

# SYSTEX



Enabling **DX** with AI



SYSTEX CORPORATION

## 2018 Annual Report

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# I. Letter to Shareholders

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Dear Shareholders,

## I. Foreword

In 2018, SYSTEX proposed "AI4IA, AI Enterprise Application" as a main scheme, helping corporate customer introduce AI application to enhance operational efficiency or elevate marketing benefits. Under the wave of new technology, corporations and organizations are gradually transitioning towards a digital transformation. Demands have increased significantly, and with correct strategy and the shared efforts of the operation team and employees, turnover in 2018 has continued to grow and reach historic new heights.

## II. Summary of 2018 Operational Outcomes

In 2018, SYSTEX achieved an operating revenue of NT\$ (same below) 6,353,272,000, a 7.68% increase from 2017. Our net income after tax in 2018 was \$1,051,418,000. The consolidated revenue in 2018 was \$19,515,989,000, an increase of 15.66% from 2017. The consolidated net income after tax in 2018 (excluding non-controlling equities) was \$1,051,418,000 and earnings per share was \$4.27.

## III. Summary of 2018 Business Operations and Services

Under the main tenant of "AI4IA, AI Enterprise Application", SYSTEX invested resources in the following three directions, which shows in the 2018 operational outcome:

### ■ Compete for corporate and government digital transformation budget

Actively compete for budget from the government infrastructure plan and acquire computer facility resources from the Ministry of the Interior's Land Administration to expand and integrate improvements, reaching 90% of market shares in the field of land administration; The increasing demand for corporate digital transformation has driven the explosive growth of China's Microsoft cloud service market, which continues to maintain SYSTEX's position as the number one Microsoft distributor across the Taiwan Straits; Extensively manage big clients, provide digital transformation strategy planning consultation and advice, land benchmark projects from large corporate clients, and become a long-term strategic partner for corporations undergoing digital transformation.

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

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## ■ Expand cross-border/cross-boundary/cross-domain collaboration opportunities

The issue of smart manufacturing continues to take effect, integrating SYSTEX specialties IT (Information Technology) and OT (Operation Technology), helping customers in the manufacturing industry to lay the foundation for digital transformation and further grasp smart manufacturing opportunities; Grasp the demands of customers in the financial industry for AI in RegTech/InsurTech/FinTech, creating diverse applications including anti-money laundering, insurance payout, mobile insurance, and smart financial management.

## ■ Integration and expansion of cooperative alliances within the ecosystem

Work with cross-border innovative partners and strategically cooperate with startup unicorns, enhancing the uniqueness of products and increase the barrier to entry of software services; Create alliances with distributors/dealers, expand market channel collaboration, reset group resources to improve product combination, and create win-win opportunities with partners in the ecosystem; Connect and integrate finance/retail/payment innovation and channels, provide innovative application service, grasp data value for clients, such as smart billing management and integrated marketing services, integrating the full-view financial CRM platform of the mobile financial management app, foreign exchange blockchain application platform, e-voucher "Seeker Voucher" service, automated equipment, and application of robots in field of smart retail.

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

The US-China trade war brought uncertainties to the global financial environment in 2019. Along with major international events like the Fed interest rate decision, emerging market story, and the UK's hard Brexit, this year's economic development is full of variables; Domestically, telecommunications companies and OEMs have been transitioning towards SI, causing increased competition; However, the government has continued to push infrastructure plans and digital government policies, which are conducive to driving the digital transformation of the private sector and bring about business opportunities which are expected to benefit the cloud service market. Furthermore, the relaxing of finance laws coupled with the overall trend of FinTech and AI integration also increased the demand for digital transformation related applications in the finance, insurance, and retail industries.

## V. The summary of the business plan for 2019

In the face of different industries' needs to follow consumer behavior and undergo digital transformation, SYSTEX will assert leadership in the ecosystem, help companies use AI and other digital technologies to collect, analyze, and examine vast amounts of data, create data value, and adopt more macroscopic application strategies and decision-making, assisting corporate customers to create multi-faceted digital transformations for different industries, becoming the AI digital transformation partner for corporations. The following is an overview this year's strategic focus:

## ■ Help corporations transition to the cloud, creating a one-step full stack value chain

In the future, every corporation will transition to cloud services. SYSTEX will actively compete for business opportunities for cloud services across the Taiwan Strait by providing comprehensive cloud services from

# I. Letter to Shareholders

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cloud installation, including planning, setup, and consultation for public or private cloud system structures, cloud usage, including all kinds of cloud application, cloud management, including monitoring mechanisms like user fees reminder management and system monitoring, to cloud protection, including backup, security maintenance, disaster recovery preparation.

## ■ Promote AI digital transformation for corporations with 5A capabilities

5A stands for AP, API, App, Appliance, and Algorithm. 5A is the foundation of corporate AI digital transformation. In order to assist customers in AI digital transformation, Systex will pour resources to further train talents with 5A skills in response to corporations' needs for digital transformation. Furthermore, SYSTEX will redistribute group resources to increase the proportions of 5A services, especially for the five major areas of smart operation, smart combat, smart manufacturing, smart cloud, and smart information security to satisfy the growing demand of corporations and create more room for growth for SYSTEX.

## ■ Continue to make alliances to expand the ecosystem

Continue to distribute/deal products and services of international AI partners and cooperate with AI startups, integrating one another's resources, deepening the core strengths of cross-domain operation, cross-industry integration, and cross-border development, including the growth of software capabilities, strengthening of human resources, and OP service alliances; At the same time integrating finance/retail/payment industry ecosystems, expand cooperation and connection to cultivate the regional economy, lead the cross-domain/cross-industry/cross-border ecosystem to create opportunities for growth that would benefit all.

## VI. Future development strategy

From talks of "heterogeneous platform data integration" in 2016, "digital transformation" in 2017, to "AI4IA, AI Enterprise Application" in 2018, this year's focus will be "AI digital transformation". SYSTEX has always kept up with international IT trends. SYSTEX positions itself as a data company that sells software services, operates the market across the Taiwan Strait, provides customers with cloud services in the four main facets of cloud installation, cloud usage, cloud management, and cloud protection, and continues to strengthen core capabilities based on the 5A structure, using AP/API/ App/Appliance/Algorithm 5A cross-border software to integrate data and realization, becoming corporations' preferred partner for AI digital transformation.

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

## II. Company Profile

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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

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- 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](http://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

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- 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.
  - Systemex 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 Systemex 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.
  - Systemex 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

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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

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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.

Invested in Shengsen Corp. and Forg-jump Information Co., Ltd. for expanding the human outsourcing team.

## II. Company Profile

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Invested in Retail System Co., Ltd. for co-building O2O smart retail service and expanding retail market and products.

Invested in Dawning Technology Inc. for expanding product agent portfolio and integrating marketing channels.

Concord System Management Corp., a subsidiary of SYSTEX, acquired 98.59% interests of Top Information Technologies Co., Ltd. for expanding market of online banking.

In 2019 SYSPower, a subsidiary of SYSTEX, has released the world's first "Sarcopenia intelligent pre-screen system" with standard medical image transmission to create a long-term and elderly care environment.

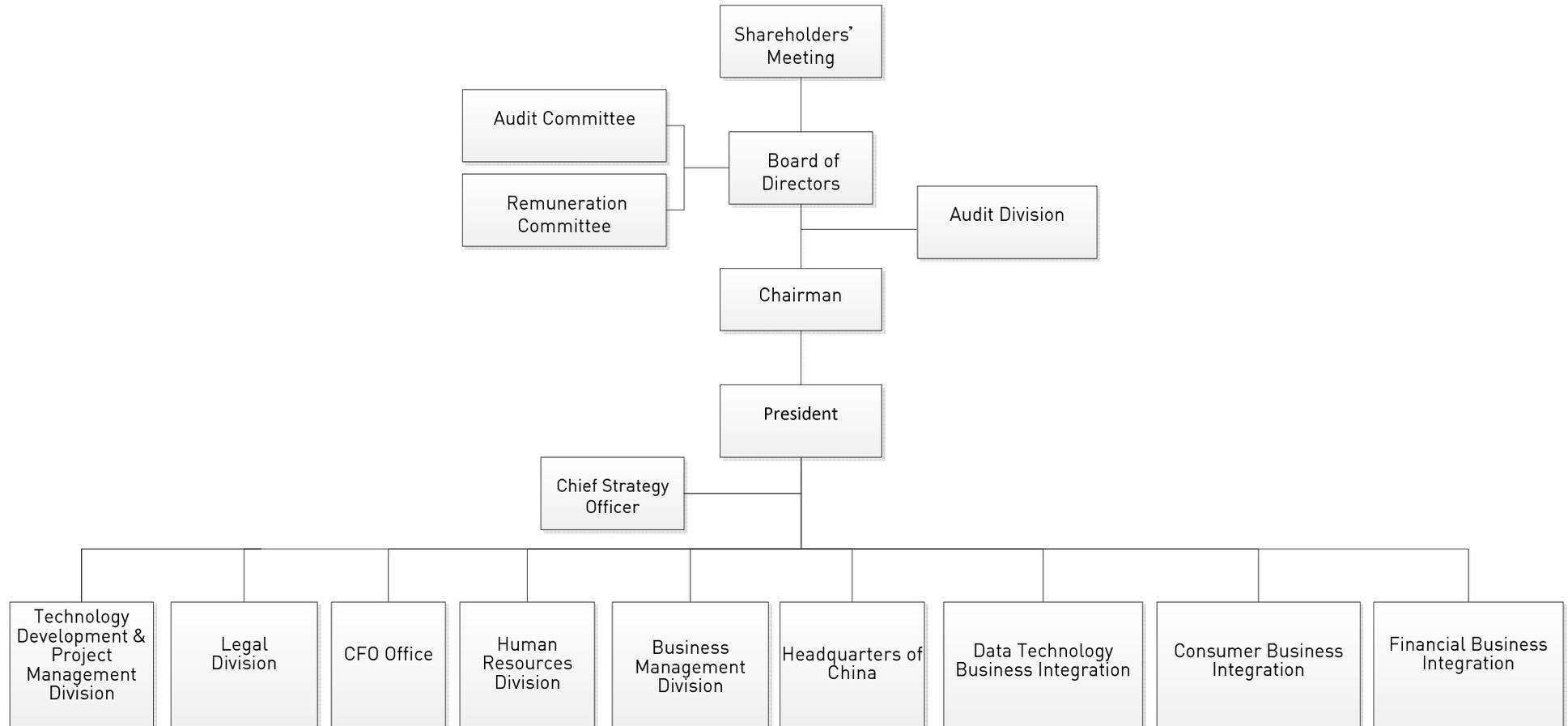
Exclusive agent for the Knowtions Lydia AI platform solutions which can make predictions on insurance fraudulent behaviors by building people profiles and learning healthcare behaviors. SYSTEX was crowned the "Happiness Enterprise" in IT industry category by 1111 Job Bank.

# III. Corporate Governance

## 3.1 Organization

### 3.1.1 Organizational Chart

As of April 1, 2019



## 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 Division	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 management team 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, shareholders' meetings, shareholders 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 planning and management of general affairs.
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.
Technology Development & Project Management Division	Responsible for the development, promotion, and human resource training of advanced technology, including: Multicloud microservice, AI, IoT, and FinTech, training technicians to pass OEM certification and obtain OEM sales partner qualifications; Project performance and management, monitoring and resolution of major abnormal projects, professional support for major strategic projects, outsource supplier management, external software human resource pool and ecosystem setup, research and development cycle maintenance and promotion; Responsible for installation and maintenance of all information systems within the Group, including application systems, mobile app, Internet service, digital communication, and information security architecture. It also supports the

### III. Corporate Governance

Department	Functions
Financial Business Integration (Note 1)	<p>discussion of the needs of business and financial processes.</p> <p>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.</p> <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>
Consumer Business Integration (Note 2)	<p>Focus on providing innovative domestic application services for users in the consumer market, helping clients from the retail, food, banking, insurance, and government industries to use the newest IT software technology to connect data value with an innovative mindset, develop domestic and financial services that consumers, members, and citizens need, instantly grasp market opportunities, and enhance corporate value.</p> <p>With software services at the core, combine cloudization and AI technology to set up five main service branches, including: Omni-payment service, providing diversified payment services, diversified payment devices, and automated payment solutions; Smart retail service, assisting stores with automated sales, automated service, robot application, and automated equipment; Omni-channel service, providing e-commerce platform development and operation service and O2O electronic voucher customer introduction service, grasping comprehensive consumer business opportunities; Smart financial services, providing financial industry solutions such as smart wealth management, consumer finance, insurance technology, and IT management; Data processing services, conducting various form generation and management services, insurance policy printing and integration services, and providing interactive electronic billing.</p>
Data Technology Business Integration (Note 3)	<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</p>

### III. Corporate Governance

Department	Functions
	their digital transformation and accumulate data capital.
Headquarters of China (Note 4)	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.

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 Top Information Technologies Co., Ltd.

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., Taifon Computer Co., Ltd. and ETU Corp.

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

3.1.3 Information of Subsidiaries: Please refer to pages 187-198.

# III. Corporate Governance

## 3.2 Directors and Management Team

### 3.2.1 Directors

As of April 15, 2019

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	
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	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	168,152	0.06	-	-	-	-	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 15, 2019

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., 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., Shenzhen Forms Syntron Information Co., Ltd., Forms Syntron Information (HK) Limited, Kimo.com (BVI) Corp., Systex Capital Group, Inc. and Systex Solutions (HK) Ltd.

### III. Corporate Governance

Note 5: Chief Strategy Officer of SYSEX Corp.

Chairman, representative of Systek Information (H.K.) Ltd., Systek Information (Shanghai) Ltd., Ucom Information Ltd. (Shanghai) 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 Yulod Motor Co., Ltd., 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, Boardtek Electronics Corp.

Director, representative of Chipboard Technology Corp.

Director, Sundia Meditech Group

Table1- Major shareholders of the institutional shareholders

As of April 15, 2019

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 15, 2019

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 15, 2019

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	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

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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 15, 2019

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	168,152	0.06	-	-	-	-	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	90,743	0.03	952	-	-	-	Soochow University, Dept. of Business Mathematics	Note 6	-	-	-

### III. Corporate Governance

As of April 15, 2019

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
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	210,000	0.08	-	-	-	-	Nanya Engineering College Dept. of Mechanical	None	-	-	-
Vice President/ Chang, Ying-Chin	R.O.C.	Female	2007.01	3,599	-	2,023	-	-	-	National Taichun College Dept. of Banking and Insurance	Note 8	-	-	-
Vice President/ Lin, Wen-Kuei	R.O.C.	Male	2007.01	199,221	0.07	-	-	-	-	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	-	1,883	-	-	-	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 15, 2019

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
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	9,000	-	-	-	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	14,144	0.01	-	-	-	-	National Chung Hsing University, Dept. of Accounting	Note 13	-	-	-

### III. Corporate Governance

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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., 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., 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) 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., Systemweb Technologies Co., Ltd., FinRobo Advisor Securities Investment Consulting Co., Ltd., Enova Technology Corp., Systex Infopro Corp. Ltd. and 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. and Syslink 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., Mohist web technology Co., Ltd. and Neweb Information Co., Ltd.

Note 6: Chairman, representative of Naturint Ltd., Syspower Corp., Top Information Technologies Co., Ltd., Sysware Shenglong Information Systems Co., Ltd.

Director, representative of SoftMobile Technology Corp., Taiwan Electronic Data Processing Corp., Investment Media Ltd., Systemweb Technologies Co., Ltd., Sanfran Technology Inc., FinRobo Advisor Securities Investment Consulting Co., Ltd., GenSys Technology(International) Limited 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. and Retail System 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 Top Information Technologies Co., Ltd. and 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., Top Information Technologies Co., Ltd. and Syspower Corp.



### III. Corporate Governance

Note 2: The 2018 Directors' and Employees' remuneration distribution plan is NT\$22,704 thousands and NT\$34,056 thousands had been approved by Board of Director.

Note 3: The consolidated net profit after tax in 2018 (excluding non-controlling interests) was NT\$1,051,418 thousands.

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 Joway Investment Co., Ltd.	Huang, Tsong-Jen, Huang, Jih-Tsan, Cheng, Huang-Yen, Cheng, Wen-Feng Joway Investment Co., Ltd.	Huang, Tsong-Jen, Huang, Jih-Tsan, Cheng, Huang-Yen, Cheng, Wen-Feng Joway Investment Co., Ltd.	Huang, Tsong-Jen, Huang, Jih-Tsan, Cheng, Huang-Yen, Cheng, Wen-Feng Joway Investment Co., Ltd.
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	14	14	14	14

Note: Representative of Joway Investment Co., Ltd.

