\$ (26,247)
Unrecognized loss carryforwards	5,062	17,432
Effect of different tax rate of group entities operating in other jurisdictions	(60,752)	15,467
Adjustments for prior years' tax	(383)	(9,362)
Land value increment tax	102	720
Enterprise Income Tax on securities	<u>34,204</u>	<u>133,010</u>
Income tax expense recognized in profit or loss	<u>\$ 127,042</u>	<u>\$ 155,532</u> (Concluded)

System Solution (HK) Limited sold investments accounted for using equity method in 2017 and 2016 and incurred Enterprise Income Tax of \$34,204 thousand and \$133,010 thousand, respectively, according to the related tax laws in its jurisdiction.

The applicable corporate income tax rate used above is 17% for the group entities in ROC, and 25% for subsidiaries in China. Tax rate used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$4,433 thousand and \$886 thousand, respectively, in 2018.

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
<u>Deferred tax</u>		
Remeasurement on defined benefit plan	<u>\$ (151)</u>	<u>\$ 437</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets (included in other receivables)		
Tax refund receivable	<u>\$ 20,373</u>	<u>\$ 17,385</u>
Current tax liabilities		
Income tax payable	\$ 50,105	\$ 158,286
In respect of prior years	<u>11,934</u>	<u>10,153</u>
	<u>\$ 62,039</u>	<u>\$ 168,439</u>

As of December 31, 2017 and 2016, income tax payables were net of prepayments aggregating \$33,252 thousand and \$34,633 thousand, respectively.

d. The movements of deferred tax assets and liabilities

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com- prehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized project costs	\$ 196	\$ (60)	\$ -	\$ 136
Allowance for loss on inventories	20,531	(14,652)	-	5,879
Deferred revenue	772	1,119	-	1,891
Payable for annual leave	5,968	(4,519)	-	1,449
Defined benefit obligation	3,017	216	(151)	3,082
Others	<u>4,931</u>	<u>5,499</u>	<u>-</u>	<u>10,430</u>
	35,415	(12,397)	(151)	22,867
Loss carry forwards	1,287	968	-	2,255
Investment credits	<u>30,000</u>	<u>(252)</u>	<u>-</u>	<u>29,748</u>
	<u>\$ 66,702</u>	<u>\$ (11,681)</u>	<u>\$ (151)</u>	<u>\$ 54,870</u>

Deferred tax liabilities

Temporary differences				
Exchange differences on foreign operations	\$ 4,969	\$ -	\$ -	\$ 4,969
Others	<u>925</u>	<u>(871)</u>	<u>-</u>	<u>54</u>
	<u>\$ 5,894</u>	<u>\$ (871)</u>	<u>\$ -</u>	<u>\$ 5,023</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com- prehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized project costs	\$ 19,901	\$ (19,705)	\$ -	\$ 196
Allowance for loss on inventories	15,648	4,883	-	20,531
Deferred revenue	2,255	(1,483)	-	772
Payable for annual leave	2,688	3,280	-	5,968
Defined benefit obligation	2,090	490	437	3,017
Others	<u>3,000</u>	<u>1,931</u>	<u>-</u>	<u>4,931</u>
	45,582	(10,604)	437	35,415
				(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com- prehensive Income	Closing Balance
Loss carry forwards	\$ -	\$ 1,287	\$ -	\$ 1,287
Investment credits	<u>3,753</u>	<u>26,247</u>	<u>-</u>	<u>30,000</u>
	<u>\$ 49,335</u>	<u>\$ 16,930</u>	<u>\$ 437</u>	<u>\$ 66,702</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Goodwill	\$ 11,472	\$ (11,472)	\$ -	\$ -
Exchange differences on foreign operations	4,969	-	-	4,969
Others	<u>1,278</u>	<u>(353)</u>	<u>-</u>	<u>925</u>
	<u>\$ 17,719</u>	<u>\$ (11,825)</u>	<u>\$ -</u>	<u>\$ 5,894</u> (Concluded)

- e. Unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Loss carryforwards		
Expiry in 2017	\$ -	\$ 145,132
Expiry in 2018	52,116	54,678
Expiry in 2019	122,224	122,513
Expiry in 2020	19,687	19,687
Expiry in 2021	4,316	4,316
Expiry in 2022	78,990	78,990
Expiry in 2023	14,698	14,698
Expiry in 2024	9,989	9,989
Expiry in 2025	85,255	85,255
Expiry in 2026	108,682	102,548
Expiry in 2027	<u>38,738</u>	<u>-</u>
	<u>\$ 534,695</u>	<u>\$ 637,806</u>
Investment credits		
Equity investment	\$ 1,980	\$ 1,980
Research and development	<u>6,658</u>	<u>-</u>
	<u>\$ 8,638</u>	<u>\$ 1,980</u>

f. Information about unused investment credits and unused loss carryforwards

As of December 31, 2017, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Remaining Creditable Amount	Expiry Year
Act for promotion of private participation in infrastructure project	Equity investment	\$ 31,728	2020
Statute for Industrial Innovation	Research and development	<u>6,658</u>	2018
		<u>\$ 38,386</u>	

Loss carryforwards as of December 31, 2017 comprised of:

Expiry Year	Total Credit
2018	\$ 52,116
2019	122,224
2020	19,687
2021	4,316
2022	78,990
2023	14,698
2024	9,989
2025	85,255
2026	116,027
2027	<u>44,656</u>
	<u>\$ 547,958</u>

g. Integrated income tax

	December 31	
	2017	2016
Imputation credits accounts	<u>\$ 304,708</u>	<u>\$ 364,380</u>
	For the Year Ended December 31	
	2017 (Estimate)	2016
Creditable ratio for distribution of earnings	Note	12.16%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

h. Income tax assessments

Income tax returns through 2016 and undistributed earnings through 2015 of Nexsys, TEDP, Medincom, Etu and Naturint; income tax returns through 2015 and undistributed earnings through 2014 of the Taifon, Ching Pu, Hanmore, Syspower, GBC, Soft Mobile, SSSC and Systex Solutions II; income tax returns through 2014 and undistributed earnings through 2013 of the Corporation and CSMS have been assessed by the tax authorities.

SCGI and KIMO are exempt from income tax under their local government regulations.

21. EARNINGS PER SHARE

The earnings and weighted average number of common shares outstanding in the computation of earnings per share were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Net income for the year</u>		
Net income for the year attributable to owners of the Corporation	<u>\$ 1,177,749</u>	<u>\$ 1,108,268</u>
<u>Number of shares (thousand)</u>		
Weighted average number of common shares in the computation of basic earnings per share	245,983	246,074
Effect of potentially dilutive common shares:		
Employees' compensation	<u>21</u>	<u>19</u>
Weighted average number of common shares in the computation of diluted earnings per share	<u>246,004</u>	<u>246,093</u>
<u>Earnings per share (NT\$)</u>		
Basic earnings per share	<u>\$4.79</u>	<u>\$4.50</u>
Dilutive earnings per share	<u>\$4.79</u>	<u>\$4.50</u>

If the Corporation can settle bonus to employees in cash or shares, the Corporation should assume the entire amount of the bonus will be settled in shares and the resulting potential shares, if dilutive, should be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The pro forma net income and earnings per share, assuming the Corporation's share held by subsidiaries were treated as investment instead of treasury shares, were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Net income for the year</u>		
Net income for the year attributable to owners of the Corporation	<u>\$ 1,259,683</u>	<u>\$ 1,166,497</u>
<u>Number of shares (thousand)</u>		
Weighted average number of common shares in the computation of pro forma earnings per shares	269,393	269,362
Effect of potentially dilutive common shares:		
Employees' compensation	<u>21</u>	<u>19</u>
Weighted average number of common shares in the computation of pro forma diluted earnings per shares	<u>269,414</u>	<u>269,381</u>
<u>Earnings per share (NT\$)</u>		
Basic earnings per shares	<u>\$4.68</u>	<u>\$4.33</u>
Dilutive earning per share	<u>\$4.68</u>	<u>\$4.33</u>

22. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In January and December 2016, the Group subscribed for additional new shares of Etu at a percentage different from its existing ownership percentage, reducing its interest from 100% to 75% and increasing from 75% to 78.26%, respectively. In June and July 2017, the Group purchased shares of Etu from the shareholders of non-controlling interests, increasing its interests from 78.26% to 84.19%.

The above transactions were accounted for as equity transactions, since the Group did not change the influence on these subsidiaries.

	For the Year Ended December 31	
	2017	2016
Cash consideration received (paid)	\$ (436)	\$ 25,000
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	<u>436</u>	<u>(16,424)</u>
Differences recognized from equity transaction	<u>\$ -</u>	<u>\$ 8,576</u>
Line item adjusted for equity transaction		
Capital surplus - changes in percentage of ownership interest in subsidiaries	<u>\$ -</u>	<u>\$ 8,576</u>

23. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity of the Group (comprising issued capital, legal reserve, retained earnings and other equity).

Key management personnel of the Corporation review the capital structure on a periodic basis. As part of this review, the Corporation considers the cost of capital and the risks associated with each class of capital. In order to balance the overall capital structure, the Corporation may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and the amount of new debt issued or existing debt redeemed.

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

Except that fair value of financial assets measured at cost could not be reliably measured, the management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2017</u>				
Financial assets at FVTPL				
Non-derivative financial assets held for trading	\$ 3,210,146	\$ 12,139	\$ -	\$ 3,222,285
Available-for-sale financial assets				
Listed shares	8,526	-	-	8,526
Corporation bonds	-	8,035	-	8,035
	<u>\$ 3,218,672</u>	<u>\$ 20,174</u>	<u>\$ -</u>	<u>\$ 3,238,846</u>
<u>December 31, 2016</u>				
Financial assets at FVTPL				
Non-derivative financial assets held for trading	\$ 2,852,523	\$ 27,433	\$ -	\$ 2,879,956
Available-for-sale financial assets				
Listed shares	11,047	-	-	11,047
Corporation bonds	-	7,937	-	7,937
	<u>\$ 2,863,570</u>	<u>\$ 35,370</u>	<u>\$ -</u>	<u>\$ 2,898,940</u>

There were no transfers between Levels 1 and 2 in 2017 and 2016.

c. Categories of financial instruments

	<u>December 31</u>	
	2017	2016
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 3,222,285	\$ 2,879,956
Loans and receivables (1)	8,601,007	8,952,148
Available-for-sale financial assets (2)	525,711	451,955
<u>Financial liabilities</u>		
Amortized cost (3)	5,469,604	4,908,405

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt instruments with no active market, notes receivable, accounts receivable, refundable deposits, other receivables, lease receivables - current (included in other current assets), long-term receivables, pledged time deposits - non-current (included in other non-current assets) and lease receivables - non-current (included in other non-current assets).

2) The balances included the carrying amount of available-for-sale financial assets measured at cost.

- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, notes and accounts payable, other payables and guarantee deposits received (included in other non-current liabilities).

d. Financial risk management objectives and policies

The Group's main target of financial risk management is to manage the market risk related to operating activity (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To reduce the potential and detrimental influence of the fluctuations in market on the Group's financial performance, the Group endeavors to identify, estimate and hedge the uncertainties of the market.

The Group's significant financial activity is reviewed and approved by the board of directors and audit committee in compliance with related regulations and internal control policy, and the authority and responsibility are delegated according to the operating procedures.

1) Market risk

a) Foreign currency risk

The Group has foreign currency sales, purchases and borrowings, which were exposed to foreign currency risk. The Group designated a department to monitor exchange rate fluctuations in timely manner and change foreign currency position to control and mitigate such risks as soon as possible.

The sensitivity analysis focused on outstanding foreign currency denominated monetary assets and monetary liabilities (mainly USD and RMB) at the end of the reporting period. A positive number below indicates a decrease/increase in pre-tax loss associated with New Taiwan dollars strengthening/weakening 5% against the relevant currency.

	For the Year Ended December 31	
	2017	2016
<u>USD</u>		
Increase/decrease	\$ 18,864	\$ 19,393
<u>RMB</u>		
Increase/decrease	8,950	62,430

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2017	2016
Fair value interest rate risk		
Financial assets	\$ 2,933,767	\$ 1,586,875
Financial liabilities	1,460,053	1,046,022
Cash flow interest rate risk		
Financial assets	1,705,305	3,308,373

The Group acquired better interest rate through long-term cooperation with banks; therefore, the effect of interest rate fluctuations is immaterial.

The sensitivity analyses below were determined based on financial assets and financial liabilities with floating interest rates at the end of reporting period. If interest rates had been 10 basis points (0.1%) higher/lower, the Group's pre-tax net income effect would have been as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Increase/decrease	\$ 1,705	\$ 3,308

c) Other price risk

The Group was exposed to price risk through its investments in listed shares, TDR, corporate bonds and mutual funds. The Group established a real-time control system for the price risk, and management does not anticipate any material loss due to this risk.

The sensitivity analyses of the above investment were determined based on financial assets which were measured at fair value at the end of reporting period. If market prices had been 5% higher/lower, the effects on the Group's pre-tax net income and other comprehensive income would have been as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Pre-tax net income		
Increase/decrease	\$ 161,114	\$ 143,998
Other comprehensive income		
Increase/decrease	828	949

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Group if the counterparties breached contracts. Generally, the maximum exposure to credit risk for financial assets at the balance sheet date are their carrying amounts.

The Group delegated a department responsible for managing accounts receivable, establishing credit limits, credit approvals and other monitoring procedures to ensure the profitability of the Group. The Group only transacts with creditworthy financial institutions to reduce credit risk.

Since the counterparties are creditworthy financial institutions and enterprises and the concentration of credit risk is not significant, the credit risk is anticipated to be immaterial.

3) Liquidity risk

The Group put in place inventory management system, procedures for collections and payments, and develops cash flow forecast to ensure the liquidity of operating capital. In addition, the Group invests idle funds in short-term market under consideration of liquidity, security and profitability. The Group also maintains banking facilities to ensure the liquidity of cash.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual terms.

December 31, 2017

	Less than 1 Year	1-5 Years	5+ Years	Total
<u>Non-derivative financial liabilities</u>				
Short-term bank loans	\$ <u>1,460,053</u>	\$ _____ -	\$ _____ -	\$ <u>1,460,053</u>

December 31, 2016

	Less than 1 Year	1-5 Years	5+ Years	Total
<u>Non-derivative financial liabilities</u>				
Short-term bank loans	\$ <u>1,046,022</u>	\$ _____ -	\$ _____ -	\$ <u>1,046,022</u>

The Group has sufficient working capital to meet the cash needs for their operations. Thus, no material liquidity risk is anticipated.

In addition, the Group's investments in mutual funds and listed shares are publicly-traded in an active market and can readily be sold in the market at their approximate fair values. However, the Group also invested in unlisted stocks, subordinate debenture bonds and convertible bonds with significant liquidity risks because these assets do not have quoted market prices in an active market.

25. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expense between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationship with the Group

<u>Related Parties</u>	<u>Relationship with the Group</u>
Systemweb Technologies Co., Ltd.	Associate
Sanfran Technologies Inc.	Associate
Investment Media Ltd.	Associate
Forms Syntron Information (Shenzhen) Limited	Associate
AFE Solutions Limited	Associate

b. Operating revenue

Line Items	Related Party Categories	<u>For the Year Ended December 31</u>	
		2017	2016
Sales	Associates	\$ <u>6,124</u>	\$ <u>5,124</u>
Service revenue	Associates	\$ <u>5,045</u>	\$ <u>3,740</u>

c. Purchases of goods

Related Party Categories	<u>For the Year Ended December 31</u>	
	2017	2016
Associates	\$ <u>70,074</u>	\$ <u>49,636</u>

d. Receivables from related parties

Line Items	Related Party Categories	December 31	
		2017	2016
Notes and accounts receivable	Associates	\$ <u>1,603</u>	\$ <u>868</u>

e. Payables to related parties

Line Items	Related Party Categories	December 31	
		2017	2016
Accounts payable	Associates	\$ <u>53,726</u>	\$ <u>21,774</u>

The product/service sales and purchase transactions with related parties were conducted underpricing terms similar to those for third parties, i.e., for purchases or sales of similar products/services, except those transactions on products/services with special specifications. Settlement terms for related-party transactions were similar to those for third parties.

f. Other assets acquired

Line Items	Related Party Categories	For the Year Ended December 31	
		2017	2016
Intangible assets	Associates	\$ <u>-</u>	\$ <u>5,827</u>

g. Other transactions with related parties

Line Items	Related Party Categories	For the Year Ended December 31	
		2017	2016
Service cost	Associates	\$ <u>20,571</u>	\$ <u>20,381</u>
Operating expenses	Associates	\$ <u>99</u>	\$ <u>99</u>

h. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 111,191	\$ 113,537
Post-employment benefits	<u>3,350</u>	<u>3,404</u>
	\$ <u>114,541</u>	\$ <u>116,941</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

26. PLEDGED ASSETS

The following assets were pledged as the Group's collateral for bank loans, contract guarantees, guarantees of gift certificates and gift cards and import duty guarantee:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Property, plant and equipment - buildings, net	\$ 112,010	\$ 117,189
Pledged time deposits - current (included in other receivables)	167,180	160,085
Pledged time deposits - non-current (included in other non-current assets)	51,421	43,448
The shares of the Corporation (Note)	<u>593,000</u>	<u>581,000</u>
	<u>\$ 923,611</u>	<u>\$ 901,722</u>

Note: Hanmore pledged 10,000 thousand shares of the Corporation as of December 31, 2017 and 2016, and it was eliminated on consolidation.

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2017 and 2016 were as follows:

- a. Unused letters of credit of the Corporation in aggregate amount were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$ 720</u>	<u>\$ 749</u>

- b. Outstanding sales contracts of the Group in the amount were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$ 6,927,594</u>	<u>\$ 8,446,499</u>

- c. The Group provided endorsements for Systex Solutions II, RTGI, Systek, SSSC, Systex Info, Systex Ucom, and Systex China up to \$300,000 thousand, \$44,640 thousand, \$14,880 thousand \$700,000 thousand, \$23,080 thousand, \$91,090 thousand and \$868,470 thousand, respectively. TEDP provided endorsement for Medincom up to \$15,000 thousand. Ucom Shanghai provided endorsement for Systex China up to \$113,863 thousand. Systek provided endorsement for Systex China up to \$113,863 thousand.
- d. The Group issues gift certificates and gift cards. For the handling of advance receipts from customers for sold gift certificates and gift cards, the Group entered into a trust agreement with E.SUN Commercial Bank according to the "Provision to be Included in Standard Form Contract of All Sorts of Gift Certificates of Retail Companies" issued by the Ministry of Economic Affairs. According to the trust agreement, the Group opened a trust account in E.SUN Commercial Bank. Advance receipts from customers for sold gift certificates are deposited in the trust account and amounts for services already provided to customers are paid to the Group on a monthly basis. The balance in the trust account should be not lower than the amount of outstanding gift certificates and gift cards. As of December 31, 2017, the Group's assets in the trust account amounted to \$23,195 thousand (included in other receivables and other non-current assets).