## III. Corporate Governance

### 3.3.2 Remuneration of Management Team

Unit: NT\$ thousands As of December 31, 2018

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-subsiary 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	38,186	38,186	2,265	2,384	63,125	63,125	5,207	-	5,207	-	10.35	10.42	434
Chief Strategy Officer & Senior Vice President	Cheng, Deng-Yuan													
CFO & Vice President	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	Hsiao, Wei-Chun													
Vice President	Pan, Tieh-Yi (Note 3)													
Vice President	Wu, Wen-Shuen (Note 3)													
Vice President	Tao, Yea-Kuan (Note 3)													
Vice President	Tang, Yin-Soon													
Chief Audit Executive	Tsai, Chun-Hsiung (Note 3)													
Vice President	Lee, Su-Yue (Note 3)													

### III. Corporate Governance

Note 1: The 2018 Employees' remuneration distribution plan is NT\$34,056 thousands had been approved by Board of Director.

Note 2: The consolidated net profit after tax in 2018 (excluding non-controlling interests) was NT\$1,051,418 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\$783 thousands. Pan, Tieh-Yi, Wu, Wen-Shuen & Tao, Yea-Kuan took office in Jan. 2018; Tsai, Chun-Hsiung took office in April 2018 and Lee, Su-Yue was dismissal in Jan. 2018.

Range of Remuneration	Name of President and Vice Presidents	
	The Company	Consolidated Entities
Under NT\$ 2,000,000	Chang, Ying-Chin, Lee, Su-Yue (Note)	Chang, Ying-Chin, Lee, Su-Yue (Note)
NT\$2,000,000 ~ NT\$5,000,000	Chung, Chih-Chun, Huang, Yu-Jen, Chang, Huang-Yu, Yeh, Chen-Min, Lin, Wen-Kuei, Hsiao, Wei-Chun, Pan, Tieh-Yi (Note), Wu, Wen-Shuen (Note), Tao, Yea-Kuan (Note), Tang, Yin-Soon, Tsai, Chun-Hsiung (Note)	Chung, Chih-Chun, Huang, Yu-Jen, Chang, Huang-Yu, Yeh, Chen-Min, Lin, Wen-Kuei, Hsiao, Wei-Chun, Pan, Tieh-Yi (Note), Wu, Wen-Shuen (Note), Tao, Yea-Kuan (Note), Tang, Yin-Soon, Tsai, Chun-Hsiung (Note)
NT\$5,000,000 ~ NT\$10,000,000	Cheng, Deng-Yuan, Yang, Shih-Chung, Fan, Jee-Der, Su, Kou-Lin,	Cheng, Deng-Yuan, Yang, Shih-Chung, Fan, Jee-Der, Su, Kou-Lin,
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	18	18

Note: Pan, Tieh-Yi, Wu, Wen-Shuen & Tao, Yea-Kuan took office in Jan. 2018; Tsai, Chun-Hsiung took office in April 2018 and Lee, Su-Yue was dismissal in Jan. 2018.

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### 3.3.3 Employees' remuneration

Unit: NT\$ thousands As of January 1, 2019

	Title	Name	Stock (Note1)	Cash (Note 1)	Total	Ratio of Total Amount to Net Income (%) (Note 2)
Management Team	President	Lin, Lung-Fen	-	5,259	5,259	0.50
	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	Hsiao, Wei-Chun				
	Vice President	Pan, Tieh-Yi				
	Vice President	Wu, Wen-Shuen				
	Vice President	Tao, Yea-Kuan				
	Vice President	Tang, Yin-Soon				
	Chief Audit Executive	Tsai, Chun-Hsiung				
Accounting Manager	Cheng, Yuan-Yih					

Note 1: The 2018 employees' remuneration distribution plan is NT\$34,056 thousands had been approved by Borad of Director.

Note 2: The consolidated net profit after tax in 2018 (excluding non-controlling interests) was NT\$1,051,418 thousands.

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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 (%)			
	2017		2018	
	The Company	Consolidated Entities	The Company	Consolidated Entities
Directors	5.19	5.23	5.82	5.86
President and Vice Presidents	7.49	8.38	10.35	10.42

- 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 management team, 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 management team.

## III. Corporate Governance

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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 5 (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	5	0	100%	
Director	Lin, Lung-Fen	5	0	100%	
Director	Cheng, Deng-Yuan	5	0	100%	
Director	Lu, Ta-Wei	5	0	100%	
Director	Shaw, Shung-Ho	5	0	100%	
Director	Hsieh, Chin-Ho	5	0	100%	
Director	Huang, Ting-Rong	5	0	100%	
Director	Huang, Chi-Rong	5	0	100%	
Director	Huang, Yi-Shiung (Representative of Joway Investment Co., Ltd.)	5	0	100%	
Director	Lin, Chih-Min (Representative of Joway Investment Co., Ltd.)	4	1	80%	
Independent Director	Huang, Jih-Tsan	5	0	100%	
Independent Director	Cheng, Wen-Feng	4	1	80%	
Independent Director	Cheng, Huang-Yen	5	0	100%	

### III. Corporate Governance

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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 22, 2018, the Board of Directors discussed: (i) The review results of management team for the second half of 2017 and the distribution of bonuses; (ii) The distribution of bonuses and annual remuneration for management team for 2017; (iii) 2018 KPI settings and remuneration plan for the Company's management team. As Directors Lin, Lung-Fen and Cheng, Deng-Yuan serve concurrently as the Company's management team, they recused themselves when the discussion involved their interest and the other Directors in attendance passed the proposal unanimously.
  - (2) On August 9, 2018, the Board of Directors discussed The review results of management team and the distribution of bonuses for the first half of 2018. As the Director Cheng, Deng-Yuan serves concurrently as the Company's management team, 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 6 meetings in 2018 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 management team and then provide its recommendation to the Board of Directors.  
The current term Remuneration Committee held 2 meetings in 2018 to review related proposals.

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### 3.4.2 Audit Committee

A total of 6 [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	6	0	100%	
Independent director	Cheng, Wen-Feng	5	1	83%	
Independent director	Cheng, Huang-Yen	6	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	Handling of the resolutions of the Audit Committee
March 22, 2018	The amended "Internal Control System."	Approved	N/A
	The invested in Fuhua Investment Trust Private Equity Fund by Syscore Corp. and Ching Pu Investment Corp. of SYSTEX's subsidiaries.	Approved	N/A
May 3, 2018	The amended "Internal Control System."	Approved	N/A
	The endorsement guarantee for Systex Group (China) Ltd.	Approved	N/A
	The endorsement guarantee for Systex Ucom (Shanghai) Information Co., Ltd.	Approved	N/A
August 9, 2018	The trade with Evergrow Securities Investment Consultant Co., Ltd approval retroactively from the board of directors.	Approved	N/A
	The endorsement guarantee for Systex Group (China) Ltd. and Systex Ucom (Shanghai) Information Co., Ltd.	Approved	N/A
November 8, 2018	The company commissioned non-audit CPA was engaged to conduct a special audit of internal control system.	Approved	N/A
December 20, 2018	The amended "Purchase and payment cycle" of "Internal Control System".	Approved	N/A
	The amended "Computerized information processing cycle", "Research and development cycle" and "Management of the use of seals" of "Internal Control System".	Approved	N/A
	The endorsement guarantee for Systex Solutions Corporation.	Approved	N/A
	The endorsement guarantee for subsidiaries in China.	Approved	N/A
	The Audit Fee for 2018.	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.

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 2018:

Date	Communication Content	Results
Audit Committee on March 22, 2018	1. The implementation of audit program for January to March, 2018. 2. The "Statement of Internal Control System" for 2017. 3. The amended "Internal Control System."	1. Noticed. 2. Approved and referred to the the Board. 3. Approved and referred to the the Board.
Audit Committee on May 5, 2018	1. The implementation of audit program for April, 2018. 2. The amended "Internal Control System."	1. Noticed. 2. Approved and referred to the the Board.
Audit Committee On August 9, 2018	1. The implementation of audit program for May to July, 2018.	1. Noticed.
Audit Committee on November 8, 2018	1. The "Statement of Internal Control System".	1. Approved and referred to the the Board.
Audit Committee on December 20, 2018	1. The implementation of audit program for August to December, 2018. 2. The 2019 Audit program. 3. The amended "Purchase and payment cycle" of "Internal Control System." 4. The amended "Computerized information processing cycle", "Research and development cycle" and "Management of the use of seals" of "Internal Control System."	1. Noticed. 2. Approved and referred to the the Board. 3. Approved and referred to the the Board. 4. Approved and referred to the the Board.

(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 2018:

Date	Item	Communication Content	Results
March 22, 2018	Financial Statement for Year 2017	Consolidated and Unconsolidated Financial Statements for Year 2017	Report the audited adjustments of Year 2017 Financial Statement.

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			We discuss and communicate the applicability of certain accounting principles.
	Key audit items	The impairment evaluation for inventories, accounts receivable, and investments accounted for using the equity method were the key audit items in 2017.	The most important items of Systex Group's 2017 Consolidated Financial Statements as per the professional judgment of the CPA.
	Adoption of International Financial Accounting Standard (IFRS) 9 "Financial Instruments" in 2018	Connect the use of the IFRS9 "financial instrument", if there are matters that will significantly impact shareholders' equity or the price of securities, it should reported to the Board of Directors, then announced as major information according to the "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities".	Introduce the IFRS9 "financial instrument", after the Company overall financial assets have been reclassified after evaluation, fair value increased by roughly 1,074,655,000 NTD. After convening with accountants, this is deemed to be of major influence to shareholders' equity, and thus reported to the Board of Directors and announced as major information.
	Starting in 2019, connect with International Financial Reporting Standards (IFRS) 16 "Lease"	Competent authorities have sent out notices on January 5, 2018 to publicly release of the Company's completed initial assessment of the possible impact of IFRS16 in the first quarter of 2018, and report the assessment result to the 2018 first quarter Board of Directors.	The "right-of-use asset/lease liability" introduced and assessed by IFRS 16 accounted for roughly 0.7% of SYSTEX's total assets on December 31, 2017; After consulting with accountants, it is deemed to not have major impact on SYSTEX's consolidated financial report; Therefore there is no need to draft an introduction plans and schedule.
	In February 2018, the President announced an amendment to the ROC Income Tax Act	Influence of Income Tax Act after amendment: 1. Raise corporate income tax rates from 17% to 20%. 2. The tax rate applicable to the undistributed earnings of 2018 will be lowered from 10% to 5%. 3. Shareholders'	Carry out relevant tax operations in accordance with the newly amended Income Tax Act.

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		imputation tax credit account (ICA) is no longer distributed, ICA balance is written-off.	
August 10, 2017	Financial Statements for the Second Quarter Ended June 30, 2018	Consolidated Financial Statements for the Second Quarter Ended June 30, 2018.	Report the adjustments of financial statements for the Second Quarter Ended June 30, 2018. We discuss and communicate the parts of accounting treatment.
	IFRS 9 introduction impact assessment in 2018	Valuated profit and loss are not realized because no actual cash flow was generated, but the unrealized profit and losses will still count towards the tax base of the 2018 undistributed earnings tax, to remind the Company to assess the impact of cash flow taxes when the proposed 2018 dividend is issued.	When the Company recognized unrealized valuated profits, it would notice the degree of influence unrealized valuated profits have on next year's earnings distribution and the Company's cash flow and undistributed earnings; If there is major influence, the matter will be planned ahead and reported to Company management to avoid generating cash flow and tax impact risks.
	Amendment to the Regulations Governing the Preparation of Financial Reports by Securities Issuers	The FSC's Securities and Futures Bureau released the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers on July 13, 2018. Attention should be paid to adhere to IFRS16 bulletin adjustments applicable to 2019 and to strengthen the integrity of corporate governance information disclosure.	The Company will complete ERP financial statement format adjustments to apply to the IFRS16 bulletin before accounts opening in 2019; The Company will also follow financial reporting standards and amendments regarding corporate governance information disclosure which will be disclosed in the financial report.

### III. Corporate Governance

#### 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 2018 performance evaluation were submitted to the Board of Directors on March 21, 2019. 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-implement
	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 2018 was as follows:</p> <ol style="list-style-type: none"> <li>1. The Office organized 2 courses for Directors to meet the number of course hours recommended in the regulations.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>5. The Office assisted the implementation of internal performance evaluation for the Board of Directors.</li> </ol>	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 89-92.	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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### III. Corporate Governance

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			<p>(5)The Company's management team' participation in related corporate governance studies:</p> <table border="1"> <thead> <tr> <th>Title</th> <th>Name</th> <th>Course</th> <th>Hours</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Vice President/ CFO</td> <td rowspan="2">Chung, Chih-Chun</td> <td>Exploring the trend of international information exchange from the US FATCA and CRS.</td> <td>3</td> </tr> <tr> <td>Opportunities for traditional industries and Taiwanese industries in the era of digital economy.</td> <td>3</td> </tr> </tbody> </table>	Title	Name	Course	Hours	Vice President/ CFO	Chung, Chih-Chun	Exploring the trend of international information exchange from the US FATCA and CRS.	3	Opportunities for traditional industries and Taiwanese industries in the era of digital economy.	3													
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<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</p>																						

### III. Corporate Governance

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
			<p>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.</p> <p>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>	

### III. Corporate Governance

#### 3.4.4 Composition, Responsibilities and Operations of the Remuneration Committee

##### A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title	Name	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	0	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.

### III. Corporate Governance

#### B. Attendance of Members at Remuneration Committee Meetings

The Compensation Committee comprised of 3 members.

A total of 2 (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	2	0	100%	
Committee Member	Huang, Jih-Tsan	2	0	100%	
Committee Member	Cheng, Wen-Feng	2	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 (e.g., 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.
3. Scope of responsibilities for the Remuneration Committee:
  - (1) Establish and perform regular reviews of the Company Director and Manager's performance targets and compensation policy, system, standards, and structure.
  - (2) Regularly evaluate the Company Director and Manager's performance targets and compensation.
4. The contents of the proposals, resolutions of the Remuneration Committee, and the Company's handling of the resolutions of the Remuneration Committee:

Meeting Dates	Contents Proposed	Resolutions of the Audit Committee	Handling of the resolutions of the Remuneration Committee
March 22, 2018	The 2017 Director remuneration distribution plan.	Approved	N/A
	The review results and bonuses of management team for the second half of 2017.	Approved	N/A
	The distribution of the bonuses and annual remuneration for management team of 2017.	Approved	N/A
	the Audit Divison's organization of the company's organizational structure.	Approved	N/A
	The 2017 KPI settings and remuneration structure for management team.	Approved	N/A
August 9, 2018	The review results and bonuses of management team for the first half of 2018.	Approved	N/A
	The amended institutions of remuneration for management team.	Approved	N/A

# III. Corporate Governance

## 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 5,593,720kWh (a reduction of 2,919.922 tons of CO2) of electricity in 2018 which was 126,880kWh lower than the electricity consumption of 5,720,600kWh (a reduction of 2,986.153 tons of CO2) in 2017. The reduction was equivalent to a reduction of 66.23 tons of CO2 emissions and a 2.22% decrease from 2017.</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 2018 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% next 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 5% in a year.</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 complaints appropriately?	V		(2) The Company has established an Audit Committee mailbox, President mailbox, Reward and Punishment Committee mailbox, and sexual harassment complaint mailbox for colleagues to file complaints or report on illegal activities.	