- e. As of December 31, 2017, the Group had lease contracts for office premises, parking lots and warehouse with rentals paid monthly or annually, expiring between August 2018 and December 2022, and the refundable deposits for above lease contracts amounted to \$24,294 thousand (included in refundable deposits). Future rentals are as follows:

Year	Amount
2018	\$ 89,933
2019	42,240
2020	14,742
2021	12,195
2022	1,296

28. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
RMB	\$ 39,491	4.55	\$ 179,864
USD	18,709	29.76	556,774
Non-monetary items			
Financial assets at fair value through profit or loss			
HKD	11,817	3.81	44,989
RMB	1,700	4.55	7,743
Investment accounted for using equity method			
RMB	173,484	4.55	790,132
USD	1,356	29.76	40,346
<u>Financial liabilities</u>			
Monetary item			
USD	6,032	29.76	179,503
RMB	190	4.55	864

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
RMB	\$ 312,365	4.65	\$ 1,452,185
USD	20,638	32.25	665,587
Non-monetary items			
Financial assets at fair value through profit or loss			
HKD	11,195	4.16	46,550
RMB	3,001	4.65	13,953
Investment accounted for using equity method			
RMB	44,407	4.65	206,448
USD	1,237	32.25	39,898
<u>Financial liabilities</u>			
Monetary item			
USD	8,611	32.25	277,719
RMB	43,792	4.65	203,588

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange gains (losses) were \$34,492 thousand and \$(69,545) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

29. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on financial information. The Group's reportable segments were as follows:

Financial business integration provides financial technologies and develops smart finance, centered on FinTech, to assist financial customers (mainly engaged in large-scale financial customers) in digital transformation, including transformation services in mobile applications, integration services for investor and wealth management upgrade services. Customer market integration focus on new retail, provides full-channel and full payment services, and assists customers, especially digital e-commerce customer, in operating O2O business to realize digital transformation. Data Technology integration provides comprehensive Data Technology product portfolio and solution to drive business intelligence growth of customers, acts as the Data Enabler for customers and actively introduces domestic and foreign leading digital technology to provide solution to customer in digital transformation. China Group, in the way of alliance with local suppliers, expands self-employed business, develops independent products, provides system integration and value-added services, and provides commercial software and cloud platform tools in China. Investment department engages in investment activities.

The chief operating decision-maker of the Group divided the domestic information service business into three operating segments according to industry level and customer's service requirements and has taken China Group as a reportable segment due to regional specialties. In addition, the financial investment business is considered as an investment department that should be reported separately. Financial business integration included domestic departments which provide a cross-border financial transaction cloud, APP and customized development, community services for investors, and ITDM services of securities or futures trading in Greater China. Customer market integration included domestic departments which provide mobile payments, O2O integration services, data processing services, precision marketing solution, government official website, service platform, and e-commerce platform. Data Technology integration included domestic departments which provide big data platform and value-added innovation, commercial software, cloud value-added services, Cyber-security, IT development training courses, and book publishing.

a. Segment revenues and results

	Financial Business Integration	Consumer Market Integration	Data Technology Integration	China Group	Investment Department	Adjustment and Elimination	Total
<u>2017</u>							
Sales to customers	\$ 2,504,443	\$ 3,040,054	\$ 7,364,325	\$ 3,965,457	\$ -	\$ -	\$ 16,874,279
Sales to other segments	<u>215,644</u>	<u>171,676</u>	<u>732,496</u>	<u>705,688</u>	<u>-</u>	<u>(1,825,504)</u>	<u>-</u>
Total sales	<u>\$ 2,720,087</u>	<u>\$ 3,211,730</u>	<u>\$ 8,096,821</u>	<u>\$ 4,671,145</u>	<u>\$ -</u>	<u>\$ (1,825,504)</u>	<u>\$ 16,874,279</u>
Segment income	<u>\$ 328,031</u>	<u>\$ 322,103</u>	<u>\$ 339,637</u>	<u>\$ 34,630</u>	<u>\$ 622,838</u>	<u>\$ -</u>	\$ 1,647,239
Corporate general expenses							<u>(347,079)</u>
Income before income tax							<u>\$ 1,300,160</u>
Segment depreciation and amortization expenses	<u>\$ 46,560</u>	<u>\$ 32,206</u>	<u>\$ 22,635</u>	<u>\$ 25,388</u>	<u>\$ -</u>		\$ 126,789
Non-segment depreciation and amortization expenses							<u>31,642</u>
Total depreciation and amortization expenses							<u>\$ 158,431</u>
Segment assets	<u>\$ 2,217,675</u>	<u>\$ 1,944,099</u>	<u>\$ 4,391,675</u>	<u>\$ 2,705,027</u>	<u>\$ 6,995,370</u>		\$ 18,253,846
General assets							<u>1,110,324</u>
Total assets							<u>\$ 19,364,170</u>
<u>2016</u>							
Sales to customers	\$ 2,480,701	\$ 2,951,582	\$ 6,860,718	\$ 3,917,379	\$ -	\$ -	\$ 16,210,380
Sales to other segments	<u>282,770</u>	<u>176,003</u>	<u>911,500</u>	<u>671,771</u>	<u>-</u>	<u>(2,042,044)</u>	<u>-</u>
Total sales	<u>\$ 2,763,471</u>	<u>\$ 3,127,585</u>	<u>\$ 7,772,218</u>	<u>\$ 4,589,150</u>	<u>\$ -</u>	<u>\$ (2,042,044)</u>	<u>\$ 16,210,380</u>
Segment income	<u>\$ 332,857</u>	<u>\$ 278,643</u>	<u>\$ 245,355</u>	<u>\$ 12,001</u>	<u>\$ 692,025</u>	<u>\$ -</u>	\$ 1,560,881
Corporate general expenses							<u>(315,021)</u>
Income before income tax							<u>\$ 1,245,860</u>
Segment depreciation and amortization expenses	<u>\$ 52,707</u>	<u>\$ 44,750</u>	<u>\$ 39,927</u>	<u>\$ 27,732</u>	<u>\$ -</u>		\$ 165,116
Non-segment depreciation and amortization expenses							<u>27,559</u>
Total depreciation and amortization expenses							<u>\$ 192,675</u>
Segment assets	<u>\$ 2,182,962</u>	<u>\$ 1,918,425</u>	<u>\$ 3,998,639</u>	<u>\$ 2,553,449</u>	<u>\$ 7,083,259</u>		\$ 17,736,734
General assets							<u>1,345,894</u>
Total assets							<u>\$ 19,082,628</u>

Segment income represented the income before tax earned by each segment without allocation of central administration costs and directors' salaries, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, interest expense and income tax expense.

b. Geographical information

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets is detailed below.

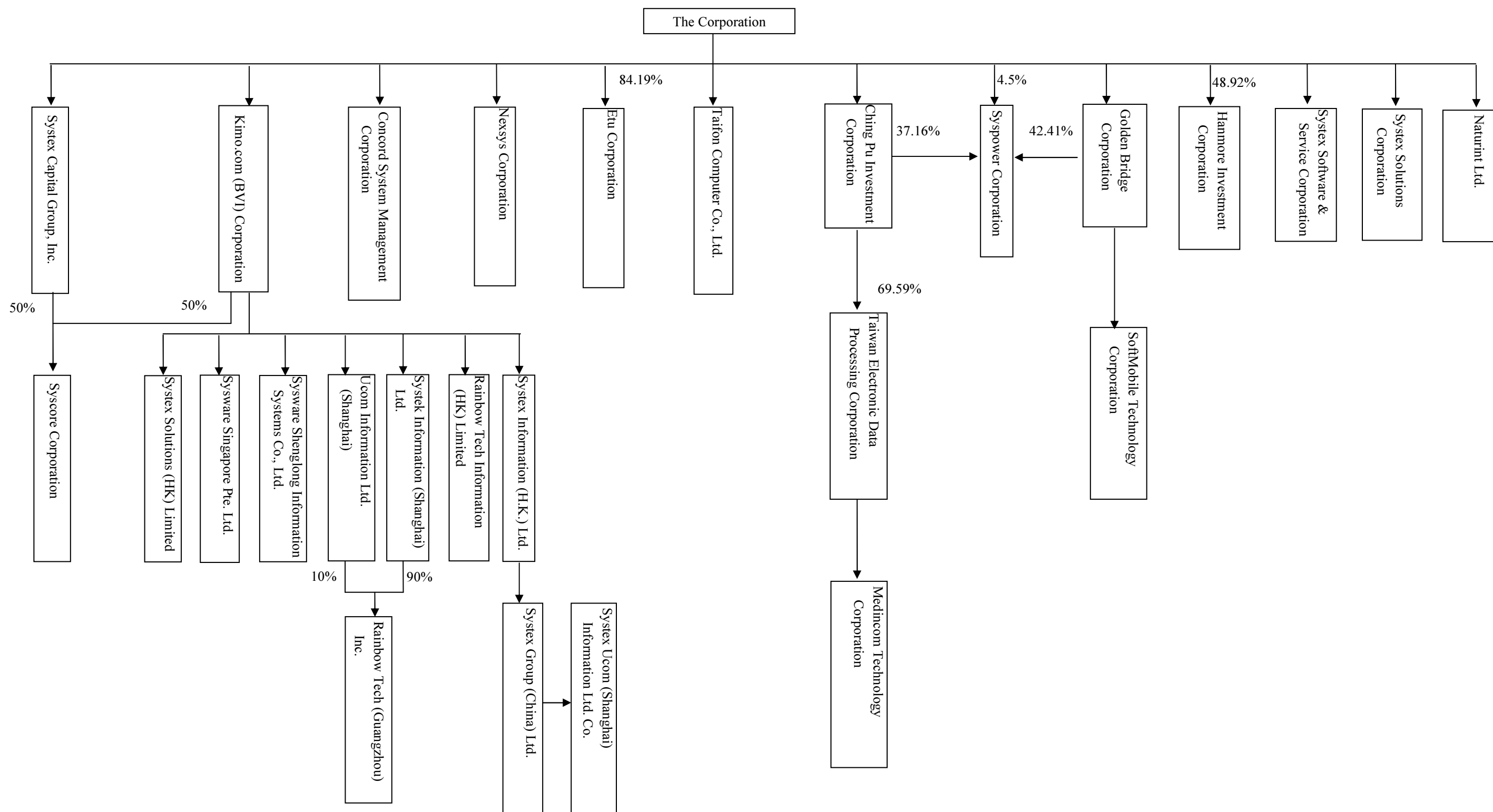
	Revenue from External Customers	
	2017	2016
Domestic	\$ 13,033,319	\$ 12,296,668
Asia	<u>3,840,960</u>	<u>3,913,712</u>
	<u>\$ 16,874,279</u>	<u>\$ 16,210,380</u>
	Non-current Assets	
	December 31	
	2017	2016
Domestic	\$ 3,222,501	\$ 3,230,256
Asia	1,190,268	1,278,923
Others	<u>130,344</u>	<u>102,928</u>
	<u>\$ 4,543,113</u>	<u>\$ 4,612,107</u>