### III. Corporate Governance

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
(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) Design comprehensive Company training courses according to the Company's organizational strategy, competency model, and personal development needs, providing diversified courses such as technology research institutions, expert seminars, newcomer training courses, leadership management programs, key talent cultivation, and the Intern School. The Company provides employees with training and test fee subsidy for professional technical certifications (Ex: International Project Management Professional PMP); Course packages for professional certification training or tests are also provided, with fees that are also subsidized by the Company. Conduct annual inventory of key talents and arrange appropriate learning plans, and make personal career development plans according to differently job requirements, allowing employees to choose the most appropriate learning method through diversified training methods to maintain competitiveness.	
(6) If the Company established any	V		(6) The Company is a leading company in Taiwan's information service industry and	

### III. Corporate Governance

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
<p>consumer protection measures with regard to the process of research and development, procurement, production, operations and services and its grievance channels?</p> <p>(7) If the Company followed relevant laws and regulations and international guidelines on marketing and labeling of products and services?</p>	V		<p>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.</p> <p>(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.</p> <p>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 performance review awards.</p>	

### III. Corporate Governance

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
(8) Prior to engaging commercial dealings, if the Company assessed whether the supplier had track record o negative impact on the environment and society?	V		(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.	
(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?	V		(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.	
4. Enhancing Information Disclosure (1) If the Company disclosed CSR report and other relevant information on its corporate website and MOPS?	V		(1) The Company discloses its related CSR information and charitable social events on the corporate website.	None
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				
6. Other material information that helps to understand the operation of corporate social responsibility:				
<p>(1) Continue to host the 2018 "Coding Seeds Camp" (CSC): Organize practical coding classes for elementary/junior high/high school/college students for the children of clients and employees to inspire their interest in software coding, providing the environment and resources to cultivate software engineering thinking and programming skills early on; 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. 2018 executive results: Opened Scratch beginner/advanced courses, App inventor beginner/advanced courses, Python beginner/advanced courses, and designed thinking workshops for a total of 52 learning hours and 151 participants.</p> <p>(2) Continue to organize the 2018 "YTP Young Turing Program": With the focus on discovering high school software talent, and from an industry application standpoint, provide scholarships and connect university resources to encourage young students in Taiwan to join the software industry, to dare to innovate, start their own businesses, and raise the quality of Taiwan's software industry and establish Taiwan's software strength. In 2018 a total of 156 people from all around Taiwan applied for the preliminary competition, of which 87 students made it into the second round, the programming challenge camp, and 21 got to conduct hands-on projects under the guidance of NTU computer science professors, with blockchains, AI deep learning, and AI image recognition as research directions.</p> <p>(3) Continue to conduct the 2018 "SYSTEX Elite Internship" (SEI): From a student-centric perspective, provide workplace experience and learning environment for them to</p>				

### III. Corporate Governance

Item	Implementation Status			Reason for Non-implement
	Yes	No	Summary Description	
			<p>understand the actual business model of the information services industry. 2018 executive results: With the theme of "data operation intelligence", organize a series of data analysis and industry application courses, all taught by high-level managers. The internship process will be guided by mentors, and the Company will arrange for students to visit corporations such as Microsoft. Systex creates an internship platform and environment to cultivate outstanding talents in software industry for Systex and our customers!</p> <p>(4) AI+ Generator Program (AGP): Starting from core competencies, SYSTEX assists AI4IA startup teams to match up with industry customers, accelerate product/market fit development plans, and combine internal and external SYSTEX resources to support AI4IA startup teams, helping them find their first industry clients, and helping clients find working AI application. SYSTEX Information used over 30 thousand industry clients, 50 experienced managers and outside experts, 50 AI ecosystem partners, and the AI+Lab computing platform to accelerate world-class AI4IA development with startup teams. 2018 executive results: Supported 5 startup teams to be stationed with 3 AI+ strategic partners.</p>	
7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization:			None.	

## III. Corporate Governance

### 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.	

### III. Corporate Governance

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. For the transaction suppliers, it is required to sign the "Integrity Commitment Letter" to implement the company's integrity management business culture and maintain the sound development of business activities; and expose the ten common declarations in the supplier App, and adhere to the principle of integrity with suppliers.	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	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.	

### III. Corporate Governance

Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
<p>auditing department or CPA conducted periodic auditing?</p> <p>(5) If the Company organized training and awareness programs on ethical corporate management to internal and external parties?</p>	V		<p>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 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.</p> <p>(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. At the same time, Systex conducts an online test for all employees every 4 months on the case description model of honest operation, with digital courses for those that fail to pass to strengthen employees' attention and requirement of honest and legal operation. The last time was carried out in March, 2019, with a total of 2,545 people participating in the test.</p>	
<p>3. Implementation of whistleblowing system</p> <p>(1) If the Company established a whistleblowing and reward system? Upon receiving a reported case, is there a dedicated personnel handling the reported case?</p> <p>(2) If the Company established standard operational procedures and relevant information confidentiality policy for</p>	V		<p>(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.</p> <p>(2) The Company has established the "Employee Code of Conduct" and provides complete confidentiality for whistleblowers and reported items.</p>	None

### III. Corporate Governance

Item	Implementation Status			Reason for Non-implementation
	Yes	No	Summary Description	
investigation of reported cases? (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 and its status of implementation via corporate website or Market Observation Post System?	V		(1) The Company discloses its ethical business policies in the internal regulations, corporate website, and annual reports.	None
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.				
6. If any other information that helped to understand the operation of ethical business conduct and its implementation? (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. (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.				

## III. Corporate Governance

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### 3.4.7 Corporate Governance Guidelines and Regulations

Please refer to the Company's website at [www.systemx.com](http://www.systemx.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, management team 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 41-45 of "Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" "No.8."

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### 3.4.9 Internal Control System Execution Status

#### A. Statement of Internal Control System

Please refer to page 42 of the Chinese annual report.

#### B. If CPA was Engaged to Conduct a Special Audit of Internal Control System, Provide Its Audit Report:

Please refer to page 43 of the Chinese annual report.

### 3.4.10 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:

1. 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 Loaning of Funds and Making of Endorsements/ Guarantees by Public Companies." SYSTEX's representative was took charge of a fine of NT\$240,000 by the authority on February 26, 2018.
2. 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.

### 3.4.11 Major Resolutions of Shareholders' Meeting and Board Meetings

#### A. Important resolutions from the annual shareholders' meeting on June 15, 2018 and current status:

- (a) Ratified the business report and the financial statements for 2017.
- (b) Ratified the earnings distribution proposal for 2017.
- (c) Approved the proposal for distributing cash dividend from the Company's Capital Surplus.

Review of the current status of the implementation of resolutions:

The 2017 earnings distribution proposal and the proposal for distributing cash dividend from from the Company's Capital Surplus have been carried out and all dividends have been distributed to shareholders on July 27, 2018 after the resolution in the annual shareholders' meeting.

#### B. Important resolutions of Board meetings in 2018 and during the current fiscal year up to the date of publication of the annual report:

- (a) 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 Employees' remuneration distribution plan.
  - vii. Approved the 2017 Directors' 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 Systek Information (Shanghai) Ltd.
  - xii. Approved the Audit Divison's organization of the company's organizational structure.
  - xiii. Approved the review results of management team and the distribution of bonuses for the second half of 2017.

### III. Corporate Governance

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- xiv. Approved the distribution of the bonuses and annual remuneration for management team of 2017.
  - xv. Approved the 2018 KPI settings and remuneration structure for management team.
- (b) 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.
- (c) August 9, 2018:
- i. Retroactively approved the trade with Evergrow Securities Investment Consultant Co., Ltd.
  - ii. Approved the endorsement guarantee for Systex Group (China) Ltd. and Systex Ucom (Shanghai) Information Co., Ltd.
  - iii. Approved the review results of management team and the distribution of bonuses for the first half of 2018.
  - iv. Approved the amended institutions of remuneration for management team.
- (d) November 8, 2018:
- i. Approved the company commissioned non-audit CPA was engaged to conduct a special audit of internal control system.
  - ii. Approved the "Statement of Internal Control System."
- (e) December 20, 2018:
- i. Approved the 2019 Audit program.
  - ii. Approved the amended "Purchase and payment cycle" of "Internal Control System."
  - iii. Approved the amended "Computerized information processing cycle", "Research and development cycle" and "Management of the use of seals" of "Internal Control System."
  - iv. Approved the consolidated operating budget for 2019.
  - v. Approved the Company's financing loan credit line contract with financial institutions.
  - vi. Approved the endorsement guarantee for Systex Solutions Corporation.
  - vii. Approved the endorsement guarantee for subsidiaries in China.
  - viii. Approved the amended "Rule of operation, business and financial operations with specific companies, group companies and affiliates."
- (f) March 21, 2019:
- i. Approved the "Statement of Internal Control System" for 2018.
  - ii. Approved the amended "Internal Control System."
  - iii. Approved the business report and the financial statements for 2018.
  - iv. Approved the 2018 earnings distribution proposal.
  - v. Approved the proposal for distributing cash dividend from the Company's Capital Surplus.
  - vi. Approved the 2018 Employees' remuneration distribution plan.
  - vii. Approved the 2018 Directors' remuneration distribution plan.
  - viii. Approved the amended "Corporate Governance Best Practice Principles."
  - ix. Approved the amended "Standard Procedures for handling directors' requirements."
  - x. Approved the amended "Articles of Incorporation."
  - xi. Approved the amended "Procedures for the Acquisition and Disposal of Assets."
  - xii. Approved the amended "Procedures for Loaning of Funds."
  - xiii. Approved the amended "Procedures for Making of Endorsements and Guarantees."
  - xiv. Approved elected the 9th Board of Directors at the 2019 general shareholders' meeting.
  - xv. Approved the 9th Board of Directors and Independent Directors of candidate list.
  - xvi. Approved the non-competition restriction on directors.
  - xvii. Approved the proposed calling of 2019 general shareholders' meeting.
  - xviii. Approved the independence of elected visa accountants.

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- xix. Approved the review results and bonuses of management team for the second half of 2018.
- xx. Approved the distribution of the bonuses and annual remuneration for management team of 2018.
- xxi. Approved the 2019 KPI settings and remuneration structure for management team.

(g) May 2, 2019:

- i. Approved the candidates of Independent Directors with the qualification requirements.
- ii. Approved the endorsement guarantee for Ranibow Tech Information (HK) 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.

### III. Corporate Governance

#### 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	2018.01.01~2018.12.31	

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000,000				
2	NT\$2,000,00 ~ NT\$4,000,000			V	
3	NT\$4,000,00 ~ NT\$6,000,000		V		
4	NT\$6,000,00 ~ NT\$8,000,000				V
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					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Deloitte & Touche Accounting Firm	Lin, Shu-Wan	5,500	-	-	-	2,104	2,104	2018.01.01~2018.12.31	
	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, 2019		
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	Unqualified opinion		
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; Kuo, Cheng-Hung
Date of appointment	January 1, 2019
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	2018		As of April 15, 2019	
		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	(5,000)	-	(35,000)	-
Director	Lu, Ta-Wei	-	-	-	-
Director	Shaw, Shung-Ho	-	-	-	-
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	-	-	-	-
Vice President/ CHO	Huang, Yu-Jen	-	-	-	-
Senior Vice President	Yang, Shih-Chung	-	-	-	-
Senior Vice President	Fan, Jee-Der	(90,000)	-	-	-
Senior Vice President	Su, Kou-Lin	-	-	-	-
Vice President	Chang, Huang-Yu	-	-	-	-
Vice President	Yeh, Chen-Min	(40,000)	-	-	-
Vice President	Chang, Ying-Chin	(72,000)	-	-	-
Vice President	Lin, Wen-Kuei	(34,000)	-	-	-
Vice President	Hsiao, Wei-Chun	-	-	-	-
Vice President	Pan, Tieh-Yi	-	-	-	-
Vice President	Wu, Wen-Shuen	-	-	-	110,000 (Note 2)

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Title	Name	2018		As of April 15, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President	Tao, Yea-Kuan	-	-	-	-
Vice President	Tang, Yin-Soon	-	-	-	-
Chief Audit Executive	Tsai, Chun-Hsiung (Note 1)	-	-	-	-
Accounting Manger	Cheng, Yuan-Yih	(18,000)	-	-	-
Major Shareholder	None	N/A	N/A	N/A	N/A

Note 1: Tsai, Chun-Hsiung took office in 2018.04. (The increase or decrease in the number of shares held by the above-mentioned persons is the change before or after the expiry.)

Note 2: Released of pledge on April 17, 2019.

#### 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\$)
Vice President Lin, Wen-Kuei	Given	2018.04.24	Lin, Chia-Chun	Adult child	34,000	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 15, 2019

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	12,822,476	4.76	-	-	-	-	Huang, Tsong-Jen	Chairman	
Chunghwa Post Co., Ltd. Chairman: Wei, Chien-Hung	8,997,000	3.34	-	-	-	-	-	-	
Yu Yeh Investment Corp. Chairman: Wan, Chia-Chen	7,108,000	2.64	-	-	-	-	-	-	
Tsai Hsun Investment Corp. Chairman: Su, Kun-Yu	3,862,555	1.43	-	-	-	-	-	-	
Chin Yuan Fa Investment Corp. Chairman: Tai, Tzu-Shan	3,646,321	1.35	-	-	-	-	-	-	
Asiavest Capital Co., Ltd. Chairman: Huang, Tsong-Jen	3,500,000	1.30	-	-	-	-	Huang, Tsong-Jen	Chairman	
ISHARES Emerging Markets Dividend ETF	2,975,000	1.10	-	-	-	-	-	-	

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### 3.10 Ownership of Shares in Affiliated Enterprises

Unit: shares/ % As of December 31, 2018

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.	60,000,000	100.0	0	0	60,000,000	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
GenSys Technology(International) Limited	8,000,000	40.0	0	0	8,000,000	40.0
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
Shengsen Corp.	587,275	30.0	0	0	587,275	30.0
Retail System Co., Ltd.	780,000	30.0	0	0	780,000	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
Forg-jump Information Co., Ltd.	447,812	10.0	0	0	447,812	10.0
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 15, 2019

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 15, 2019

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 15, 2019

Type of Shareholders \ Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	1	4	125	38,146	177	38,453
Shareholding (shares)	193,000	12,067,000	93,194,979	125,825,064	38,113,261	269,393,304
Holding Percentage (%)	0.07	4.48	34.59	46.71	14.15	100.00

## IV. Capital Overview

### 4.1.3 Distribution of Shareholding

#### A. Common Shares

As of April 15, 2019

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	21,124	5,137,101	1.91
1,000 ~ 5,000	14,091	28,022,251	10.40
5,001 ~ 10,000	1,722	13,483,081	5.00
10,001 ~ 15,000	444	5,689,315	2.11
15,001 ~ 20,000	324	6,052,659	2.25
20,001 ~ 30,000	249	6,363,214	2.36
30,001 ~ 50,000	178	7,069,056	2.62
50,001 ~ 100,000	141	10,102,444	3.75
100,001 ~ 200,000	75	10,952,158	4.07
200,001 ~ 400,000	39	10,779,607	4.00
400,001 ~ 600,000	20	10,168,478	3.77
600,001 ~ 800,000	8	5,548,842	2.06
800,001 ~ 1,000,000	8	7,040,364	2.61
1,000,001 or over	30	142,984,734	53.09
Total	38,453	269,393,304	100.00

B. Preferred Shares: None.

### 4.1.4 Major Shareholders

As of April 15, 2019

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		2017	2018	Current year to March 31, 2019
Market Price per Share	Highest Market Price	Diluted		70.00	68.80	68.00
		Adjusted		70.00	68.80	-
	Lowest Market Price	Diluted		56.20	56.30	61.10
		Adjusted		56.20	56.30	-
	Average Market Price	Diluted		61.71	63.04	65.14
		Adjusted		61.71	63.04	-
Net Book Value per Share	Before Distribution			49.88	53.36	55.05
	After Distribution			49.88	53.36	-
Earnings per Share	Weighted Average Shares			245,983,453	245,983,453	246,022,242
	Earnings Per Share	Diluted		4.79	4.27	1.56
		Adjusted		4.79	4.27	-
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)			12.63	14.71	-
	Price / Dividend Ratio (Note 2)			12.11	12.57	-
	Cash Dividend Yield Rate (Note 3)			8.26%	7.96%	-

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

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### 4.1.6 Dividend Policy and Implementation Status

#### A. Dividend policy

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 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.

Basically, dividends are pay out as the financial year surplus profits having paid all taxes and dues, and making good the deficit of the company, set as legal reserve and special reserve, and will reserve fund for the company's operation plan after the surplus profits, more than 50% the remain to pay dividends.

#### B. Implementation status

(1) The 2018 annual shareholders' meeting resolved to distribute NT\$673,483,260 in 2017 earnings and NT\$673,483,260 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 2017 earnings distribution and cash dividend from capital reserve have been distributed to shareholders on July 27, 2018.

## IV. Capital Overview

### C. The proposal for the distribution of 2018 profits for 2019 Annual Shareholders' Meeting

SYSTEX Corporation  
Earnings Distribution Proposal  
December 31, 2018

Unit: NT\$

Items	Amount	
	Subtotal	Total
Beginning unappropriated earnings		1,528,807,507
Adjustment for adoption of IFRS 9 Financial Instruments	1,068,262,489	
Adjustment for investments accounted for using equity method	(2,676,652)	
Remeasurement on net defined benefit plan	(23,562,919)	
Add: Net income of 2018	1,051,417,745	
Add: Reversal of special reserve	69,484,498	
Earnings available for distribution		3,691,732,668
Distribution items		
Legal reserve	(105,141,774)	
Cash dividends (NT\$3.8/per share)	(1,023,694,555)	
Total distribution		(1,128,836,329)
Ending unappropriated earnings		2,562,896,339

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

#### 4.1.7 Employee 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

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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 21, 2019 has approved the resolution to distribute NT\$34,055,828 as employee remuneration and NT\$22,703,885 as Directors remuneration for the year 2018.

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 2018.

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 22, 2018 to distribute NT\$1,215,848 in employee remuneration and NT\$24,316,970 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

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### 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		

## V. Operation Highlights

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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.

## V. Operation Highlights

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### B. Revenue Mix

- (a) Sales of computer software and hardware: 73%.
- (b) Services revenue and other operating revenue: 27%.

### C. Main products and Services

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) Omni channel experience and Omni payment for smart retail:

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 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 onjob 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.

## V. Operation Highlights

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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) Financial blockchain letter service.
- (e) New finance terminal transaction platform & Finance Service platform for financial industry.
- (f) The Platform of Responsive Web Design in Government website.
- (g) 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 2019, 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 technologic 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 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\$167.3billion in 2018 to NT\$192.8 billion in 2020, 2014 to 2020 an annual growth rate of approximately 6.6%.

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

## V. Operation Highlights

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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\$84 billion in 2018 to NT\$97.1 billion in 2020, 2014 to 2020 an annual growth rate of approximately 6.7%. 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 2019, 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.

#### (b) Omni channel experience and Omni payment for smart 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. Future 5G network construction and services will be built by leading telecommunications operators in Europe, the United States, and Asia. US telecommunications providers AT&T and Verizon have already commercialized 5G at the end of 2018; The three major telecommunications providers in South Korea have also launched commercialized 5G mobile services in March 2019, beginning construction of 5G infrastructure with plans to conduct commercial testing by December 2019. Japan, EU, and China all plan for commercial operation in 2020. This is expected to trigger sales opportunities for new network applications and relevant hardware.

Industry 4.0 spearheaded the business opportunities for restructuring corporate information structures and connects various equipment, control systems, and sensing devices to the corporate

## V. Operation Highlights

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."

2018 is full of information security hazards and data leaks, including Facebook users' personal data being stolen, and the Twitter user password leak; In addition, the TSMC computer virus incident also exposed information security problems in industrial control systems; Coming into 2019, with the announcement of the Information Security Act, public sectors and private corporations all need to face severe security challenges. Corporations' mentality on information security defense should become more active, extending beyond handling information security incidents to investigating everything before and after incidents to construct a sustainable information security environment for modern corporations.

### 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.

#### 5.1.3 Research and Development

R & D Expenses for current year

Unit: NT\$ thousands

Item \ Year	2018	As of March 31, 2019
	R & D Expenses	452,967

The Company's technologies and R&D consist mainly of integration of business applications and important results include: Please refer to page 65 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

## V. Operation Highlights

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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. Omni channel experience and Omni payment for smart 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 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

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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

Increase customer loyalty, create one stop shopping concepts.

##### (3) Product and service diversification

In the scope of services, in addition to improving current core services, new products introduced will also be integrated to existing services, expanding the original single-point, single-products services to a line, or even a plane, and grow with the customer.

##### (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.

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### (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) White space market development

In response to the rapid changes and transformation of the current business model, a new form of industry solution was introduced to expand market shares with comprehensive and professional 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.

### 5.2 Market, Production and Sales Outlook

#### 5.2.1 Market Analysis

##### A. Region Revenues

Area	Domestic	Overseas	Total
Sales percentage	76%	24%	100%

##### B. Future Market Supply and Demand and Future Growth

The following trends will have material impact in 2019:

- (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) The MIC conducted a "mobile payment survey" in the fourth quarter of 2018 and found that by 2018, the penetration rate of mobile payment has reached 50.3%, a significant increase from 39.7% in 2017. The key points of mobile payment in 2019 will be how to provide more complete channels, attractive deals, and smoother operating process with the three major factors of "channels", "deals", and "system stability" and give current users a smoother user experience.
- (c) With the rise of microservice architecture, the IDC predicts that by 2022, 35% of the world's software services will be cloud-based software, and up to 90% of new software services will use microservice architecture.
- (d) 5G communications is about to be commercially operated in developed countries. Relevant application will lead to a flip in the technology industry and break through the current 4G saturation.

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### 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, Unfavorable 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 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.

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- 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.
- ④ It is hard to cultivate technicians in basic banking AP development, causing a gap in human resources.

### (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) Omni channel experience and Omni payment for smart retail:

#### (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 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

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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.
- 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 By strengthening the integrity of the product line, the group of lecturers, and the service

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process, SYSTEX is able to deepen customer relations, create team value, and raise competitive standards.

- 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 70 - 71 of the Chinese annual report.

### 5.2.3 Supply of Essential Raw Materials: N/A

### 5.2.4 Key Suppliers and Customers in 2018 & 2017:

A. Key Customers: There are not any customers for more than 10% of the total sales in 2018 & 2017.

B. Key Suppliers:

Unit: NT\$ thousands

Supplier	Year	2017			2018			As of March 31, 2019		
		Amount	Percentage of Total Purchase (%)	Relationship with Issuer	Amount	Percentage of Total Purchase (%)	Relationship with Issuer	Amount	Percentage of Total Purchase (%)	Relationship with Issuer
Company A		3,451,062	29	None	3,814,368	31	None	1,058,817	37	None
Others		8,539,636	71		8,393,705	69		1,827,636	63	
Total		11,990,698	100		12,208,073	100		2,886,453	100	

5.2.5 Production in 2018 & 2017: SYSTEX is the Information Service Company, it's not applicable.

### 5.2.6 Shipments and Revenue in 2018 & 2017

Unit: NT\$ thousands

Item	Year	2017		2018	
		Domestic	Overseas	Domestic	Overseas
Net sales		9,098,220	2,996,644	10,720,621	3,543,147
Service revenue		3,866,535	840,294	4,124,385	1,063,818
Other operating revenue		68,564	4,022	63,211	807
Total		16,874,279		19,515,989	

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### 5.3 Human Resources

Year		2017	2018	As of March 31, 2019
Number of Employees	Sales & Market	486	528	527
	Technician	1,120	1,284	1,259
	Programmer	925	1,045	1,040
	Administration	376	407	400
	Total	2,907	3,264	3,226
Average Age		37	38	39
Average Years of Service		7.3	7.6	7.8
Education	Ph.D.	0.10%	0.12%	0.06%
	Master	12.04%	11.83%	11.84%
	University & College	80.88%	81.10%	81.84%
	High School	6.74%	6.68%	6.01%
	Below High School	0.24%	0.27%	0.25%

### 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 provides laundry and delivery services at discount prices.
  - (e) The Company has constructed parking lots for use by all employees after filing applications.

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- (f) The Company encourages employees to establish clubs and subsidizes club funding.
- (g) Employees enjoy promotional prices for products of the Group.
- (h) The Company organizes employee events and tours from time to time to enrich employees' leisure life and promote friendship.
- (i) 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

A total of 3,857 employees participated in the physical training courses (excluding digital learning courses) hosted by SYSTEX in 2018 and the total training time exceeded 21,000 hours. In addition, there were 476 instances of employee participation external professional training courses which accounted for a total of 8,639.5 training hours.

The training programs provided by the Company include:

SYSTEX values talent cultivation and the advancement of employee expertise. We firmly believe that employees are the Company's most important assets and the Company has systematic planning and provides employees with education development plans from professional technical skills to career development. 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 needs for personal development, which includes diverse courses including technology research institutions, expert seminars, the newcomer training program, leadership management programs, key talent cultivation, and the Intern School.

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.

Internal training courses provided by SYSTEX include:

- A. Newcomer training course: 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. Technology Research Institution: The program focuses on core capabilities like software development and project management. With the best practical experience accumulated over the years, the Company has established ten major technology research institutes to continue the introduction of new technologies and organization of technical research camps to systematically cultivate talented technical personnel in order to ensure the continued betterment of software development and project management capabilities.
- C. Leadership Management Programs: To enhance the management skills of supervisors, the Company has designed 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.
- D. Key Talent Cultivation: Conduct annual inventory and cultivation planning of key positions and talent according to organizational strategy and needs for reserved talent, as well as human recourse strategies for high performance and contribution.
- E. Expert Seminars: Introduce industry experts to share the best practices. Hold expert seminars so that

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managers and employees can receive more practical experience and realize the win-win ideal of achieving customer value and improving business performance.

F. Intern School: Provide summer and long-term internship programs, allowing students to experience the workplace early and get to know SYSTEX through internship opportunities. SYSTEX even offers the chance for long-term interns to become full-time employees.

In addition to physical courses, SYSTEX also established a comprehensive "Learning Management System" 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.

### 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".

### 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

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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", and provide employee health consultation and workplace evaluation to prevent occupational hazards. 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.

### 5.6 Material Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Reseller Agreement	Oracle Taiwan LLC, Taiwan Branch	2018.06.13-2019.06.12	Software proxy	None
Reseller Agreement	IBM Taiwan Corp.	2017.11.15-2019.11.14	Software proxy	None
Reseller Agreement	Microsoft Regional Sales Corporation	2018.09.01-2019.08.31	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(Note 1)					As of March 31, 2019 (Note 1)
		2014	2015	2016	2017	2018	
Current assets		13,581,623	13,592,648	14,470,521	14,821,057	14,062,166	13,297,473
Property, plant and equipment (Note2)		2,278,120	2,089,497	2,009,673	1,940,525	1,913,330	1,914,917
Intangible assets		545,375	451,010	112,751	51,368	116,074	107,532
Other non-current assets (Note2)		2,153,637	2,529,702	2,489,683	2,551,220	3,887,893	4,375,826
Total assets		18,558,755	18,662,857	19,082,628	19,364,170	19,979,463	19,695,748
Current liabilities	Before distribution	4,826,640	5,240,030	6,064,585	6,766,494	6,492,370	5,602,487
	After distribution	6,163,597	6,586,997	7,411,551	8,113,461	-	-
Non-current liabilities		222,845	265,124	258,848	275,520	292,142	474,149
Total liabilities	Before distribution	5,049,485	5,505,154	6,323,433	7,042,014	6,784,512	6,076,636
	After distribution	6,386,442	6,852,121	7,670,399	8,388,980	-	-
Equity attributable to owners of the corporation		13,431,692	13,101,677	12,728,192	12,270,356	13,125,761	13,549,735
Share capital		2,671,113	2,688,383	2,693,933	2,693,933	2,693,933	2,693,933
Capital surplus	Before distribution	8,685,259	8,197,220	7,634,980	7,363,072	6,729,035	6,733,517
	After distribution	7,749,389	7,523,737	7,230,890	6,689,589	-	-
Retained earnings	Before distribution	2,930,735	3,046,792	3,467,402	3,670,307	5,090,264	5,474,475
	After distribution	2,529,648	2,373,309	2,524,525	2,996,824	-	-
Other equity		97,837	136,780	(64,494)	(453,327)	(383,842)	(354,539)
Treasury share		(953,252)	(967,498)	(1,003,629)	(1,003,629)	(1,003,629)	(997,651)
Non-controlling interests		77,578	56,026	31,003	51,800	69,190	69,377
Total equity	Before distribution	13,509,270	13,157,703	12,759,195	12,322,156	13,194,951	13,619,112
	After distribution	12,172,313	11,810,736	11,412,229	10,975,189	-	-

Note 1: 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 2018 is to be approved by the shareholders' meeting.

## VI. Financial Information

### B. Consolidated Condensed Statement of Comprehensive Income

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years (Note 1)					As of March 31, 2019 (Note 1)
	2014	2015	2016	2017	2018	
Operating revenues	15,809,321	16,313,088	16,210,380	16,874,279	19,515,989	4,940,644
Gross profit	4,219,091	4,300,486	4,332,060	4,533,728	5,034,211	1,260,229
Profit from operations	435,573	419,362	279,268	539,126	687,722	240,776
Non-operating income and expenses	489,980	285,857	966,592	761,034	553,505	183,373
Income before tax	925,553	705,219	1,245,860	1,300,160	1,241,227	424,149
Net income	747,071	563,327	1,090,328	1,173,118	1,050,172	384,407
Other comprehensive income (loss) (income after tax)	205,384	(21,568)	(215,734)	(420,912)	37,855	29,294
Total comprehensive income	952,455	541,759	874,594	752,206	1,088,027	413,701
Net income attributable to owners of the corporation	744,717	564,274	1,108,268	1,177,749	1,051,418	384,211
Net income attributable to non-controlling interests	2,354	(947)	(17,940)	(4,631)	(1,246)	196
Comprehensive income attributable to owners of the corporation	950,606	542,237	892,819	756,949	1,089,408	413,514
Comprehensive income attributable to non-controlling interests	1,849	(478)	(18,225)	(4,743)	(1,381)	187
Earnings per share (Note 2)	3.07	2.29	4.50	4.79	4.27	1.56

Note 1: 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.

## VI. Financial Information

### 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)				
		2014	2015	2016	2017	2018
Current assets		3,478,385	3,358,680	3,333,550	2,987,226	2,930,051
Funds and Investments		9,721,796	9,738,155	9,717,916	10,200,776	11,023,444
Property, plant and equipment (Note 2)		1,885,134	1,704,946	1,658,175	1,640,402	1,620,945
Intangible assets		124,777	107,282	54,271	45,578	30,303
Other non-current assets (Note 2)		286,556	243,268	203,177	147,095	138,069
Total assets		15,496,648	15,152,331	14,967,089	15,021,077	15,742,812
Current liabilities	Before distribution	1,866,565	1,812,301	1,940,356	2,457,203	2,354,731
	After distribution	3,203,522	3,159,268	3,287,323	3,804,169	-
Non-current liabilities		198,391	238,353	298,541	293,518	262,320
Total liabilities	Before distribution	2,064,956	2,050,654	2,238,897	2,750,721	2,617,051
	After distribution	3,401,913	3,397,621	3,585,864	4,097,687	-
Equity attributable to owners of the corporation		13,431,692	13,101,677	12,728,192	12,270,356	13,125,761
Share capital		2,671,113	2,688,383	2,693,933	2,693,933	2,693,933
Capital surplus	Before distribution	8,685,259	8,197,220	7,634,980	7,363,072	6,729,035
	After distribution	7,749,389	7,523,737	7,230,890	6,689,589	-
Retained earnings	Before distribution	2,930,735	3,046,792	3,467,402	3,670,307	5,090,264
	After distribution	2,529,648	2,373,309	2,524,525	2,996,824	-
Other equity interests		97,837	136,780	(64,494)	(453,327)	(383,842)
Treasury shares		(953,252)	(967,498)	(1,003,629)	(1,003,629)	(1,003,629)
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	13,431,692	13,101,677	12,728,192	12,270,356	13,125,761
	After distribution	12,094,735	11,754,710	11,381,225	10,923,288	-

Note 1: The financial information of the preceding years has been audited by the CPA.

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

## VI. Financial Information

### B. Unconsolidated Condensed Statement of Comprehensive Income

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years (Note 1)				
	2014	2015	2016	2017	2018
Operating revenues	6,406,809	6,100,657	5,733,038	5,900,195	6,353,272
Gross profit	1,963,616	1,943,215	1,912,678	2,078,811	2,246,610
Profit from operations	183,179	147,366	92,889	143,184	158,100
Non-operating income and expenses	662,842	483,194	985,716	1,047,104	920,362
Income before tax	846,021	630,560	1,078,605	1,190,288	1,078,462
Net income	744,717	564,274	1,108,268	1,177,749	1,051,418
Other comprehensive income (loss) (income after tax)	205,889	(22,037)	(215,449)	(420,800)	37,990
Total comprehensive income	950,606	542,237	892,819	756,949	1,089,408
Net income attributable to owners of the corporation	744,717	564,274	1,108,268	1,177,749	1,051,418
Net income attributable to non-controlling interests	-	-	-	-	-
Comprehensive income attributable to owners of the corporation	950,606	542,237	892,819	756,949	1,089,408
Comprehensive income attributable to non-controlling interests	-	-	-	-	-
Earnings per share (Note 2)	3.07	2.29	4.50	4.79	4.27

Note 1: The financial information of the preceding years has been audited by the CPA.

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

## VI. Financial Information

### 6.1.3 Auditors' Opinions from 2014 to 2018

Year \ Item	Accounting Firm & CPA	Audit 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
2018	Deloitte & Touche Accounting Firm Lin, Shu-Wan; Shue, Shiow-Ming	Unmodified report
As of March 31, 2019	Deloitte & Touche Accounting Firm Lin, Shu-Wan; Kuo, Cheng-Hung	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, 2019 (Note 1)
			2014	2015	2016	2017	2018	
Financial structure	Debt Ratio (%)		27.21	29.50	33.14	36.37	33.96	30.85
	Ratio of long-term capital to property, plant and equipment (%)		602.78	642.40	647.77	649.19	704.90	735.97
Solvency	Current ratio (%)		281.39	259.40	238.61	219.04	216.60	237.35
	Quick ratio (%)		226.32	205.23	184.63	163.66	157.63	173.52
	Times Interest earned ratio (times) (Note 3)		83.82	48.63	51.19	41.18	41.68	62.28
Operating performance	Average collection turnover (times) (Note 3)		4.88	4.88	4.70	5.07	5.59	5.42
	Average collection period (days)		75	75	78	72	65	67
	Average inventory turnover (times) (Note 3)		5.71	5.57	4.89	4.20	4.58	4.78
	Accounts payable turnover (times)		4.14	4.17	4.10	4.08	4.60	4.96
	Average days in sales		64	66	75	87	80	76
	Property, plant and equipment turnover (times)		6.69	7.47	7.91	8.54	10.13	10.32
	Total assets turnover (times) (Note 3)		0.86	0.88	0.86	0.88	0.99	1.00
Profitability	Return on total assets (%) (Note 3)		4.10	3.09	5.89	6.24	5.47	7.87
	Return on equity (%) (Note 3)		5.61	4.22	8.41	9.35	8.23	11.47
	Profit before tax to capital (%) (Note 4)		34.65	26.23	46.25	48.26	46.07	62.98
	Profit to sales (%) (Note 3)		4.73	3.45	6.73	6.95	5.38	7.78
	Earnings per share (NT\$) (Note 2)		3.07	2.29	4.50	4.79	4.27	1.56
Cash flow	Cash flow ratio (%)		11.26	19.61	24.64	3.25	8.56	-
	Cash flow adequacy ratio (%)		72.55	83.80	67.63	50.89	51.06	50.65
	Cash flow reinvestment ratio (%)		(1.37)	(1.49)	1.97	(7.73)	(4.85)	-
Leverage	Operating leverage		9.92	10.54	15.77	8.53	7.38	5.28
	Financial leverage		1.03	1.04	1.10	1.06	1.05	1.03

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

- Profit to sales decreased 23%: Because of profit from operations increased and Non-operating income and expenses decreased.
- Cash flow ratio increased 164%: Because of net cash generated from operating activities increased.
- Cash reinvestment ratio increased 37%: Because of net cash generated from operating activities increased 153% and Long-term investment increased 58%.