c. Major customers

No revenue from any individual customer exceeded 10% of the Group's total operating revenue for the years ended December 31, 2017 and 2016.

SYSTEX CORPORATION AND SUBSIDIARIES

THE RELATIONSHIP AND PERCENTAGE OF OWNERSHIP OF COMPANIES IN THE GROUP
DECEMBER 31, 2017



Note: Percentage of ownership is 100% unless noted on the chart.

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.1 Analysis of Financial Status

Unit: NT\$ thousands

Item \ Year	2017	2016 (Note)	Difference	
			Amount	%
Current assets	14,821,057	14,470,521	350,536	2.42
Long-term investments	1,662,677	1,624,176	38,501	2.37
Fixed assets	1,940,525	2,009,673	(69,148)	(3.44)
Intangible assets	51,368	112,751	(61,383)	(54.44)
Other assets	888,543	865,507	23,036	2.66
Total assets	19,364,170	19,082,628	281,542	1.48
Current liabilities	6,766,494	6,064,585	701,909	11.57
Other liabilities	275,520	258,848	16,672	6.44
Total liabilities	7,042,014	6,323,433	718,581	11.36
Share capital	2,693,933	2,693,933	-	-
Capital surplus	7,363,072	7,634,980	(271,908)	(3.56)
Retained earnings	3,670,307	3,467,402	202,905	5.85
Other equity and Treasury shares	(1,456,956)	(1,068,123)	(388,833)	(36.40)
Total stockholders' equity	12,270,356	12,728,192	(457,836)	(3.60)

Analysis of changes in financial ratios:

1. Decrease in Intangible assets by NT\$61,383 thousands mainly due to decrease in Computer software by NT\$28,217 thousands, decrease in Technological expertise by NT\$25,951 and decrease in Other intangible assets by NT\$7,215 thousands.
2. Decrease in Other equity and Treasury shares by NT\$388,833 thousands mainly due to decrease in Other equity.

Note: Financial Statement after Restated was reclassified Current assets - "Non-current assets held for sale" to Investments accounted for using equity method.

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.2 Analysis of Operating Results

Unit: NT\$ thousands

Item \ Year	2017		2016		Difference	
	Subtotal	Total	Subtotal	Total	Amount	%
Gross sales	16,960,462		16,341,943		618,519	3.78
Less: sales returns & allowances	86,183		131,563		(45,380)	(34.49)
Net sales		16,874,279		16,210,380	663,899	4.10
Cost of sales		12,340,551		11,878,320	462,231	3.89
Gross profit		4,533,728		4,332,060	201,668	4.66
Operating expenses		3,994,602		4,052,792	(58,190)	(1.44)
Operating income		539,126		279,268	259,858	93.05
Non-operating income and gains		800,911		1,579,329	(778,418)	(49.29)
Non-operating expenses and losses		39,877		612,737	(572,860)	(93.49)
Income before tax		1,300,160		1,245,860	54,300	4.36
Tax expense		127,042		155,532	(28,490)	(18.32)
Other comprehensive loss for the year, net of income tax		(490,912)		(215,734)	(205,178)	(95.11)
Total comprehensive income for the year		752,206		874,594	(122,388)	(13.99)

1. Analysis of changes in financial ratios:

- (1) Increase in Operating Income by NT\$259,858 thousands mainly due to increase in Gross profit.
- (2) Decrease in Non-operating income and gains by NT\$778,418 thousands mainly due to decrease in Gain on sale of investments, net.
- (3) Decrease in Non-operating Expenses and Losses by NT\$572,860 thousands mainly due to decrease in Impairment loss on assets.
- (4) Decrease in Other comprehensive loss for the year, net of income tax by NT\$205,178 thousands mainly due to decrease in Exchange differences on translating foreign operations.

2. Mainly reason of expected sales growing up in 2018:

SYSTEX's goal for 2018 is to become the "best partner for digital transformation for Enterprise", and we will remain committed to customers by integrating various applications in different industries, focusing on user experience, and advancing AI for Industry Application (AI4IA). The Company will continue to enhance our three core capabilities in data, software, and artificial intelligence and continue to engage in innovative applications and increase the value of its services, lead the integration of the digital ecosystem, and endeavor to acquire maximum client budgets in digital transition and data added-value services.

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.3 Analysis of Cash Flow

7.3.1 Remedy for Cash Deficit and Liquidity Analysis

Item	Year		
	2017	2016	Variance (%)
Cash Flow Ratio (%)	3.25	24.64	(86.83)
Cash Flow Adequacy Ratio (%)	50.89	67.63	(24.76)
Cash Reinvestment Ratio (%)	(7.73)	1.97	(492.24)

Analysis of changes in financial ratios:

1. Decrease in Cash Flow Ratio by 87% mainly due to increase in net cash generated from operating activities by 85%.
2. Decrease in Cash Flow Adequacy Ratio by 25% mainly due to decrease in net cash flow.
3. Decrease in Cash Reinvestment Ratio by 429% mainly due to decrease in net cash generated from operating activities by 80% and increase in Other non-current assets by 16%.

7.3.2 Cash Flow Analysis for the Coming Year

Unit: NT\$ thousands

Estimated Cash Beginning Balance ①	Estimated Net Cash Flow from Operating Activities ②	Estimated Cash Outflow ③	Estimated Cash Ending Balance (Shortage) ① + ② - ③	Leverage of Cash Deficit	
				Investment Plans	Financing Plans
3,708,235	480,448	697,067	3,491,616	-	-

1. Analysis of change in cash flow in the current year:

Item	Cash Inflow (Outflow)		Variance		Remarks
	2017	2016	Amount	%	
Operating activities	\$ 219,643	\$ 1,494,219	\$ (1,274,576)	(85)	(1)
Investing activities	242,036	781,792	(539,756)	(69)	(2)
Financing activities	(762,874)	(786,722)	23,848	3	

(1) The Decrease of NT\$1,274,586 thousands in 2017 was mainly due to the decrease of NT\$909,810 thousands in Acquisition of investments accounted for using equity method.

(2) The decrease of NT\$539,756 thousands in 2017 was mainly due to the decrease of NT\$1,016,832 thousands in investment funds disposed through the equity method, the decrease of NT\$516,131 thousands in the expenditure of investment in debt instruments with no active market.

2. Remedial action for cash deficit: N/A.

3. Cash liquidity analysis for the next year: The Company expects business activities in the next year to generate positive cash flow. The cash outflow in the next year shall be primarily for the distribution of cash dividends that can be supported by the Company's cash balance and cash flow.

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.4 Major Capital Expenditure Items: There are no any Major Capital Expenditure in 2017.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

7.5.1 Investment policy in the most recent year

The Company's investment policies follow established strategies to expedite expansion in business opportunities in Greater China and actively conduct optimization and integration of resources on both sides of the strait. The business strategies of outstanding regional development, transition to premium service sectors, and implementation of quality assurance activities have allowed SYSTEX to consolidate its leading position in the Taiwan market, actively expand operations in the Greater China market, deploy channels in the Asia Pacific, and bring SYSTEX closer to its corporate objectives.