## VI. Financial Information

Note 1: 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: The financial analysis information as of March 31, 2019 is annualized.

### 6.2.2 Financial Analysis (Unconsolidated)

Items		Year	Financial Analysis for the Last Five Years (Note 1)				
			2014	2015	2016	2017	2018
Financial structure	Debt Ratio (%)		13.33	13.53	14.96	18.31	16.62
	Ratio of long-term capital to property, plant and equipment (%)		723.03	782.43	785.61	765.90	825.94
Solvency	Current ratio (%)		186.35	185.33	171.80	121.57	124.43
	Quick ratio (%)		129.80	136.21	115.08	74.25	76.11
	Times interest earned ratio (times)		25,638	19,706	672	312	370
Operating performance	Average collection turnover (times)		5.44	6.01	5.69	5.85	5.89
	Average collection period (days)		67	61	64	62	62
	Average inventory turnover (times)		4.71	5.48	4.88	4.23	4.57
	Accounts payable turnover (times)		4.42	4.40	3.91	3.92	4.30
	Average days in sales		77	67	75	86	80
	Property, plant and equipment turnover (times)		3.34	3.40	3.41	3.58	3.90
	Total assets turnover (times)		0.42	0.40	0.38	0.39	0.41
Profitability	Return on total assets (%)		4.83	3.68	7.37	7.88	6.85
	Return on equity (%)		5.65	4.25	8.58	9.42	8.28
	Profit before tax to capital (%)		31.67	23.45	40.04	44.18	40.03
	Profit to sales (%)		11.62	9.25	19.33	19.96	16.55
	Earnings per share (NT\$) (Note 2)		3.07	2.29	4.50	4.79	4.27
Cash flow	Cash flow ratio (%)		17.80	26.20	26.38	16.67	15.32
	Cash flow adequacy ratio (%)		89.11	66.41	42.69	28.19	30.83
	Cash flow reinvestment ratio (%)		(3.35)	(6.31)	(6.26)	(7.22)	(7.13)
Leverage	Operating leverage		11.09	13.64	21.03	14.72	14.39
	Financial leverage		1.00	1.00	1.02	1.03	1.02
Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%) None.							

Note 1: The financial information of the preceding years has been audited by the CPA.

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

## VI. Financial Information

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### 6.3 Audit Committee's Report

#### Audit Committee's Review Report

The Board of Directors has prepared and submitted the 2018 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:

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Huang, Jih-Tsan

March 21, 2019

## **VI. Financial Information**

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6.4 Financial Statements for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

### **Systemx Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2018 and 2017 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 referred to as the Group), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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 (collectively referred to as the “consolidated financial statements”).

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, 2018 and 2017, 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, 2018. 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, 2018 are addressed as follows:

#### Valuation of Accounts Receivable

As of December 31, 2018, accounts receivable amounted to \$3,632,563 thousand. When evaluating impairment of accounts receivable, the management uses the expected credit loss model based on the lifetime expected credit loss. The valuation of accounts receivable involves accounting estimates and assumptions determined by the management. 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 13 to the consolidated financial statements.

Our audit procedures for the abovementioned key audit matter included the following:

1. We obtained the reports of accounts receivable impairment and assessed the reasonableness of the methodology and data used in the reports.
2. We tested the accounts receivable aging schedule and reviewed the calculation of expected credit loss for reasonableness of the recognized expected credit loss on accounts receivable.
3. We tested the recoverability of accounts receivables by analyzing overdue accounts and by verifying cash receipts in the subsequent period. For a receivable that was past due but not yet received, we assessed the reasonableness of the expected credit loss based on the customer's payment history, customer credit control and tracking of overdue accounts receivable.

#### **Other Matter**

We did not audit the financial statements as of and for the year ended December 31, 2017 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 amounted to \$468,683 thousand, or 2.42% of the consolidated assets. The aggregate net operating revenues of these subsidiaries in 2017 were \$1,183,995 thousand, or 7.02% of the 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, 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, including those reclassified to noncurrent assets held for sale, were \$801,036 thousand, or 4.14% of the consolidated assets. The aggregate amount of the share in their profit and other comprehensive income in 2017 was \$40,158 thousand, or 5.34% of the 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, 2018 and 2017 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, 2018 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 21, 2019

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, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,815,309	14	\$ 3,708,235	19
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	3,079,485	15	3,222,285	17
Available-for-sale financial assets (Notes 4 and 11)	-	-	16,561	-
Debt investments with no active market - current (Notes 4 and 12)	-	-	357,120	2
Notes receivable, net (Notes 4 and 13)	70,881	-	64,837	1
Accounts receivable, net (Notes 4, 5, 13 and 29)	3,632,563	18	3,217,198	17
Other receivables (Notes 30 and 31)	264,386	1	204,277	1
Inventories (Notes 4 and 14)	2,894,176	15	2,910,565	15
Prepayments	934,370	5	836,115	4
Refundable deposits - current	320,128	2	220,715	1
Other current assets (Note 29)	50,868	-	63,149	-
Total current assets	<u>14,062,166</u>	<u>70</u>	<u>14,821,057</u>	<u>77</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)	1,679,823	8	-	-
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	111,870	1	-	-
Financial assets at amortized cost - non-current (Notes 4 and 9)	500,000	3	-	-
Financial assets measured at cost - non-current (Notes 4 and 15)	-	-	509,150	3
Debt investments with no active market-non-current (Notes 4 and 12)	-	-	574,400	3
Investments accounted for using equity method (Notes 4 and 17)	1,240,816	6	1,153,527	6
Property, plant and equipment (Notes 4, 18 and 30)	1,913,330	10	1,940,525	10
Computer software (Note 4)	58,359	-	51,368	-
Goodwill (Notes 4 and 25)	26,703	-	-	-
Other intangible assets (Note 4)	31,012	-	-	-
Deferred tax assets (Notes 4 and 23)	75,600	-	54,870	-
Refundable deposits - non-current (Note 31)	189,310	1	162,086	1
Long-term receivables (Notes 4 and 13)	600	-	4,944	-
Other non-current assets (Notes 30 and 31)	89,874	1	92,243	-
Total non-current assets	<u>5,917,297</u>	<u>30</u>	<u>4,543,113</u>	<u>23</u>
<b>TOTAL</b>	<u>\$ 19,979,463</u>	<u>100</u>	<u>\$ 19,364,170</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Notes 19 and 30)	\$ 815,925	4	\$ 1,460,053	7
Notes and accounts payable (Note 29)	3,193,059	16	3,100,522	16
Contract liabilities (Note 4)	1,071,102	5	1,081,130	6
Other payables	1,094,195	6	902,169	5
Current tax liabilities (Notes 4 and 23)	126,689	1	62,039	-
Other current liabilities	191,400	1	160,581	1
Total current liabilities	<u>6,492,370</u>	<u>33</u>	<u>6,766,494</u>	<u>35</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Notes 4 and 23)	5,938	-	5,023	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	273,652	1	263,637	1
Other non-current liabilities	12,552	-	6,860	-
Total non-current liabilities	<u>292,142</u>	<u>1</u>	<u>275,520</u>	<u>1</u>
Total liabilities	<u>6,784,512</u>	<u>34</u>	<u>7,042,014</u>	<u>36</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 21)</b>				
Common shares	<u>2,693,933</u>	<u>14</u>	<u>2,693,933</u>	<u>14</u>
Capital surplus	<u>6,729,035</u>	<u>34</u>	<u>7,363,072</u>	<u>38</u>
Retained earnings				
Legal reserve	1,014,689	5	896,914	5
Special reserve	453,327	2	64,494	-
Unappropriated earnings	3,622,248	18	2,708,899	14
Total retained earnings	<u>5,090,264</u>	<u>25</u>	<u>3,670,307</u>	<u>19</u>
Other equity	(383,842)	(2)	(453,327)	(2)
Treasury shares	(1,003,629)	(5)	(1,003,629)	(5)
Total equity attributable to owners of the Corporation	13,125,761	66	12,270,356	64
<b>NON-CONTROLLING INTERESTS (Note 21)</b>	<u>69,190</u>	<u>-</u>	<u>51,800</u>	<u>-</u>
Total equity	<u>13,194,951</u>	<u>66</u>	<u>12,322,156</u>	<u>64</u>
<b>TOTAL</b>	<u>\$ 19,979,463</u>	<u>100</u>	<u>\$ 19,364,170</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 21, 2019)

# SYSTEX CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4 and 29)				
Sales	\$ 14,304,148	73	\$ 12,181,047	72
Less: Sales returns and allowances	<u>40,380</u>	<u>-</u>	<u>86,183</u>	<u>-</u>
Net sales	14,263,768	73	12,094,864	72
Service revenue	5,188,203	27	4,706,829	28
Other operating revenue	<u>64,018</u>	<u>-</u>	<u>72,586</u>	<u>-</u>
Total operating revenues	<u>19,515,989</u>	<u>100</u>	<u>16,874,279</u>	<u>100</u>
OPERATING COSTS (Notes 4, 22 and 29)				
Cost of goods sold	12,224,462	63	10,350,367	61
Service cost	2,246,078	11	1,967,169	12
Other operating cost	<u>11,238</u>	<u>-</u>	<u>23,015</u>	<u>-</u>
Total operating costs	<u>14,481,778</u>	<u>74</u>	<u>12,340,551</u>	<u>73</u>
GROSS PROFIT	<u>5,034,211</u>	<u>26</u>	<u>4,533,728</u>	<u>27</u>
OPERATING EXPENSES (Notes 20, 22 and 29)				
Selling expenses	3,524,984	18	3,194,696	19
General and administrative expenses	368,538	2	359,085	2
Research and development expenses	<u>452,967</u>	<u>2</u>	<u>440,821</u>	<u>3</u>
Total operating expenses	<u>4,346,489</u>	<u>22</u>	<u>3,994,602</u>	<u>24</u>
PROFIT FROM OPERATIONS	<u>687,722</u>	<u>4</u>	<u>539,126</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES				
Share of profit of associates (Notes 4 and 17)	44,296	-	66,479	1
Interest income (Note 4)	40,237	-	48,528	-
Dividend income (Note 4)	76,717	1	47,243	-
Other income, net (Note 29)	48,087	-	56,818	-
Gain on sale of investments, net (Note 22)	601,223	3	478,622	3
Foreign exchange gain (loss), net (Note 4)	(10,379)	-	34,492	-
Gain (loss) on financial assets at fair value through profit or loss, net (Note 4)	(222,621)	(1)	98,992	1
Interest expense	(30,513)	-	(32,359)	-
Other expenses	(2,131)	-	(4,227)	-
Gain on disposal of property, plant and equipment, net (Note 4)	8,589	-	4,229	-
Impairment loss on assets (Notes 4 and 22)	<u>-</u>	<u>-</u>	<u>(37,783)</u>	<u>-</u>
Total non-operating income and expenses	<u>553,505</u>	<u>3</u>	<u>761,034</u>	<u>5</u>

(Continued)

## SYSTEX CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018		2017	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 1,241,227	7	\$ 1,300,160	8
INCOME TAX EXPENSE (Notes 4 and 23)	<u>191,055</u>	<u>1</u>	<u>127,042</u>	<u>1</u>
NET INCOME	<u>1,050,172</u>	<u>6</u>	<u>1,173,118</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 20)	(26,385)	-	(32,743)	-
Unrealized gain (loss) on equity instruments at fair value through other comprehensive income	860	-	-	-
Share of the other comprehensive income of associates accounted for using the equity method	5	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 20)	<u>2</u>	<u>-</u>	<u>(151)</u>	<u>-</u>
	<u>(25,518)</u>	<u>-</u>	<u>(32,894)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	80,968	-	(434,475)	(3)
Unrealized loss on available-for-sale financial assets	-	-	(613)	-
Share of the other comprehensive gain (loss) of associates accounted for using the equity method	<u>(17,595)</u>	<u>-</u>	<u>47,070</u>	<u>-</u>
	<u>63,373</u>	<u>-</u>	<u>(388,018)</u>	<u>(3)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>37,855</u>	<u>-</u>	<u>(420,912)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,088,027</u>	<u>6</u>	<u>\$ 752,206</u>	<u>4</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,051,418	5	\$ 1,177,749	7
Non-controlling interests	<u>(1,246)</u>	<u>-</u>	<u>(4,631)</u>	<u>-</u>
	<u>\$ 1,050,172</u>	<u>5</u>	<u>\$ 1,173,118</u>	<u>7</u>

(Continued)

## SYSTEX CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018		2017	
	Amount	%	Amount	%
TOTAL COMPREHENSIVE INCOME (LOSS)				
ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,089,408	6	\$ 756,949	4
Non-controlling interests	<u>(1,381)</u>	<u>-</u>	<u>(4,743)</u>	<u>-</u>
	<u>\$ 1,088,027</u>	<u>6</u>	<u>\$ 752,206</u>	<u>4</u>
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$4.27</u>		<u>\$4.79</u>	
Diluted	<u>\$4.26</u>		<u>\$4.79</u>	

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

(With Deloitte & Touche audit report dated March 21, 2019)

(Concluded)

**SYSTEX CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Corporation (Notes 4 and 21)												
	Retained Earnings						Other Equity			Treasury Shares	Total	Non-Controlling Interests (Note 21)	Total Equity
	Common Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Instruments	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income				
BALANCE AT JANUARY 1, 2017	\$ 2,693,933	\$ 7,634,980	\$ 786,087	\$ -	\$ 2,681,315	\$ 3,467,402	\$ (83,286)	\$ 18,792	\$ -	\$ (1,003,629)	\$ 12,728,192	\$ 31,003	\$ 12,759,195
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 AT DECEMBER 31, 2017	2,693,933	7,363,072	896,914	64,494	2,708,899	3,670,307	(470,691)	17,364	-	(1,003,629)	12,270,356	51,800	12,322,156
Effect of retrospective application	-	-	-	-	1,068,262	1,068,262	-	(17,364)	22,619	-	1,073,517	1,215	1,074,732
BALANCE AT JANUARY 1, 2018 AS RESTATED	2,693,933	7,363,072	896,914	64,494	3,777,161	4,738,569	(470,691)	-	22,619	(1,003,629)	13,343,873	53,015	13,396,888
Appropriation of 2017 earnings													
Legal reserve	-	-	117,775	-	(117,775)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	388,833	(388,833)	-	-	-	-	-	-	-	-
Cash dividends - NT\$2.5 per share	-	-	-	-	(673,483)	(673,483)	-	-	-	-	(673,483)	-	(673,483)
Distribution in cash of the capital surplus - NT\$2.5 per share	-	(673,483)	-	-	-	-	-	-	-	-	(673,483)	-	(673,483)
Net income (loss) for 2018	-	-	-	-	1,051,418	1,051,418	-	-	-	-	1,051,418	(1,246)	1,050,172
Other comprehensive income (loss) for 2018	-	-	-	-	(26,240)	(26,240)	63,365	-	865	-	37,990	(135)	37,855
Total comprehensive income (loss) for 2018	-	-	-	-	1,025,178	1,025,178	63,365	-	865	-	1,089,408	(1,381)	1,088,027
Cash dividends received by subsidiaries from the Corporation	-	117,049	-	-	-	-	-	-	-	-	117,049	-	117,049
Actual acquisitions of interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1,499	1,499
Disposal of investments accounted for by using equity method	-	(77,603)	-	-	-	-	-	-	-	-	(77,603)	-	(77,603)
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	16,057	16,057
BALANCE AT DECEMBER 31, 2018	<u>\$ 2,693,933</u>	<u>\$ 6,729,035</u>	<u>\$ 1,014,689</u>	<u>\$ 453,327</u>	<u>\$ 3,622,248</u>	<u>\$ 5,090,264</u>	<u>\$ (407,326)</u>	<u>\$ -</u>	<u>\$ 23,484</u>	<u>\$ (1,003,629)</u>	<u>\$ 13,125,761</u>	<u>\$ 69,190</u>	<u>\$ 13,194,951</u>

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

(With Deloitte & Touche audit report dated March 21, 2019)