7.5.2 The main reason for profit or loss and improvement plan for reinvestment enterprises

Unit: NT\$ thousands

Item	Remarks	Book Value (Note 1)	Net Income (Loss) 2017	Policies	Reasons for Gain or Loss	Action Plan
Ching Pu Investment Corp.		1,313,790	73,100	Shareholding in other companies and reinvestment business	Assessed net profit and income from dividends of financial assets	
Golden Bridge Information Corp.		264,971	35,265	Shareholding in other companies and reinvestment business	Net profit from investment income recognized by the equity method	
Syscore Corp.		249,896	(103)	Shareholding in other companies and reinvestment business	Net profit from investment income from dividends of financial assets and recognized by the equity method	At the initial stage of operation, will continue to invest in high-performance targets and strengthen the management of investment
System Capital Group, Inc.		2,591,377	335,876	Shareholding in other companies and reinvestment business	Assessed net profit and income from dividends of financial assets	
Kimo.com (BVI) Corp.		3,387,235	336,915	Shareholding in other companies and reinvestment business	Recognized profits from investments	
System Solutions (HK) Ltd.		1,059,339	338,830	Shareholding in other companies and reinvestment business	Recognized profits from investments	
Concord System Management Corp.		293,101	15,103	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	

VII. Review of Financial Conditions, Operating Results, and Risk Management

Item	Remarks	Book Value (Note 1)	Net Income (Loss) 2017	Policies	Reasons for Gain or Loss	Action Plan
Nexsys Corp.		325,926	51,730	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
System Software & Service Corp.		779,424	199,064	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
Taifon Computer Co., Ltd		243,785	(3,014)	Horizontal integration and vertical expansion in the industry	Losses in main business	Continued business integration and adjustment
System Solutions Corp.		279,819	22,653	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
Syspower Corp. (Note 2)		371,084	57,096	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
System Information (H.K.) Ltd.		703,866	(8,600)	Developed overseas markets and distribution channels in Greater China	Recognized loss from investments	To strengthen the management of investment
System Information (Shanghai) Ltd.		249,646	6,622	Developed overseas markets and distribution channels in Greater China	After the business integration and adjustment, the operating conditions improved	
Ucom Information Ltd. (Shanghai)		137,641	753	Developed overseas markets and distribution channels in Greater China	After the business integration and adjustment, the operating conditions improved	
System Group (China) Ltd.		251,595	(13,110)	Developed overseas markets and distribution channels in Greater China	Losses in main business	Continued business integration and adjustment
System Rainbow Tech Inc.		214,869	20,600	Developed overseas markets and distribution channels in Greater China	After the business integration and adjustment, the operating conditions improved	

Note 1: Refers to subsidiary companies with a carrying amount exceeding 5% of paid-in capital as of December 31, 2017.

Note 2: Held directly and indirectly by the Company.

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.5.3 Investment Plans for the Coming Year: None.

7.6 Analysis of Risk Management

The Company has established functional committees that report to the Board of Directors in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" promulgated by the competent authority to enhance the supervision and management functions of the Board of Directors. Proposals are submitted to the Board for resolution to reduce risks in operating and financial decisions.

7.6.1 Risk management policies and organization

The Company's internal management system covers various business activities within the scope of its operations. Responsibilities for the management of risks in various operations are assigned to related units in accordance with the nature of business. The Company has also established the "Crisis Management Regulations," "M&A Management Regulations," and "Regulations on the Supervision and Management of Subsidiaries" to facilitate effective risk control.

(1) Crisis Management

The Company established the "Crisis Management Regulations" to ensure that the Company can effectively manage and respond to crises as they unfold and reduce the damage and impact caused by crises. The Company also established a Crisis Management Team to oversee crisis management and adopt management methods and measures to minimize the impact caused by crises to the Company. The organization and responsibilities of the Crisis Management Team are as follows:

Team Member	Person in Charge	Job Description
Convener	President or personnel assigned by President	Leader of the Crisis Management Team; convenes meetings and establishes guidance principles for crisis management; reports to top management periodically.
Spokesperson	Company Spokesperson and Acting Spokesperson	Responsible for external communication on behalf of the Company; responsible for responding to media and journalists.
Contact Person	Supervisor of General Service Department	Contact person for reporting crises; contact person for meetings of the Risk Management Team; follow up on meeting resolutions and progress.
Legal Affairs	Supervisor of Legal Department	Assists in investigations and clarification of legal liabilities; collects evidence and pursues legal actions.
Public Relations	Supervisor of Marketing & Corporate Affairs Department	Formulates statements, press releases, and Q&A drafts; arranges press conferences, interviews, delivery of press releases etc.; contact window for news media and journalists.
Human Resource	Supervisor of Human Resources Division	Verifies the list of employee casualties and consoles employees; explains reasons for crises and delivers crisis management principles to employees; assists employees in applying for insurance claims; assists in emergency personnel dispatch.
Procurement	Supervisor of Purchasing Service Department	Assists in evaluation of the required time and cost of procuring equipment and raw material; assists front-line units in completing procurement procedures in the shortest time possible.
General Affairs	Supervisor of General Service Department	Conducts inventory and transfer of assets and materials; verifies insurance coverage scope and files claims.
Finance	Supervisor of CFO Office	Responsible for verifying whether incidents meet requirements in regulations on reports of public companies; assists Public Relations in formulating statements to stakeholders; assists in emergency funding operations.

VII. Review of Financial Conditions, Operating Results, and Risk Management

Front-Line Command Center	Highest Ranking Officer of Business Unit/Subsidiary	Reports the occurrence and affected scope of the incident; recommends crisis management principles and procedures; conducts recovery and processing on the front line in accordance with guidance principles; periodically reports processing procedures and files support requirements in accordance with conditions; formulates plans for resumption of work.
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(2) M&A Case Management

The Company has established the "M&A Management Regulations" to effectively control the risks and performance of follow-up investment in Company's M&A (Merge & Acquisition) cases. The Regulations are applicable to cases where the Company acquires the operating rights, ownership, or specific assets of investees through acquisitions, mergers, business assignments, joint investments, demergers, or other methods. The responsibilities of each unit are as follows:

Department	Responsibilities
All Business Units	Responsible for the investment project; formulate business development strategies and seek potential investment targets; evaluate the business side of the investee or newly-established company and establish a business plan of at least three years; assess project risks; assess the value and investment structure design of the investment target.
Business Management Division	Review business plans submitted by Business Units; assists Business Units in assessing the value and investment structure design of the investment target; establishes subsidiary company management regulations; assists in the incorporation of operating procedures of investee companies into states manageable by the parent company; establishes standard operating procedures for supporting M&A operations.
Information Management Department	Plans the basic IT structure of the investee company or newly-established company and assists in the connection of its IT system with the parent company's IT system; establishes standard operating procedures for M&A IT.
Legal Department	Ensures legal compliance of all operations in the Company's M&A projects; formulates related legal documents for M&A cases; assesses the reasonableness of the investment structure; executes legal due diligence (DD); establishes legal standard operating procedures for M&A.
Marketing & Corporate Affairs Department	Organizes press conferences or publicizes information after the completion of investment plans; establishes standard operating procedures for M&A corporate communications.
Human Resources Division	Assists in the design of talent retention plans; establishes standard operating procedures for M&A personnel and general affairs.
CFO Office	Reviews assessment of the reasonableness of the investment structure; executes financial due diligence (DD); establishes financial standard operating procedures for M&A.

VII. Review of Financial Conditions, Operating Results, and Risk Management

(3) Subsidiary Supervision and Management

The "Regulations on the Supervision and Management of Subsidiaries" are established to implement business management, disclosure of financial and business information at appropriate times, internal control system, and auditing management of subsidiaries in order to ensure their business performance.

The responsibilities of each unit are as follows:

Department	Responsibilities
Business Management Division	Establishment and revision of parent-subsidary companies' operations and management guidelines; assists the supplement (revision) and review of related regulations of the operations and management of subsidiaries; provides supervision, support, and assistance for the operations of subsidiaries; conducts regular performance analyses and follow-up management on subsidiaries; reviews business strategies and plans of subsidiaries; facilitates communication between the parent company and subsidiaries (and between subsidiaries).
Information Management Department	Establishment and revision of parent-subsidary companies' IT system operating guidelines; assists in the supplement (revision) and review of related regulations of the IT systems of subsidiaries; provides supervision, support, and assistance for the IT systems of subsidiaries.
Legal Department	Establishment and revision of parent-subsidary companies' legal affairs system operating guidelines; assists the supplement (revision) and review of related regulations of legal affairs of subsidiaries; provides supervision, support, and assistance for legal affairs of subsidiaries.
Human Resources Division	Establishment and revision of parent-subsidary companies' human resources and general affairs operating guidelines; assists the supplement (revision) and review of related human resources regulations of subsidiaries; provides supervision, support, and assistance for human resources and general affairs of subsidiaries.
CFO Office	Establishment and revision of parent-subsidary companies' finance and accounting operating guidelines; assists the supplement (revision) and review of related finance and accounting regulations of subsidiaries; provides supervision, support, and assistance for finance and accounting operations of subsidiaries.
Audit Division	Assists the establishment of internal control systems, internal control self-inspection operations, and various business operations regulations of subsidiaries; audits and reviews the internal control systems and internal control self-inspection operations of subsidiaries.

7.6.2 Risks, Assessment, and Response Strategies

A. Market Risks: The Company's forecast risks, pricing risks, production capacity risks, and inventory risks caused by changes in the industry.

Risk Assessment: The characteristics of the IT service industry includes rapid changes in technologies, continuous flow of new products, continuous functional improvements, decline in cost, short product lifecycle, changes in customer requirements, and manufacturer standard specifications. Due to high uncertainties, market risks will influence company operations.

Response Strategy: Implement an annual budget system and rolling forecast system to fully account for the impact of market changes on revenue; organize monthly business review meetings to account for market conditions; actively increase the added-value of products and OEM product lines to maintain reasonable costs and comprehensive services; adopt full digitalization in the company, enhance education and training, and increase the efficiency of information delivery between departments to increase personnel productivity; adopt the principle of making purchases after receiving purchase orders to prevent excess inventory and control the value of inventories.

B. Financial Risks: Additional risks imposed on the Company due to the use of financial leverages.

VII. Review of Financial Conditions, Operating Results, and Risk Management

Risk Assessment: Changes in the Company's industry occur fast and pose high risks in operations. High financial leverage operations will put the Company in greater risk.

Response Strategy: The Company's source of funding consists mainly of equity funds; high financial leverage strategies are avoided. If financing is required, long-term funding obtained from the capital market shall be the primary means for financing to lower financial risks.

- C. Fluidity Risks: Risks in which the Company cannot cash in on assets or obtain sufficient funding in time, leading to the inability to perform due responsibilities.

Risk Assessment: Due to high risks in the industry, the speed and capacity of cash flow will affect the Company's competitiveness and daily operations.

Response Strategy: The Company shall strengthen its cash flow forecast, strictly control inventory backlog, and payment/collection conditions and procedures to ensure the fluidity of the Company's operating cash. Conduct short-term operations with idle funds under conditions of maintaining fluidity, security, and profitability. The Company shall also establish financing credit lines with banks to maintain fluidity of funds.

- D. Credit Risks: Risks in which customers and suppliers cannot perform payment or delivery.

Risk Assessment: Due to industry characteristics, the Company faces longer payment cycles from clients. The unique transaction model of large projects also requires multiple suppliers of varying scales for which credit risks differ. The Company conducts various financial transactions with financial institutions in accordance with financial and business requirements. The credit risks of transaction partners shall also be taken into consideration.

Response Strategy: The Company shall establish a department dedicated to the management of accounts receivable and payable and establish authorization management regulations to enhance credit investigation procedures and strictly control the credit line of customers to safeguard the interests of the Company. The Company selects reputable financial institutions with high ratings to lower credit risks.

- E. Legal Risks: Risks of serious impact or other negative impact on the Company's operations or finances due to illegal business activities of the Company or competitors' infringement of the Company's rights.

Risk Assessment: The Company conducts businesses honestly and does not take part in illegal activities. The Company maintains ownership of multiple intellectual property rights and comprehensive legal protection from infringements that affect company interests.

Response Strategy: The Company established a dedicated Legal Affairs Department to take charge of processing potential legal risks faced by the Company. The Legal Affairs Department also reviews all important contracts before signing to safeguard company interests.

- F. Strategy and Business Risks: Risks of immediate or potential impact on the Company's profits or capital due to unfavorable business decisions, inappropriate execution of related strategies, or a lack of response measures to changes in the industry.

Risk Assessment: The Company operates in the technology industry which undergoes constant changes, numerous competitors, and therefore relatively higher operating risks. The implementation of strategies will affect overall normal operations.

Response Strategy: The Company regularly organizes domestic and international senior management business meetings to fully communicate and review the Company's operating strategies and adopt appropriate response measures. The Company also established an Audit Committee to strengthen the functions of the Board of Directors and to help the Company establish major business strategies and supervise the performance of the management team.

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.6.3 Analysis of Risk Management

A. Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures :

(a) Interest rate

Unit: NT\$ thousands;%

Year \ Item	2016			2017		
	Amount	Percentage of Net Sales	Percentage of Profit from Operation	Amount	Percentage of Net Sales	Percentage of Profit from Operation
Interest income	29,965	0.18%	10.73%	48,528	0.29%	9.00%
Interest expense	24,823	0.15%	8.89%	32,359	0.19%	6.00%

The Company's operating funds are readily available and the Company conducts short-term operations with idle funds under conditions of maintaining fluidity, security, and profitability.

The Company maintains close relations with banks in long-term collaboration and uses the banks' assistance to obtain favorable interest rates and conditions. The Company's income on interest remains higher than interest expenses and therefore changes in interest rates have limited effects on the Company's profitability. The Company shall continue to monitor trends in interest rate changes and maintain a high degree of profitability while taking into account the requirements for security and fluidity in order to reduce the impact of changes in interest rates.

(b) Foreign exchange rates

Unit: NT\$ thousands;%

Year \ Item	2016			2017		
	Amount	Percentage of Net Sales	Percentage of Profit from Operation	Amount	Percentage of Net Sales	Percentage of Profit from Operation
Foreign exchange gain (loss), net	(69,545)	(0.43%)	(24.90%)	34,492	0.20%	6.40%

The Company's corporate financing personnel used transactions with financial institutions and the Internet to collect information on changes in exchange rates, adjusted the Company's foreign exchange positions, and estimated the cash flow in foreign currency expenditure for the purpose of controlling risks as early as possible. In principle, the Company uses income in foreign currencies to pay for foreign currency expenditures to achieve natural hedging effects and therefore changes in interest rates have limited impact on the Company's profits and losses.

(c) Inflation

The Company maintains close and good relations with suppliers and customers and pays attention to fluctuations in market prices in order to make timely adjustments in response to market fluctuations in purchase and sales prices as well as to lower the impact of changes in inflation.

The Company's main suppliers are IT firms and the Company pays attention to the changes in prices of products from original manufacturers at all times to prevent major impact of changes in cost on the Company's profits and losses.

VII. Review of Financial Conditions, Operating Results, and Risk Management

B. Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

The Company does not conduct high-risk and high-leverage investments. The Company provides loans to others, endorsement or guarantee, and trade in derivatives in accordance with the Company's policies and response measured established in the Company's "Procedures for the Acquisition or Disposal of Assets," "Operating Procedures for Fund Lending," and "Procedures for Making Endorsements and Guarantees."

No breaches of contract that caused profits or losses have occurred in Company's endorsements, guarantees, and loans to subsidiary companies for their financing requirements.

C. Future Research & Development Projects and Corresponding Budget

Research Projects	Completion (%)	Expected Research Expenditure (NT\$ ten thousand)	Expected Completion Schedule	Major Risk Factors
Electronic agencies account link system	Testing	200	2018/06	Human Resources and Core Technology
Finance Service for Financial Organization	Testing	100	2018/06	Human Resources and Core Technology
Financial Working Station	Planning	200	2018/08	Human Resources and Core Technology
F-MIDST Cloud Stock Screener	Planning	100	2018/08	Human Resources and Core Technology
Securities Products Historical Data, Performance Optimization	Planning	100	2018/08	Human Resources and Core Technology
eMIDST New Industry Overview	Planning	120	2018/10	Human Resources and Core Technology

D. Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

In response to the rapid development and advancement of mobile communication, social media, big data, and cloud technologies, the FSC published the "FinTech Development Strategy White Paper" in 2016 to encourage financial institutions to provide new and innovative industrial financing and financial services. SYSTEX has launched smart wealth management service tools in 2017 to target business development opportunities in related technology services for smart banks, smart wealth management, mobile insurance, and mobile payment.

Mailing of paper notices has decreased due to changes in regulations on shareholder services. In addition to providing services through the electronic statement system platform, SYSTEX also develops its own interactive products and provides differentiated added-value services. We integrated existing interactive electronic statements and mSense electronic statements to lower the impact of electronic statements on revenue.

In response to business opportunities in the adjustments of government organizations, the Company focuses on: Demand in software/hardware equipment replacement, integrated account single login services, equipment transfer services, computer room performance adjustment/shared structure services, maintenance contracts, and increased value. At the same time, the Company needs to gain core technologies in land administration to facilitate the growth of land administration ITO and create differentiation in services.

VII. Review of Financial Conditions, Operating Results, and Risk Management

E. Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

With the rapid development of financial transaction tools and the diversification and internationalization of financial products, SYSTEX will effectively assist customers in the development of competitive products. The Company will also focus on the latest development in global economic trends, consider market demand, integrate multiple financial product information, provide comprehensive transnational and inter-market one-stop service to satisfy customer demands in financial markets in China, Hong Kong, Taiwan, and various domestic and foreign markets and demonstrate the value of integration.

In response to trending issues such as energy conservation and carbon emissions reduction induced by global warming and to lower corporate operating costs, the Company provides installation services for central (headquarters) energy-saving monitoring and management platforms and energy-saving equipment (including air-conditioning and lighting) for service industry operators with multiple outlets. The Company targets large-scale directly managed chain retailers with high electricity consumption and long hours of operations and provides a management and monitoring platform for headquarters to monitor and manage multiple outlets. SYSTEX also uses its service networks and resources across the nation to provide chain service industries with energy saving management services.

F. The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

The Company has always upheld the operation principles of professionalism and integrity as well as its emphasis on corporate image and risk management. Therefore the corporate image has been well-maintained and there has been no major incident detrimental to corporate image.

G. Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: None.

H. Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans : None.

I. Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

The Company maintains good relations with multiple domestic and international suppliers to ensure the diversity of products and security of sources. The Company's sales customers are distributed across the government, finance industry, telecommunications, distribution, and education. Customers are numerous and dispersed and the Company uses the dispersion strategy to reduce the risk of concentrated purchases or sales.

J. Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%:

With the exception of share transfers conducted for personal investment, financing, and taxation plans made by the Company's Directors or major shareholders holding over 10% of the Company's shares in the most recent year and as of the printing date of the prospectus, stable shareholding ratios were mostly maintained and have no major negative effect on the Company's operations.

K. Effects of, Risks Relating to and Response to the Changes in Management Rights: None.

L. Litigation or Non-litigation Matters: None.

7.7 Other Major Risks: None.

VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 SYSTEX's Subsidiaries

Unit: NT(USD,RMB,HKD,SGD)\$ thousands As of December 31, 2017

Company	Date of Incorporation	Place of Registration	Share Capital	Business Activities
Taifon Computer Co., Ltd	1992.10.14	Taipei, Taiwan	200,000	Design, construction, and sales of telecommunications, electronic calculators, and computer installation projects etc.
System Solutions Corp.	2014.04.29	Taipei, Taiwan	260,000	Design, construction, and sales of telecommunications, electronic calculators, and computer installation projects etc.
Concord System Management Corp.	1982.10.19	Taipei, Taiwan	202,217	Design of computer system software and software application programs, assessment and planning of computer systems etc.
System Software & Service Corp.	2011.08.25	Taipei, Taiwan	544,500	IT software and data processing services, retail and services for IT software.
SoftMobile Technology Corp.	2011.08.02	Taipei, Taiwan	27,125 (Note 1)	Manufacture of electronic wired communication machinery and equipment, manufacture of electronic components, manufacture of computers and peripheral equipment, installation of computer equipment, IT software retail, computer and office appliance wholesale and retail.
Nexsys Corp.	2000.05.16	Taipei, Taiwan	199,950	Manufacture of electronic wired communication machinery and equipment, manufacture of electronic components, manufacture of computers and peripheral equipment, installation of computer equipment, IT software retail, computer and office appliance wholesale and retail.