# SYSTEX CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 1,241,227	\$ 1,300,160
Adjustments for :		
Depreciation expenses	106,052	114,811
Amortization expenses	30,727	43,620
Expected credit loss recognized	4,084	-
Provision for allowance for doubtful accounts	-	6,057
Loss (gain) on financial assets at fair value through profit or loss, net	222,621	(98,992)
Interest expense	30,513	32,359
Interest income	(40,237)	(48,528)
Dividend income	(76,717)	(47,243)
Share of profit of associates	(44,296)	(66,479)
Gain on disposal of property, plant and equipment, net	(8,589)	(4,229)
Gain on sale of non-current assets held for sale	-	(193,003)
Gain on sale of investments accounted for using equity method	(401,599)	(257,467)
Impairment loss on financial assets	-	4,129
Impairment loss on non-financial assets	-	33,654
Write-down of inventories	58,245	12,731
Unrealized loss on foreign currency exchange, net	2,116	8,982
Changes in operating assets and liabilities		
Increase in financial assets held for trading	-	(328,122)
Increase in financial assets mandatorily classified as at fair value through profit or loss	(112,511)	-
(Increase) decrease in notes receivable	(3,791)	2,742
Increase in accounts receivable	(213,097)	(52,500)
(Increase) decrease in other receivables	(55,654)	17,889
Decrease (increase) in inventories	118,567	(504,184)
Increase in prepayments	(81,346)	(5,995)
Decrease (increase) in other current assets	12,545	(10,066)
(Decrease) increase in contract liabilities	(86,786)	208,421
(Decrease) increase in notes and accounts payable	(121,103)	253,029
Increase in other payables	144,988	13,227
Increase in other current liabilities	28,058	50,410
Decrease in net defined benefit liabilities	(40,011)	(15,485)
Cash generated from operations	714,006	469,928
Interest paid	(30,394)	(32,258)
Income tax paid	(127,657)	(218,027)
Net cash generated from operating activities	<u>555,955</u>	<u>219,643</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through other comprehensive income	(47,520)	-
Return of capital from capital reduction of financial assets at fair value through other comprehensive income	1,008	-

(Continued)

# SYSTEX CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
Proceeds on sale of financial assets at amortized cost	\$ 357,120	\$ -
Acquisition of debt investments with no active market	-	(32,705)
Acquisition of financial assets measured at cost	-	(88,465)
Return of capital from capital reduction of financial assets measured at cost	-	7,064
Acquisition of investments accounted for using equity method	(324,840)	(33,600)
Proceeds on sale of investments accounted for using equity method	589,935	344,010
Acquisition of subsidiaries (Note 25)	(64,697)	-
Proceeds on sale of non-current assets held for sale	-	275,370
Payments for property, plant and equipment	(93,613)	(61,655)
Proceeds on disposal of property, plant and equipment	18,516	13,530
Increase in refundable deposits	(103,091)	(56,507)
Payments for intangible assets	(37,224)	(16,360)
Decrease in long-term receivables	4,344	49,251
Increase in pledged time deposits	(3,066)	(7,973)
Increase in time deposits with original maturities of more than 3 months	-	(268,614)
(Decrease) increase in other non-current assets	5,458	(4,732)
Interest received	44,272	45,024
Dividends received	76,717	47,341
Dividends received from associates	<u>23,558</u>	<u>31,057</u>
Net cash generated from investing activities	<u>446,877</u>	<u>242,036</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in short-term loans	(696,043)	441,084
(Decrease) increase in guarantee deposits received	(3,586)	420
Dividends paid	(673,483)	(942,877)
Increase in non-controlling interests	16,057	25,540
Cash dividends received by subsidiaries from the Corporation	117,049	117,049
Distribution in cash from the capital surplus	<u>(673,483)</u>	<u>(404,090)</u>
Net cash used in financing activities	<u>(1,913,489)</u>	<u>(762,874)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<u>17,731</u>	<u>(235,852)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(892,926)	(537,047)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
	<u>3,708,235</u>	<u>4,245,282</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,815,309</u>	<u>\$ 3,708,235</u>

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

(With Deloitte & Touche audit report dated March 21, 2019)

(Concluded)

# SYSTEX CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Systex 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, the New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on March 21, 2019.

### 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, whenever applied 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 would not have any material impact on the accounting policies of the Corporation and entities controlled by the Corporation (collectively, the "Group"):

- 1) IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets. Refer to Note 4 for information relating to the relevant accounting policies.

#### Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 3,708,235	\$ 3,708,235	a)
Equity securities	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	137,061	137,061	
	Available-for-sale	Mandatorily at FVTPL	386,872	1,540,222	b)
	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	60,955	56,132	b)
Investments in preferred shares	Available-for-sale	Mandatorily at FVTPL	50,000	50,000	b)
Other equity securities	Available-for-sale	Mandatorily at FVTPL	5,000	5,000	b)
	Available-for-sale	FVTOCI - equity instruments	14,849	15,454	b)
Mutual funds	Held-for-trading	Mandatorily at FVTPL	3,073,085	3,073,085	
Debt securities	Held-for-trading	Mandatorily at FVTPL	12,139	12,139	
	Available-for-sale	Mandatorily at FVTPL	8,035	8,035	c)
	Loans and receivables	Mandatorily at FVTPL	74,400	-	d)
	Loans and receivables	Amortized cost	500,000	500,000	e)
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	357,120	357,120	a)
Notes receivable, accounts receivable and other receivables	Loans and receivables	Amortized cost	3,298,759	3,298,759	a)
Refundable deposits	Loans and receivables	Amortized cost	382,801	382,801	a)
Lease receivables	Loans and receivables	Amortized cost	56,147	56,147	a)
Long-term receivables	Loans and receivables	Amortized cost	4,944	4,944	a)
Pledged time deposits	Loans and receivables	Amortized cost	218,601	218,601	a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Non-controlling Interests Effect on January 1, 2018	Remark
<b>EVTPL</b>								
Add: Reclassification from available-for-sale (IAS 39)	\$ 3,222,285	\$ 449,907	\$ 1,153,350					b) and c)
Add: Reclassification from loans and receivables (IAS 39)	-	74,400	(74,400)					d)
	<u>3,222,285</u>	<u>524,307</u>	<u>1,078,950</u>	\$ 4,825,542	\$ 1,068,262	\$ 9,473	\$ 1,215	
<b>FVTOCI</b>								
Equity instruments	-							
Add: Reclassification from available-for-sale (IAS 39)	-	75,804	(4,218)					b)
	<u>-</u>	<u>75,804</u>	<u>(4,218)</u>	71,586	-	(4,218)	-	
<b>Amortized cost</b>								
Add: Reclassification from loans and receivables (IAS 39)	-	8,526,607	-					a) and e)
	<u>-</u>	<u>8,526,607</u>	<u>-</u>	<u>8,526,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	
	<u>\$ 3,222,285</u>	<u>\$ 9,126,718</u>	<u>\$ 1,074,732</u>	<u>\$ 13,423,735</u>	<u>\$ 1,068,262</u>	<u>\$ 5,255</u>	<u>\$ 1,215</u>	

a) Cash and cash equivalents, time deposits with original maturities of more than 3 months, notes receivable, accounts receivable, other receivables, refundable deposits, lease receivables, long-term receivables and pledged time deposits that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

- b) The Group elected to designate its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL and FVTOCI under IFRS 9. As a result, the related other equity - unrealized loss on available-for-sale financial assets of \$9,421 thousand was reclassified to retained earnings.

Investments in unlisted equity securities, preferred stocks and other equity securities previously measured at cost under IAS 39 have been classified at FVTPL and FVTOCI under IFRS 9 and were remeasured at fair value. As a result, an increase of \$1,153,350 thousand was recognized in financial assets at FVTPL, a decrease of \$4,218 thousand was recognized in financial assets at FVTOCI and other equity - unrealized gain on financial assets at FVTOCI, an increase of \$1,152,135 thousand was recognized in retained earnings and an increase of \$1,215 thousand was recognized in non-controlling interests on January 1, 2018.

- c) Debt investments previously classified as available-for-sale under IAS 39 were classified as at FVTPL under IFRS 9, because the objective of the Group's business model was not to collect contractual cash flows nor was it achieved by both collecting contractual cash flows and selling financial assets. As a result, the related other equity - unrealized loss on available-for-sale financial assets of \$52 thousand was reclassified to retained earnings.
- d) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at FVTPL under IFRS 9 and were remeasured at fair value, because the objective of the Group's business model was not to collect contractual cash flows nor was it achieved by both collecting contractual cash flows and selling financial assets on the basis of the facts and circumstances that existed as of January 1, 2018. As a result, retained earnings decreased by \$74,400 thousand on January 1, 2018.
- e) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows on the basis of the facts and circumstances that existed as of January 1, 2018.

## 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 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

## 3) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendments clarify that the difference between the carrying amount of the 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 applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2019

<b>New, Amended or Revised Standards and Interpretations (the New IFRSs)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
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: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

### The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities. The Group will apply IAS 36 to all right-of-use assets.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

### The Group as lessor

The Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

### Anticipated impact on assets, liabilities and equity

	<b>Carrying Amount as of December 31, 2018</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2019</b>
Right-of-use assets	\$ -	\$ 337,657	\$ 337,657
Lease liabilities - current	\$ -	\$ 122,877	\$ 122,877
Lease liabilities - non-current	-	214,780	214,780
Total effect on liabilities	\$ -	\$ 337,657	\$ 337,657

## 2) 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 Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

Upon initial application of IFRIC 23, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

3) 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 Group will apply the above amendments prospectively.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group assessed that the other revisions and amendments will not result in significant impacts on the Group’s financial positions and financial performance.

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (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 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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 Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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) Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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 16 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.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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 not allocated to any asset that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group 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. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

k. 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.

## 1. 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.

## m. 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.

n. 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

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria.

Financial assets at FVTPL are subsequently measured 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 28.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents and trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

## 2017

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 28.

### 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

## 2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable), as well as lease receivables.

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for accounts receivable and lease receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## 2017

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.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through 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.

#### o. Revenue recognition

##### 2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Sales revenue comes from sales of computer hardware and software. Sales of computer hardware and software are recognized as revenue when the goods are delivered to the customers because it is the time when the customer has full discretion over the price to sell the goods, rights to use the goods, and bears the risks of obsolescence. Accounts receivable are recognized concurrently. The transaction price received under the conditions of a contract is recognized as a contract liability until the goods have been delivered to the customer.

Service revenue comes from maintenance of computer software and hardware, value-added network services and related consultation. As the Group provides services, customers simultaneously receive and consume the benefits provided by the Group's performance. Consequently, the related revenue is recognized when services are rendered. Service revenue other than stated above is recognized when services have been completed.

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

##### 2017

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.

p. 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.

q. 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.

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 of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain 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.

### Valuation of Accounts Receivable

#### 2018

The valuation of accounts receivable is based on assumptions about rates of default and expected loss. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment valuation, based on the Group's historical experience, existing market conditions as well as forward looking estimates. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

#### 2017

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.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 490	\$ 683
Checking and savings accounts	1,833,991	1,705,305
Cash equivalent		
Time deposits with original maturities less than 3 months	<u>980,828</u>	<u>2,002,247</u>
	<u>\$ 2,815,309</u>	<u>\$ 3,708,235</u>
Market interest rate interval		
Time deposits with original maturities less than 3 months	0.60%-3.01%	0.60%-1.85%

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Current</u>		
Financial assets held for trading		
Mutual funds	\$ -	\$ 3,073,085
Corporation bonds	-	12,139
Listed shares	-	<u>137,061</u>
	-	<u>3,222,285</u>
Financial assets mandatorily classified as at FVTPL		
Mutual funds	2,917,622	-
Corporation bonds	12,200	-
Listed shares	<u>149,663</u>	-
	<u>3,079,485</u>	-
	<u>\$ 3,079,485</u>	<u>\$ 3,222,285</u>
<u>Non-current</u>		
Financial assets mandatorily classified as at FVTPL		
Unlisted common shares	\$ 1,618,670	\$ -
Unlisted preferred shares	47,877	-
Others	<u>13,276</u>	-
	<u>\$ 1,679,823</u>	<u>\$ -</u>

## 8. FINANCIAL ASSETS AT FVTOCI - NON-CURRENT - 2018

### Investments in equity instruments

	<b>December 31, 2018</b>
Unlisted shares	\$ 97,695
Others	<u>14,175</u>
	<u>\$ 111,870</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as financial assets measured at cost under IAS 39. Refer to Note 3 and Note 15 for information relating to their reclassification and comparative information for 2017.

## 9. FINANCIAL ASSETS AT AMORTIZED COST - NON-CURRENT - 2018

	<b>December 31, 2018</b>
Domestic corporate bonds	<u>\$ 500,000</u>
Market interest rate	3.5%

The bonds were classified as debt investments with no active market under IAS 39. Refer to Note 3 and Note 12 for information relating to their reclassification and comparative information for 2017.

## 10. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS - 2018

Investments in debt instruments were classified as at amortized cost.

	<b>December 31, 2018</b>
Gross carrying amount	\$ 500,000
Less: Allowance for impairment loss	<u>-</u>
Amortized cost	<u>\$ 500,000</u>

The Group's exposure and the external credit ratings are continuously monitored. The Group reviews changes in bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the last period to the reporting date.

The Group considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast to estimate 12-month or lifetime expected credit losses. The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount at December 31, 2018
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12m ECL	0%	\$ 500,000

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	<b>December 31, 2017</b>
Listed shares	\$ 8,526
Corporate bonds	<u>8,035</u>
	<u>\$ 16,561</u>

## 12. DEBT INVESTMENTS WITH NO ACTIVE MARKET - 2017

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

## 13. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND LONG-TERM RECEIVABLES, NET

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
Notes receivable	\$ 71,112	\$ 65,068
Less: Allowance for doubtful accounts	<u>(231)</u>	<u>(231)</u>
	<u>\$ 70,881</u>	<u>\$ 64,837</u>
Accounts receivable	\$ 3,677,809	\$ 3,257,736
Less: Allowance for doubtful accounts	<u>(45,246)</u>	<u>(40,538)</u>
	<u>\$ 3,632,563</u>	<u>\$ 3,217,198</u>
Long-term receivables	\$ 638	\$ 5,210
Less: Unrealized interest income	<u>(38)</u>	<u>(266)</u>
	<u>\$ 600</u>	<u>\$ 4,944</u>

### In 2018

The average credit period of accounts receivables was 60 to 90 days. 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 applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of accounts receivable based on the Group's provision matrix.

December 31, 2018

	Not Past Due	Less than 30 Days	31 to 90 Days	91 to 270 Days	Over 271 Days	Total
Expected credit loss rate	-	-	0.15%	4.21%	56.89%	-
Gross carrying amount	\$ 3,022,517	\$ 284,121	\$ 172,759	\$ 205,220	\$ 64,304	\$ 3,748,921
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>(265)</u>	<u>(8,632)</u>	<u>(36,580)</u>	<u>(45,477)</u>
Amortized cost	<u>\$ 3,022,517</u>	<u>\$ 284,121</u>	<u>\$ 172,494</u>	<u>\$ 196,588</u>	<u>\$ 27,724</u>	<u>\$ 3,703,444</u>

The movements of the loss allowance of accounts receivable were as follows:

	<b>2018</b>
Balance at January 1	\$ 40,769
Add: Provision for loss allowance	4,084
Foreign exchange translation gains and losses	<u>624</u>
Balance at December 31	<u>\$ 45,477</u>

In 2017

The Group applied the same credit policy in 2018 and 2017. In determining the recoverability of accounts receivable, the Group considered, based on the historical experience, the risk of non-collection of receivable was higher when the receivables were not collected on due date. Therefore, 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:

	<b>December 31, 2017</b>
Less than 90 days	\$ 2,904,996
91-120 days	158,607
121-180 days	108,475
181-360 days	84,896
Over 361 days	<u>65,830</u>
	<u>\$ 3,322,804</u>

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

	<b>December 31, 2017</b>
91-120 days	\$ 158,548
121-180 days	107,830
181-360 days	79,009
Over 361 days	<u>31,652</u>
	<u>\$ 377,039</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:

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2017	\$ 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>

#### 14. INVENTORIES

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Merchandise	\$ 2,861,767	\$ 2,875,190
Maintenance parts	<u>32,409</u>	<u>35,375</u>
	<u>\$ 2,894,176</u>	<u>\$ 2,910,565</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$12,224,462 thousand and \$10,350,367 thousand, respectively. The cost of goods sold included inventory write-downs of \$58,245 thousand and \$12,731 thousand, respectively.

## 15. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT - 2017

	<b>December 31, 2017</b>
Unlisted common shares	\$ 439,301
Unlisted preferred shares	50,000
Others	<u>19,849</u>
	<u>\$ 509,150</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 significant and the possibility for each estimate cannot be reasonably determined.

## 16. SUBSIDIARIES

### Subsidiaries Included in the consolidated Financial Statements

Investor	Investee	Main Business	% of Ownership		Remark
			2018	2017	
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	
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	System Solutions Corporation II (System 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	84.19	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	

(Continued)

Investor	Investee	Main Business	% of Ownership		Remark
			2018	2017	
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	c)
Syspower	Medincom	Installation, sale and consultation of computer software and related equipment, and wholesale and retailing of medical appliances.	100.00	-	c)
CSMC	Top Information Technologies Co., Ltd. (Top Information)	Sale of computer peripheral equipment and office machines, design of computer system and professional repairs services.	98.59	-	d)
Top Information	Top International Holdings Ltd. (Top International)	General Investment activities	100.00	-	d)
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	e)
Kimo BVI	Systek Information (Shanghai) Ltd. (Systek)	Sale of computer and peripheral equipment, retailing and processing of information software.	100.00	100.00	e)
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	Syscore Corporation (Syscore)	General investment activities.	100.00	100.00	f)
Syscore	Syslink Corporation (Syslink)	General Investment activities	100.00	-	g)
Syslink	Syswiser Technology Corporation(Syswiser)	Design, installation and maintenance of computer information and communication engineering, and design and sale of computer system software	100.00	-	h)
Syslink	Smartsys Technology Corporation (Smartsys)	Design, installation and maintenance of computer information and communication engineering, and design and sale of computer system software	100.00	-	h)
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. Due to organization adjustment, the shareholders' meeting of TEDP on December 24, 2018, and Syspower's board of directors on December 25, 2018, respectively, approved that TEDP would sell all of its shares of Medincom to Syspower. In addition, the board of directors of Syspower and Medincom approved the merger of Syspower and Medincom, with base date of consolidation as January 31, 2019, and Syspower is the surviving company and Medincom is the dissolved company.
- d. CSMC acquired 98.59% interests of Top Information on November, 2018. Since the date of acquisition, Top Information and its subsidiary, Top International, were included in consolidated financial statements of the Group.
- e. The Corporation's board of directors approved the merger of Systek and Ucom Shanghai on March 22, 2018. The merger process is estimated to take one year. After that, Systek is the surviving company and Ucom Shanghai is the dissolved company.
- f. Syscore was incorporated in October 2017.
- g. Syslink was incorporated in March 2018.
- h. Syswiser and Smartsys were both incorporated in April 2018.

All accounts of subsidiaries were included in consolidated financial statements for the years ended December 31, 2018 and 2017.

Among the abovementioned entities, the financial statements as of and for the year ended December 31, 2018 of Sysware Singapore, Systex Info and RTIHK were not audited; the financial statements as of and for the year ended December 31, 2017 of Sysware Singapore was not audited. The aggregate assets of the subsidiary as of December 31, 2018 and 2017 amounted to \$701,873 thousand and \$7,788 thousand, respectively, which were 3.51% and 0.04% of the respective consolidated assets, and the aggregate liabilities amounted to \$166,726 thousand and \$76 thousand, respectively, which were 2.46% and 0% of the respective consolidated liabilities. The aggregate net operating revenues of the subsidiary in 2018 and 2017 amounted to \$1,090,477 thousand and \$0 thousand, respectively, which were 5.59% and 0% of the respective consolidated net operating revenues, and the aggregate amounts of comprehensive gain (loss) amounted to \$3,120 thousand and \$(2,020) thousand in 2018 and 2017, respectively, which were 0.29% and (0.27%) 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.

## 17. INVESTMENTS ACCOUNTED FOR BY USING THE EQUITY METHOD

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Investments in associates</u>		
Material associates		
Forms Syntron Information (Shenzhen) Limited	\$ 498,394	\$ 737,516
Associates that are not individually material	<u>742,422</u>	<u>416,011</u>
	<u>\$ 1,240,816</u>	<u>\$ 1,153,527</u>

a. Material associates

Name of Associates	Proportion of Ownership and Voting Rights	
	December 31	
	2018	2017
Forms Syntron Information (Shenzhen) Limited	7.69%	11.69%

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.

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

Name of Associate	December 31	
	2018	2017
Forms Syntron Information (Shenzhen) Limited	\$ 805,701	\$ 2,288,705

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	
	2018	2017
Assets	\$ 5,798,521	\$ 5,315,268
Liabilities	(530,003)	(235,625)
Equity	\$ 5,268,518	\$ 5,079,643
Proportion of the Group's ownership	7.69%	11.69%
Equity attributable to the Group	\$ 405,281	\$ 594,031
Goodwill	95,299	147,440
Other payables	(2,186)	(3,955)
Carrying amount	\$ 498,394	\$ 737,516
	For the Year Ended December 31	
	2018	2017
Operating revenue	\$ 2,222,755	\$ 1,664,593
Net profit for the year	\$ 313,687	\$ 417,417
Other comprehensive income (loss)	11,571	(542)
Total comprehensive income for the year	\$ 325,258	\$ 416,875
Dividends received from Forms Syntron Information (Shenzhen) Limited	\$ 10,555	\$ 14,960

b. Aggregate information of associates that are not individually material

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
The Group's share of:		
Net profit for the year	\$ 16,185	\$ 11,762
Other comprehensive income (loss)	<u>(8,595)</u>	<u>13,261</u>
Total comprehensive income for the year	<u>\$ 7,590</u>	<u>\$ 25,023</u>

Except for E-Customer Capital Limited, Systex Infopro Co., Ltd., Sunlight-tech Inc., GenSys Technology (International) Ltd., Retail System Co., Ltd., Systemweb Technologies Co., Ltd., Sanfran Technologies Inc., Shengsen Corp., Frog-jump Information Co., Ltd., Forms Syntron Information (Shenzhen) Limited and Neweb Information Co., Ltd. for the year ended December 31, 2018, and E-Customer Capital Limited, Systex Infopro Co., Ltd. and Sunlight-tech Inc., for the year ended December 31, 2017, 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.

## 18. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
<b>Cost</b>								
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>
<b>Accumulated depreciation and impairment</b>								
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>
<b>Cost</b>								
Balance at January 1, 2018	\$ 825,758	\$ 1,468,481	\$ 194,023	\$ 13,881	\$ 66,850	\$ 38,418	\$ 86,475	\$ 2,693,886
Additions	-	-	56,938	1,688	5,770	19,425	9,792	93,613
Disposals	(12,946)	(19,195)	(17,459)	(1,880)	(17,764)	(7,521)	(18,544)	(95,309)
Acquisitions through business combinations (Note 25)	-	-	3,077	471	-	5,277	1,436	10,261
Reclassification	-	-	(4,022)	-	(261)	-	(81)	(4,364)
Effect of foreign currency exchange differences	-	(4,818)	197	(44)	(95)	93	(573)	(5,240)
Balance at December 31, 2018	<u>\$ 812,812</u>	<u>\$ 1,444,468</u>	<u>\$ 232,754</u>	<u>\$ 14,116</u>	<u>\$ 54,500</u>	<u>\$ 55,692</u>	<u>\$ 78,505</u>	<u>\$ 2,692,847</u>

(Continued)

	Land	Buildings	Computer Equipment	Transportation Equipment	Lease Equipment	Leasehold Improvements	Other Equipment	Total
Accumulated depreciation and impairment								
Balance at January 1, 2018	\$ 14,853	\$ 504,309	\$ 99,791	\$ 4,822	\$ 47,124	\$ 23,200	\$ 59,262	\$ 753,361
Depreciation expenses	-	22,438	47,451	2,063	15,239	8,442	10,419	106,052
Disposals	(7,159)	(15,521)	(17,422)	(1,691)	(17,764)	(7,381)	(18,444)	(85,382)
Acquisitions through business combinations (Note 25)	-	-	2,689	471	-	4,889	1,093	9,142
Reclassification	-	-	(2,141)	-	(166)	-	(75)	(2,382)
Effect of foreign currency exchange differences	-	(1,064)	265	(17)	(95)	(26)	(337)	(1,274)
Balance at December 31, 2018	<u>\$ 7,694</u>	<u>\$ 510,162</u>	<u>\$ 130,633</u>	<u>\$ 5,648</u>	<u>\$ 44,338</u>	<u>\$ 29,124</u>	<u>\$ 51,918</u>	<u>\$ 779,517</u>
Carrying amounts at December 31, 2018	<u>\$ 805,118</u>	<u>\$ 934,306</u>	<u>\$ 102,121</u>	<u>\$ 8,468</u>	<u>\$ 10,162</u>	<u>\$ 26,568</u>	<u>\$ 26,587</u>	<u>\$ 1,913,330</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 30.

## 19. SHORT-TERM LOANS

### Bank Loans

	<u>December 31</u>	
	<b>2018</b>	<b>2017</b>
Unsecured loans	\$ 321,650	\$ 901,000
Secured loans	<u>494,275</u>	<u>559,053</u>
	<u>\$ 815,925</u>	<u>\$ 1,460,053</u>
Annual interest rate		
Unsecured loans	1.16%-2.35%	1.13%-2.34%
Secured loans	1.50%-5.66%	1.40%-4.92%

Refer to Note 30 for the carrying amounts of property, plant and equipment - buildings and the Corporation's shares provided as collaterals for the above secured bank loans.

## 20. 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 funds 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:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Present value of defined benefit obligation	\$ 615,763	\$ 504,162
Fair value of plan assets	<u>(342,111)</u>	<u>(240,525)</u>
Net defined benefit liability	<u>\$ 273,652</u>	<u>\$ 263,637</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2017	<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>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
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>
Service cost			
Current service cost	2,071	-	2,071
Net interest expense (income)	<u>7,681</u>	<u>(3,999)</u>	<u>3,682</u>
Recognized in profit or loss	<u>9,752</u>	<u>(3,999)</u>	<u>5,753</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(7,808)	(7,808)
Actuarial loss - changes in demographic assumptions	264	-	264
Actuarial loss - changes in financial assumptions	13,072	-	13,072
Actuarial loss - experience adjustments	<u>20,857</u>	<u>-</u>	<u>20,857</u>
Recognized in other comprehensive income	<u>34,193</u>	<u>(7,808)</u>	<u>26,385</u>
Contributions from the employer	-	(45,764)	(45,764)
Benefits paid	(14,930)	14,930	-
Business combinations (Note 25)	<u>82,586</u>	<u>(58,945)</u>	<u>23,641</u>
Balance at December 31, 2018	<u>\$ 615,763</u>	<u>\$ (342,111)</u>	<u>\$ 273,652</u> (Concluded)

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:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Discount rates	1.05%-1.75%	1.25%-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:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Discount rates		
0.25%-0.5% increase	<u>\$ (32,807)</u>	<u>\$ (30,460)</u>
0.25%-0.5% decrease	<u>\$ 30,815</u>	<u>\$ 28,339</u>
Expected rates of salary increase		
0.25%-0.5% increase	<u>\$ 30,811</u>	<u>\$ 28,438</u>
0.25%-0.5% decrease	<u>\$ (32,561)</u>	<u>\$ (30,317)</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.

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
The expected contributions to the plan for the next year	<u>\$ 42,701</u>	<u>\$ 17,631</u>
The average duration of the defined benefit obligation	12 years	13 years

## 21. EQUITY

### a. Share capital

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
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. Capital surplus

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Maybe used to offset a deficit, distribute as cash dividends, or <u>transfer to share capital (1)</u>		
Issue of common shares	\$ 4,964,759	\$ 5,638,242
Donations	544	544

(Continued)

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<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	193,072	270,675
Treasury share transactions	1,557,591	1,440,542
Gain on sale of property and equipment	<u>4,493</u>	<u>4,493</u>
	<u>\$ 6,729,035</u>	<u>\$ 7,363,072</u>
		(Concluded)

- 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.

c. Retained earnings and dividends policy

Under the dividend policy as set forth in the Corporation's Articles ("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, please refer to employees' compensation and remuneration of directors in Note 22 c.

For the goal of sustainable operation and development, the Corporation considers the overall environment and the nature of industry growth along with the long-term financial planning, and applies the dividend policy for residual earnings. The Corporation evaluates the annual funding requirements according to its future capital budget and retains the required fund from the earnings, and distributes the residual earnings as follows:

- 1) Determine the optimal capital budget.
- 2) Determine the funding requirements to meet the optimal.
- 3) Determine the funding requirements to be met by unappropriated earnings (the remaining may be met through capital increase by cash or issuance of bonds).
- 4) The residual earnings, less an appropriate portion for the operation requirements, may be distributed to shareholders.

The Corporation's dividends may be distributed in cash or shares. 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 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.

The appropriations of earnings for 2017 and 2016 had been approved in the shareholders' meetings held on June 15, 2018 and June 16, 2017, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share</b>	
	<b>For the Year Ended</b>		<b>(NT\$)</b>	
	<b>December 31</b>		<b>For the Year Ended</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Legal reserve	\$ 117,775	\$ 110,827	\$ -	\$ -
Special reserve	388,833	64,494	-	-
Cash dividends	<u>673,483</u>	<u>942,877</u>	<u>2.5</u>	<u>3.5</u>
	<u>\$ 1,180,091</u>	<u>\$ 1,118,198</u>	<u>\$ 2.5</u>	<u>\$ 3.5</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 15, 2018 and June 16, 2017, respectively. The distribution amounted to \$673,483 thousand (at NT\$2.5 per share) and \$404,090 thousand (at NT\$1.5 per share), respectively.

The appropriations of earnings for 2018 had been proposed by the Corporation's board of directors on March 21, 2019. The appropriations of earnings and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 105,142	\$ -
Reversal of special reserve	(69,485)	-
Cash dividends	1,023,695	3.8

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 \$323,272 thousand at NT\$1.2 per share.

The appropriations of 2018 earnings and distribution of capital surplus will be resolved by the shareholders in their meeting scheduled for June 2019.

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

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ (470,691)	\$ (83,286)
Exchange differences arising on translating the net asset of foreign operations	80,960	(434,475)
Share of exchange difference of associates accounted for using the equity method	<u>(17,595)</u>	<u>47,070</u>
Balance at December 31	<u>\$ (407,326)</u>	<u>\$ (470,691)</u>

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

Balance at January 1, 2017	\$ 18,792
Unrealized loss arising on revaluation of available-for-sale financial assets	<u>(1,428)</u>
Balance at December 31, 2017	<u>\$ 17,364</u>
Balance at January 1, 2018 per IAS 39	\$ 17,364
Adjustment on initial application of IFRS 9	<u>(17,364)</u>
Balance at January 1, 2018 per IFRS 9	<u>\$ -</u>

3) Unrealized gain on financial assets as at FVTOCI

	<b>For the Year Ended December 31, 2018</b>
Balance at January 1 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	<u>22,619</u>
Balance at January 1 per IFRS 9	22,619
Recognized for the year	
Unrealized gain	860
Share from associates accounted for using the equity method	<u>5</u>
Balance at December 31	<u>\$ 23,484</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>2018</u>				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	<u>23,410</u>	-	-	<u>23,410</u>
<u>2017</u>				
Reclassification of the Corporation's shares held by subsidiaries from equity-method investments into treasury share	<u>23,410</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>2018</u>	<u>2017</u>
<u>Hanmore</u>		
Share (in thousand)	<u>21,317</u>	<u>21,317</u>
Investments cost	<u>\$ 781,060</u>	<u>\$ 834,351</u>
Market value	<u>\$ 1,310,976</u>	<u>\$ 1,264,079</u>
<u>Ching Pu</u>		
Share (in thousand)	<u>12,982</u>	<u>12,982</u>
Investments cost	<u>\$ 306,490</u>	<u>\$ 338,944</u>
Market value	<u>\$ 798,361</u>	<u>\$ 769,802</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, 2018 and 2017, 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

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1 per IAS 39	\$ 51,800	\$ 31,003
Adjustment on initial application of IFRS 9	<u>1,215</u>	<u>-</u>
Balance at January 1 per IFRS 9	53,015	31,003
Attributable to non-controlling interests:		
Share of loss for the year	(1,246)	(4,631)
Unrealized gain on available-for-sale financial asset	-	815
Remeasurement on defined benefit plans	(143)	(927)
Cash dividends received from subsidiaries	(38,384)	(28,465)
Exchange difference on translating the net assets of foreign operations	8	-
Non-controlling interests arising from cash dividends received by subsidiaries (Hanmore) from the Corporation	54,441	54,441
Non-controlling interests arising from acquisition of subsidiaries (Top information)	1,499	-
Change in subsidiaries ownership	<u>-</u>	<u>(436)</u>
Balance at December 31	<u>\$ 69,190</u>	<u>\$ 51,800</u>

**22. NET PROFIT**

a. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Property, plant and equipment	\$ 106,052	\$ 114,811
Intangible assets	<u>30,727</u>	<u>43,620</u>
	<u>\$ 136,779</u>	<u>\$ 158,431</u>
An analysis of depreciation by function		
Operating costs	\$ 27,387	\$ 37,583
Operating expenses	<u>78,665</u>	<u>77,228</u>
	<u>\$ 106,052</u>	<u>\$ 114,811</u>
An analysis of amortization by function		
Operating costs	\$ 3,341	\$ 2,922
Operating expenses	<u>27,386</u>	<u>40,698</u>
	<u>\$ 30,727</u>	<u>\$ 43,620</u>

b. Employee benefits expenses

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Post-employment benefits		
Defined contribution plans	\$ 154,162	\$ 127,437
Defined benefits plans (Note 20)	<u>5,753</u>	<u>5,488</u>
	159,915	132,925
Termination benefits	28,425	9,975
Payroll and other employee benefits	<u>3,150,892</u>	<u>2,831,288</u>
	<u>\$ 3,339,232</u>	<u>\$ 2,974,188</u>
 An analysis of employee benefits expenses by function		
Operating costs	\$ 9,837	\$ -
Operating expenses	<u>3,329,395</u>	<u>2,974,188</u>
	<u>\$ 3,339,232</u>	<u>\$ 2,974,188</u>

As of December 31, 2018 and 2017, the Group has 3,264 and 2,907 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 2%, 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, 2018 and 2017 which have been approved by the Corporation's board of directors on March 21, 2019 and March 22, 2018, respectively, were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Accrual Rate</b>	<b>Cash</b>	<b>Accrual Rate</b>	<b>Cash</b>
Employees' compensation	3.0%	\$ 34,056	0.1%	\$ 1,216
Remuneration of directors	2.0%	22,704	2.0%	24,317

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, 2017.