VIII. Special Disclosure

Company	Date of Incorporation	Place of Registration	Share Capital	Business Activities
Naturint Ltd.	2016.07.19	Taipei, Taiwan	20,000	Installation and sales of computer software and related equipment, IT software, data processing, and other consulting services, network certification, software publication etc.
Etu Corp.	2015.02.26	Taipei, Taiwan	115,000	IT software and data processing services, retail and services for IT software.
Syspower Corp.	1988.09.05	Taipei, Taiwan	200,000	Design, installation, and maintenance of computer information and telecommunication construction, design and sales of computer system software.
Taiwan Electronic Data Processing Corp.	1969.05.22	Taipei, Taiwan	258,537	Design, assessment, and planning of computer system software and software application programs, sales and lease of data processing systems, computer peripheral hardware equipment and their components.
Mendincom Technology Corp.	2009.03.06	Taipei, Taiwan	180,000	Wholesale and retail of medical equipment, retail of precision instruments etc.
Ucom Information Ltd. (Shanghai)	2003.03.26	Shanghai, China	USD14,800	IT software services, IT software wholesale, IT software retail.
System Information (Shanghai) Ltd.	2000.11.27	Shanghai, China	USD16,300	Data processing services, IT supply services, IT software services, international trade.
Sysware Shenglong Information Systems Co., Ltd.	2007.10.16	Shanghai, China	USD5,000	Research, development, and production of computer software and hardware, sales of self-manufactured products, technical consulting services, technical services, training and transfer.

VIII. Special Disclosure

Company	Date of Incorporation	Place of Registration	Share Capital	Business Activities
System Group (China) Ltd.	2012.09.28	Shanghai, China	USD10,000	Business management and consulting services, market management and sales services, financial management services for fund operations etc.
System Rainbow Tech Inc.	2001.03.16	Guangzhou, China	RMB50,000	Computer software and hardware technologies, research, development, installation, wholesale, and trade of computer network systems etc.
System Ucom (Shanghai) Information Co., Ltd.	2015.01.13	Shanghai, China	RMB2,000	IT software services, IT software wholesale, IT software retail.
System Information (H.K.) Ltd.	1999.12.02	Hong Kong	HKD 158,448	Sales of computers and peripherals.
Ranibow Tech Information (HK) Ltd.	2012.04.26	Hong Kong	HKD2,000	Sales of computers and peripherals.
Sysware Singapore Pte. Ltd.	2003.03.31	Singapore	SGD2,769	Computer information integration services, computer software.
Ching Pu Investment Corp.	1998.09.02	Taipei, Taiwan	1,261,519 (Note 2)	General investment.
Golden Bridge Information Corp.	2011.08.25	Taipei, Taiwan	230,000	General investment.
Syscore Corp.	2017.10.25	Taipei, Taiwan	250,000 (Note 3)	General investment.
Hanmore Investment Corp.	1989.04.21	Taipei, Taiwan	197,065	General investment.
Kimo.com (BVI) Corporation	1999.08.12	British Virgin Islands	USD28,500	Financial trust, shareholding and other investment businesses.
System Capital Group, Inc.	2000.02.23	British Virgin Islands	USD4	Financial trust, shareholding and other investment businesses.
System Solutions (HK) Ltd.	2011.10.03	Hong Kong	HKD 136,000	Financial trust, shareholding and other investment businesses.

VIII. Special Disclosure

Note 1: Capital increased by retained earnings of NT\$9,493 thousands in March, 2018 and after the capital increased, the share capital is NT\$36,618 thousands.

Note 2: Capital decreased by cash of NT\$661,519 thousands in March, 2018 and after the capital decreased, the share capital is NT\$600,000 thousands.

Note 3: Capital increased by cash of NT\$1,475,000 thousands and NT\$275,000 thousands in January and April, 2018 and after the capital increased, the share capital is NT\$2,000,000 thousands.

VIII. Special Disclosure

8.1.2 SYSTEX's Subsidiaries Chart (December 31, 2017): Please refer to page 171.

8.1.3 Shareholders in Common of SYSTEX and Its Subsidiaries with Deemed Control and Subordination: None.

8.1.4 Rosters of Directors, Supervisors, and Presidents of Systex's Subsidiaries :

As of December 31, 2017

Company	Title	Name	Shareholding	
			Shares (Investment Amount)	% (Investment Holding)
Taifon Computer Co., Ltd.	Chairman & President	SYSTEX Corp. Rep.: Yang, Yun-Chang	20,000,000	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Jen-Shou		
	Director	SYSTEX Corp. Rep.: Liu, Kuan-Lin		
	Supervisor	SYSTEX Corp. Rep.: Chung, Chih-Chun		
Systex Solutions Corp.	Chairman	SYSTEX Corp. Rep.: Lee, Chien-Lung	26,000,000	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Lung-Fen		
	Director	SYSTEX Corp. Rep.: Lin, Jen-Shou		
	Supervisor	SYSTEX Corp. Rep.: Chung, Chih-Chun		
	President	Lin, Wen-Kuei	-	-
Concord System Management Corp.	Chairman & President	SYSTEX Corp. Rep.: Tao, Ya-Kuang	20,221,673	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Lung-Fen		
	Director	SYSTEX Corp. Rep.: Lin, Jen-Shou		
	Supervisor	SYSTEX Corp. Rep.: Chung, Chih-Chun		
Systex Software & Service Corp.	Chairman	SYSTEX Corp. Rep.: Lin, Lung-Fen	54,450,000	100.00%
	Director & President	SYSTEX Corp. Rep.: Lee, Su-Yue		
	Director	SYSTEX Corp. Rep.: Lin, Jen-Shou		
	Supervisor	SYSTEX Corp. Rep.: Cheng, Yuan-Yih		
SoftMobile Technology Corp.	Chairman	Golden Bridge Information Corp. Rep.: Wu, Wen-Shun (Note)	2,712,500	100.00%

VIII. Special Disclosure

	Director	Golden Bridge Information Corp. Rep.: Lin, Lung-Fen		
	Director	Golden Bridge Information Corp. Rep.: Fan, Jee-Der		
	Supervisor	Golden Bridge Information Corp. Rep.: Chung, Chih-Chun		
	President	Huang, Feng-Lin	-	-
Nexsys Corp.	Chairman	SYSTEX Corp. Rep.: Pan, Tieh-I	19,995,000	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Lung-Fen		
	Director	SYSTEX Corp. Rep.: Yang, Shih-Chung		
	Supervisor	SYSTEX Corp. Rep.: Chung, Chih-Chun		
	President	Chung, Cheng-Wen	-	-
Naturint Ltd.	Chairman & President	SYSTEX Corp. Rep.: Fan, Jee-Der	2,000,000	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Lung-Fen		
	Director	SYSTEX Corp. Rep.: Hsieh, Shu-Heng		
	Supervisor	SYSTEX Corp. Rep.: Chung, Chih-Chun		
Etu Corp.	Chairman	SYSTEX Corp. Rep.: Lin, Lung-Fen	9,682,000	84.19%
	Director & President	SYSTEX Corp. Rep.: Chiang, Chi-Yu		
	Director	SYSTEX Corp. Rep.: Chen, Chao-Yu		
	Supervisor	Chung, Chih-Chun	-	-
Syspower Corp.	Chairman	Golden Bridge Information Corp. Rep.: Fan, Jee-Der	8,481,884	42.41%
	Director & President	Golden Bridge Information Corp. Rep.: Chen, Kuo-Chen		
	Director	Golden Bridge Information Corp. Rep.: Lin, Lung-Fen		
	Supervisor	Ching Pu Investment Corp. Rep.: Cheng, Yuan-Yih	7,432,586	37.16%
Taiwan Electronic Data Processing Corp.	Chairman	Ching Pu Investment Corp. Rep.: Lin, Lung-Fen	17,990,326	69.59%
	Director	Ching Pu Investment Corp. Rep.: Fan, Jee-Der		

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	Director	Ching Pu Investment Corp. Rep.: Cheng, Yuan-Yih		
	Supervisor	Chung, Chih-Chun	-	-
	President	Chen, Kuo-Chen	-	-
Mendincom Technology Corp.	Chairman	Taiwan Electronic Data Processing Corp. Rep.: Lin, Lung-Fen	18,000,000	100.00%
	Director	Taiwan Electronic Data Processing Corp. Rep.: Chung, Chih-Chun		
	Director	Taiwan Electronic Data Processing Corp. Rep.: Fan, Jee-Der		
	Supervisor	Taiwan Electronic Data Processing Corp. Rep.: Cheng, Yuan-Yih		
Ucom Information Ltd. (Shanghai)	Chairman	Kimo.com (BVI) Corp. Rep.: Cheng, Deng-Yuan	(Investment) USD14,800,000	100.00%
	Director & President	Kimo.com (BVI) Corp. Rep.: Li, Jing		
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Lung-Fen		
	Supervisor	Kimo.com (BVI) Corp. Rep.: Lin, Wen-Chou		
System Information (Shanghai) Ltd.	Chairman	Kimo.com (BVI) Corp. Rep.: Cheng, Deng-Yuan	(Investment) USD16,300,000	100.00%
	Director & President	Kimo.com (BVI) Corp. Rep.: Tan, Chien-Jung		
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Lung-Fen		
	Supervisor	Kimo.com (BVI) Corp. Rep.: Lin, Wen-Chou		
Sysware Shenglong Information Systems Co., Ltd.	Chairman	Kimo.com (BVI) Corp. Rep.: Fan, Jee-Der	(Investment) USD5,000,000	100.00%
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Lung-Fen		
	Director	Kimo.com (BVI) Corp. Rep.: Cheng, Deng-Yuan		
	Supervisor	Kimo.com (BVI) Corp. Rep.: Lin, Wen-Chou		
	President	Chien, Shih-Feng	-	-
System Group (China) Ltd.	Chairman & President	System Information (H.K.) Ltd. Rep.: Cheng, Deng-Yuan		

VIII. Special Disclosure

	Director	Systex Information (H.K.) Ltd. Rep.: Lin, Lung-Fen	(Investment) USD10,000,000	100.00%
	Director	Systex Information (H.K.) Ltd. Rep.: Chung, Chih-Chun		
	Supervisor	Systex Information (H.K.) Ltd. Rep.: Lin, Wen-Chou		
Systex Rainbow Tech Inc.	Chairman	Systex Information (Shanghai) Ltd. Rep.: Cheng, Deng-Yuan	(Investment) RMB45,000,000	90.00%
	Director & President	Systex Information (Shanghai) Ltd. Rep.: Tan, Chien-Jung		
	Director	Ucom Information Ltd. (Shanghai) Rep.: Yen, Jung-Chung	(Investment) RMB5,000,000	10.00%
	Supervisor	Ucom Information Ltd. (Shanghai) Rep.: Lin, Wen-Chou		
Systex Ucom (Shanghai) Information Co., Ltd.	Executive Director	Systex Group (China) Ltd. Rep.: Li, Jing	(Investment) RMB2,000,000	100.00%
Systex Information (H.K.) Ltd.	Chairman	Kimo.com (BVI) Corp. Rep.: Cheng, Deng-Yuan	103,800,000	100.00%
	Director & President	Kimo.com (BVI) Corp. Rep.: Hu, Hsiao-Tung		
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Wen-Chou		
Ranibow Tech Information (HK) Ltd.	Chairman	Kimo.com (BVI) Corp. Rep.: Cheng, Deng-Yuan	2,000,000	100.00%
Sysware Singapore Pte. Ltd.	Chairman	Kimo.com (BVI) Corp. Rep.: Lin, Lung-Fen	2,769,000	100.00%
	Director & President	Kimo.com (BVI) Corp. Rep.: Lin, Tsung-Ying		
	Director	Kimo.com (BVI) Corp. Rep.: Chek Khai Juat		
Ching Pu Investment Corp.	Chairman	SYSTEX Corp. Rep.: Huang, Tsong-Jen	126,151,931	100.00%
	Director & President	SYSTEX Corp. Rep.: Lin, Lung-Fen		
	Director	SYSTEX Corp. Rep.: Chung, Chih-Chun		
	Supervisor	SYSTEX Corp. Rep.: Cheng, Yuan-Yih		
Golden Bridge Information Corp.	Chairman & President	SYSTEX Corp. Rep.: Lin, Lung-Fen	23,000,000	100.00%
	Director	SYSTEX Corp. Rep.: Chung, Chih-Chun		

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	Director	SYSTEX Corp. Rep.: Lin, Jen-Shou		
	Supervisor	SYSTEX Corp. Rep.: Cheng, Yuan-Yih		
Syscore Corp.	Chairman	Kimo.com (BVI) Corp. Rep.: Chung, Chih-Chun	12,500,000	50.00%
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Lung-Fen		
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Pei-Fen		
	Supervisor	System Capital Group, Inc. Rep.: Cheng, Yuan-Yih	12,500,000	50.00%
Hanmore Investment Corp.	Chairman & President	Joray Co., Ltd. Rep.: Wu, Cheng-Huan	18,768	0.10%
	Director	Joray Co., Ltd. Rep.: Lin, Chih-Min		
	Director	SYSTEX Corp. Rep.: Cheng, Yuan-Yih	9,640,680	48.92%
	Supervisor	Chung, Chih-Chun	-	-
Kimo.com (BVI) Corp.	Director	SYSTEX Corp. Rep.: Huang, Tsong-Jen	28,500,000	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Lung-Fen		
System Capital Group, Inc.	Director	SYSTEX Corp. Rep.: Huang, Tsong-Jen	3,550	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Lung-Fen		
System Solutions (HK) Ltd.	Director	Kimo.com (BVI) Corp. Rep.: Lin, Lung-Fen	136,000,000	100.00%
	Director	Kimo.com (BVI) Corp. Rep.: Chung, Chih-Chun		

Note: Be assigned at January 11, 2018.

VIII. Special Disclosure

8.1.5 Operational Highlights of SYSTEX's Subsidiaries

Unit: NT\$ thousands, except EPS (\$) As of December 31, 2017

Company	Share Capital	Assets	Liabilities	Net Book Value	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	EPS
Taifon Computer Co., Ltd	200,000	514,471	269,187	245,284	621,320	(3,492)	(3,014)	(0.15)
Systex Solutions Corp.	260,000	698,640	418,293	280,347	895,616	26,950	22,653	0.87
Concord System Management Corp.	202,217	486,445	193,255	293,190	708,880	20,491	15,103	0.75
Systex Software & Service Corp.	544,500	2,452,064	1,663,523	788,541	4,828,683	245,653	199,064	3.66
SoftMobile Technology Corp.	27,125	61,973	21,868	40,105	94,031	12,734	11,089	4.09
Nexsys Corp.	199,950	420,785	94,836	325,949	402,693	59,700	51,730	2.59
Naturint Ltd.	20,000	24,323	2,165	22,158	9,600	2,446	2,085	1.04
Etu Corp.	115,000	7,701	613	7,088	5,575	(3,340)	(2,386)	(0.21)
Syspower Corp.	200,000	543,966	102,362	441,604	459,424	60,232	57,096	2.85
Taiwan Electronic Data Processing Corp.	258,537	81,112	8,109	73,003	1,488	(2,383)	(34,256)	(1.33)
Mendincom Technology Corp.	180,000	135,275	97,628	37,647	107,836	(23,392)	(33,347)	(1.85)
Ucom Information Ltd. (Shanghai)	507,466	235,587	97,946	137,641	230,197	3,361	753	-
Systek Information (Shanghai) Ltd.	568,684	386,173	136,527	249,646	96,564	(17,068)	6,622	-
Sysware Shenglong Information Systems Co., Ltd.	169,600	50,273	7,831	42,442	37,536	4,311	4,437	-
Systex Group (China) Ltd.	287,170	1,375,807	1,124,212	251,595	2,010,644	(4,018)	(13,110)	-
Systex Rainbow Tech Inc.	227,725	562,433	347,564	214,869	858,770	19,971	20,600	-
Systex Ucom (Shanghai) Information Co., Ltd.	9,109	201,734	189,901	11,833	341,048	(235)	(1,668)	-

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Company	Share Capital	Assets	Liabilities	Net Book Value	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	EPS
Systex Information (H.K.) Ltd.	603,212	854,610	150,744	703,866	1,058,462	13,136	(8,600)	-
Ranibow Tech Information (HK) Ltd.	7,614	18,756	8,779	9,977	42,820	2,990	2,492	-
Sysware Singapore Pte. Ltd.	61,638	7,788	34,012	(26,224)	0	(733)	1,962	-
Ching Pu Investment Corp.	1,261,519	2,083,672	681	2,082,991	0	(614)	73,100	0.58
Golden Bridge Information Corp.	230,000	268,091	120	267,971	0	(151)	35,265	1.53
Syscore Corp.	250,000	249,951	55	249,896	0	(253)	(103)	-
Hanmore Investment Corp.	197,065	1,294,812	112,688	1,182,124	0	(3,836)	69,121	3.51
Kimo.com (BVI) Corp.	848,160	3,392,077	4,091	3,387,986	0	(15,461)	336,915	-
Systex Capital Group, Inc.	106	2,591,940	563	2,591,377	0	(577)	335,877	-
Systex Solutions (HK) Ltd.	517,752	1,061,059	1,719	1,059,340	0	(340)	388,830	-

8.1.6 Subsidiaries' Consolidated Financial Statements: Please refer to pages 108-176.

8.2 Private Placement Securities in the Most Recent Years: N/A

VIII. Special Disclosure

8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years

Unit: NT\$ thousands ; shares ; %

Name of Subsidiary	Paid-in Capital	Fund Source	Shareholding Ratio of the Company	Date of Acquisition or Disposition	Shares and Amount Acquired	Shares and Amount Disposed	Investment Gain (Loss)	Shareholdings and Amount as of the printing date of this annual report (Note1)	Mortgage	Endorsement Amount Made for the Subsidiary	Amount Loaned to the Subsidiary
Hanmore Investment Corp.	NT\$ 197,065 thousands	Own funds and bank loans	48.9%	-	-	-	-	21,316,678 shares NT\$1,360,004 thousands	10 million shares (Note 2)	-	-
Ching Pu Investment Corp.	NT\$ 600,000 thousands	Own funds	100.0%	-	-	-	-	12,981,476 shares NT\$828,218 thousands	-	-	-

Note 1: The amount held is the fair market value as of March 31, 2018.

Note 2: Hanmore Investment Corp. pledged 10 million of the Company's shares as collateral; the pledge does not affect the Company's financial performance or financial status.

8.4 Other Necessary Supplement: None.

8.5 Any Events in 2017 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 3 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

SYSTEX Corporation

Chairman: Huang, Tsong-Jen



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Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.