Information on the employees' compensation and remuneration of directors resolved by the Corporation's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Financial asset at FVTPL	\$ 199,624	\$ 28,152
Investments accounted for using the equity method	401,599	257,467
Non-current assets held for sale	<u>-</u>	<u>193,003</u>
	<b><u>\$ 601,223</u></b>	<b><u>\$ 478,622</u></b>

e. Impairment losses on assets

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
<b><u>Financial assets</u></b>		
Financial assets measured at cost	\$ -	\$ 882
Investments accounted for using the equity method	<u>-</u>	<u>3,247</u>
	<u>-</u>	<u>4,129</u>
<b><u>Non-financial assets</u></b>		
Computer software	-	8,535
Technological expertise	-	23,213
Other intangible assets	-	1,906
	<u>-</u>	<u>33,654</u>
	<b><u>\$ -</u></b>	<b><u>\$ 37,783</u></b>

## 23. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
<b>Current tax</b>		
In respect of the current year	\$ 163,197	\$ 82,099
Additional income tax on unappropriated earnings	505	210
Land value increment tax	209	102
Investment tax credit deduction	(8,819)	-
Enterprise Income Tax on securities	55,982	34,204
Adjustments for prior years' tax	<u>(3,087)</u>	<u>(383)</u>
	<u>207,987</u>	<u>116,232</u>
<b>Deferred tax</b>		
In respected of the current year	(12,857)	10,810
Effect of tax rate changes	<u>(4,075)</u>	<u>-</u>
	<u>(16,932)</u>	<u>10,810</u>
Income tax expense recognized in profit or loss	<b><u>\$ 191,055</u></b>	<b><u>\$ 127,042</u></b>

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

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit before tax	<u>\$ 1,241,227</u>	<u>\$ 1,300,160</u>
Income tax expense calculated at the statutory rate	\$ 248,245	\$ 221,027
Nondeductible expenses in determining taxable income	2,206	4,668
Tax-exempt income	(30,216)	(67,198)
Additional income tax on unappropriated earnings	505	210
Unrecognized temporary differences	(16,015)	(9,898)
Investment tax credits recognized	(35)	-
(Loss carryforwards used) unrecognized loss carryforwards	(25)	5,062
Effect of different tax rate of group entities operating in other jurisdictions	(70,149)	(60,752)
Adjustments for prior years' tax	(3,087)	(383)
Land value increment tax	209	102
Enterprise Income Tax on securities	55,982	34,204
Additional income tax under the Alternative Minimum Tax Act	7,510	-
Effect of tax rate changes	<u>(4,075)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 191,055</u>	<u>\$ 127,042</u>

Systex Solution (HK) Limited sold investments accounted for using equity method in 2018 and 2017 and incurred Enterprise Income Tax of \$55,982 thousand and \$34,204 thousand, respectively, according to the related tax laws in its jurisdiction.

In 2017, the applicable corporate income tax rate used by the group entities in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<u>Deferred tax</u>		
Remeasurement on defined benefit plan	<u>\$ 2</u>	<u>\$ (151)</u>

c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Current tax assets (included in other receivables)		
Tax refund receivable	\$ 4,665	\$ 20,373
Current tax liabilities		
Income tax payable	\$ 118,128	\$ 50,105
In respect of prior years	8,561	11,934
	<u>\$ 126,689</u>	<u>\$ 62,039</u>

As of December 31, 2018 and 2017, income tax payables were net of prepayments aggregating \$36,755 thousand and \$33,252 thousand, respectively.

d. The movements of deferred tax assets and liabilities

For the year ended December 31, 2018

	<b>Opening Balance</b>	<b>Acquisition from Business Combinations</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Com- prehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized project costs	\$ 136	\$ 1,209	\$ (228)	\$ -	\$ 1,117
Allowance for loss on inventories	5,879	708	11,170	-	17,757
Deferred revenue	1,891	-	946	-	2,837
Payable for annual leave	1,449	86	859	-	2,394
Defined benefit obligation	3,082	912	1,128	2	5,124
Others	10,430	1	11,581	-	22,012
	<u>22,867</u>	<u>2,916</u>	<u>25,456</u>	<u>2</u>	<u>51,241</u>
Loss carryforwards	2,255	-	888	-	3,143
Investment credits	29,748	-	(8,532)	-	21,216
	<u>\$ 54,870</u>	<u>\$ 2,916</u>	<u>\$ 17,812</u>	<u>\$ 2</u>	<u>\$ 75,600</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Exchange differences on foreign operations	\$ 4,969	\$ -	877	\$ -	\$ 5,846
Others	54	35	3	-	92
	<u>\$ 5,023</u>	<u>\$ 35</u>	<u>\$ 880</u>	<u>\$ -</u>	<u>\$ 5,938</u>

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 carryforwards	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>
<u>Deferred tax liabilities</u>				
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>

- 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>	
	2018	2017
Loss carryforwards		
Expiry in 2018	\$ -	\$ 52,116
Expiry in 2019	121,102	122,224
Expiry in 2020	19,687	19,687
Expiry in 2021	4,316	4,316
Expiry in 2022	78,990	78,990
Expiry in 2023	49,995	14,698
Expiry in 2024	29,353	9,989
Expiry in 2025	109,271	85,255
Expiry in 2026	124,452	108,682
Expiry in 2027	30,435	38,738
Expiry in 2028	<u>25,407</u>	<u>-</u>
	<u>\$ 593,008</u>	<u>\$ 534,695</u>
Investment credits		
Equity investment	\$ 1,945	\$ 1,980
Research and development	<u>4,504</u>	<u>6,658</u>
	<u>\$ 6,449</u>	<u>\$ 8,638</u>

f. Information about unused investment credits and unused loss carryforwards

As of December 31, 2018, investment tax credits comprised of:

<b>Laws and Statutes</b>	<b>Tax Credit Source</b>	<b>Remaining Creditable Amount</b>	<b>Expiry Year</b>
Act for promotion of private participation in infrastructure project	Equity investment	\$ 23,188	2020
Statute for Industrial Innovation	Research and development	<u>4,476</u>	2019
		<u>\$ 27,664</u>	

Loss carryforwards as of December 31, 2018 comprised of:

<b>Expiry Year</b>	<b>Total Credit</b>
2019	\$ 121,102
2020	19,687
2021	4,316
2022	78,990
2023	49,995
2024	29,353
2025	109,271
2026	131,797
2027	37,372
2028	<u>26,840</u>
	<u>\$ 608,723</u>

g. Income tax assessments

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

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

## 24. 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>2018</u>	<u>2017</u>
<u>Net income for the year</u>		
Net income for the year attributable to owners of the Corporation	<u>\$ 1,051,418</u>	<u>\$ 1,177,749</u>
<u>Number of shares (thousand)</u>		
Weighted average number of common shares in the computation of basic earnings per share	245,983	245,983
Effect of potentially dilutive common shares:		
Employees' compensation	<u>558</u>	<u>21</u>
Weighted average number of common shares in the computation of diluted earnings per share	<u>246,541</u>	<u>246,004</u>
<u>Earnings per share (NT\$)</u>		
Basic earnings per share	<u>\$4.27</u>	<u>\$4.79</u>
Diluted earnings per share	<u>\$4.26</u>	<u>\$4.79</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>2018</u>	<u>2017</u>
<u>Net income for the year</u>		
Net income for the year attributable to owners of the Corporation	<u>\$ 1,109,943</u>	<u>\$ 1,259,683</u>
<u>Number of shares (thousand)</u>		
Weighted average number of common shares in the computation of pro forma earnings per shares	269,393	269,393
Effect of potentially dilutive common shares:		
Employees' compensation	<u>558</u>	<u>21</u>
Weighted average number of common shares in the computation of pro forma diluted earnings per shares	<u>269,951</u>	<u>269,414</u>
<u>Earnings per share (NT\$)</u>		
Basic earnings per share	<u>\$4.12</u>	<u>\$4.68</u>
Diluted earnings per share	<u>\$4.11</u>	<u>\$4.68</u>

## 25. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Top Information and its subsidiary	Sale of computer peripheral equipment and office machines, design of computer system and professional repairs services.	November 13, 2018	98.59%	<u>\$ 150,000</u>

Top Information and its subsidiary were acquired in order to continue the expansion of the Group's activities.

### b. Consideration transferred

	Top Information and Its Subsidiary
Cash	<u>\$ 150,000</u>

### c. Assets acquired and liabilities assumed at the date of acquisition

	Top Information and Its Subsidiary
Current assets	
Cash and cash equivalents	\$ 85,303
Accounts receivable and other receivables	180,723
Inventories	161,597
Other current assets	12,465
Non-current assets	
Equipment	1,119
Other intangible assets	18,577
Deferred tax assets	2,916
Other non-current assets	23,054
Current liabilities	
Short-term loans	(37,650)
Accounts Payable and other payables	(216,119)
Other current liabilities	(74,287)
	(Continued)

	<b>Top Information and Its Subsidiary</b>
Non-current liabilities	
Deferred tax liabilities	\$ (35)
Net defined benefit liabilities - non-current	(23,641)
Other non-current liabilities	<u>(9,226)</u>
	<u>\$ 124,796</u>
	(Concluded)

d. Goodwill recognized on acquisitions

	<b>Top Information and Its Subsidiary</b>
Consideration transferred	\$ 150,000
Plus: Non-controlling interests (1.41% in Top Information)	1,499
Less: Fair value of identifiable net assets acquired	<u>(124,796)</u>
Goodwill recognized on acquisitions	<u>\$ 26,703</u>

The goodwill recognized in the acquisitions of Top Information and its subsidiaries mainly represents the control premium included in the cost of the combinations. In addition, the consideration paid for the combinations effectively included amounts attributed to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on the acquisition of subsidiaries

	<b>Top Information and Its Subsidiary</b>
Consideration paid in cash	\$ 150,000
Less: Cash and cash equivalent acquired	<u>(85,303)</u>
	<u>\$ 64,697</u>

f. Impact of acquisitions on the results of the Group

The results of the acquirees since the acquisition date included in the consolidated statements of comprehensive income has no significant impact on the Group's operating.

Had these business combinations been in effect at the beginning of the annual reporting period, the Group's revenue would have been \$20,270,581 thousand, and the profit would have been \$1,056,459 thousand for the year ended December 31, 2018. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

## 26. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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.

	<b>For the Year Ended December 31, 2017</b>
Cash consideration paid	\$ (436)
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>436</u>
Differences recognized from equity transaction	<u>\$ -</u>

## 27. 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.

## 28. FINANCIAL INSTRUMENTS

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

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2018</u>				
Financial assets at FVTPL				
Listed shares	\$ 149,663	\$ -	\$ -	\$ 149,663
Unlisted common shares	-	-	1,618,670	1,618,670
Unlisted preferred shares	-	-	47,877	47,877
Corporate bonds	-	12,200	-	12,200
Mutual funds	2,917,622	-	-	2,917,622
Others	-	-	13,276	13,276
	<u>\$ 3,067,285</u>	<u>\$ 12,200</u>	<u>\$ 1,679,823</u>	<u>\$ 4,759,308</u>
Financial assets at FVTOCI				
Unlisted shares	\$ -	\$ -	\$ 97,695	\$ 97,695
Others	-	-	14,175	14,175
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,870</u>	<u>\$ 111,870</u>
<u>December 31, 2017</u>				
Financial assets at FVTPL				
Listed shares	\$ 137,061	\$ -	\$ -	\$ 137,061
Corporation bonds	-	12,139	-	12,139
Mutual funds	<u>3,073,085</u>	<u>-</u>	<u>-</u>	<u>3,073,085</u>
	<u>\$ 3,210,146</u>	<u>\$ 12,139</u>	<u>\$ -</u>	<u>\$ 3,222,285</u>
Available-for sale financial assets				
Listed shares	\$ 8,526	\$ -	\$ -	\$ 8,526
Corporation bonds	-	8,035	-	8,035
	<u>\$ 8,526</u>	<u>\$ 8,035</u>	<u>\$ -</u>	<u>\$ 16,561</u>

There were no transfers between Levels 1 and 2 in 2018 and 2017.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2018

<b>Financial Assets</b>	<b>Financial Assets at FVTPL</b>	<b>Financial Assets at FVTOCI</b>	<b>Total</b>
	<b>Equity Instruments</b>	<b>Equity Instruments</b>	
Balance at January 1	\$ 1,586,696	\$ 71,586	\$ 1,658,282
Recognized in profit or loss	85,334	-	85,334
Recognized in other comprehensive income	-	860	860
Purchases	10,000	37,520	47,520
Disposals	(2,265)	-	(2,265)
Net exchange differences	58	2,912	2,970
Capital reduction	<u>-</u>	<u>(1,008)</u>	<u>(1,008)</u>
Balance at December 31	<u>\$ 1,679,823</u>	<u>\$ 111,870</u>	<u>\$ 1,791,693</u>
Recognized in other gains and losses - unrealized	<u>\$ 84,321</u>	<u>\$ -</u>	<u>\$ 84,321</u>

3) Valuation techniques and inputs applied for Level 3 fair value measurement

Except the fair value of shares of Taiwan Futures Exchange determined using the market approach, the fair values of unlisted equity securities were determined using the asset approach. In the asset approach, the value of a company was identified by the net asset value of a company. The significant unobservable inputs used are listed in the table below. A decrease in discount for lack of marketability used in isolation would result in increases in fair value.

	<b>December 31, 2018</b>
Discount for lack of marketability	0%-30%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would increase (decrease) as follows:

	<b>December 31, 2018</b>
Discount for lack of marketability	
2.5% increase	<u>\$ (61,742)</u>
2.5% decrease	<u>\$ 56,499</u>

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Financial assets</u>		
FVTPL		
Held for trading	\$ -	\$ 3,222,285
Mandatorily classified as at FVTPL	4,759,308	-
Loans and receivables (1)	-	8,601,007
Available-for-sale financial assets (2)	-	525,711
Financial assets at amortized cost (3)	7,889,489	-
Financial assets at FVTOCI	111,870	-
<u>Financial liabilities</u>		
Amortized cost (4)	5,110,929	5,469,604

- 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 include financial assets at amortized cost, which comprise cash and cash equivalents, 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), lease receivables (included in other non-current assets) and debt investment (included in financial assets at amortized cost - non-current).
- 4) 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.

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
<u>USD</u>		
Increase/decrease	\$ 64,083	\$ 18,864
<u>RMB</u>		
Increase/decrease	6,055	8,950

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.

	<b><u>December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Fair value interest rate risk		
Financial assets	\$ 1,480,828	\$ 2,933,767
Financial liabilities	815,925	1,460,053
Cash flow interest rate risk		
Financial assets	1,833,991	1,705,305

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:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Increase/decrease	\$ 1,834	\$ 1,705

c) Other price risk

The Group was exposed to price risk through its investments in listed shares, 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:

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Pre-tax net income		
Increase/decrease	\$ 237,965	\$ 161,114
Other comprehensive income		
Increase/decrease	5,594	828

## 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.

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, 2018

	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>				
Short-term loans	<u>\$ 815,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 815,925</u>

### December 31, 2017

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

## 29. 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
Mohist Web Technology Co., Ltd.	Associate
FinRobo Advisor Securities Investment Consulting Co., Ltd.	Associate
Shengsen Corp.	Associate
Forms Syntron Information (Shenzhen) Limited	Associate
Frog-jump Information Co., Ltd.	Associate
Dawning Technology Inc.	Associate
Neweb Information Co., Ltd.	Associate
Retail System Co., Ltd.	Associate

### b. Operating revenue

Line Items	Related Party Categories	<u>For the Year Ended December 31</u>	
		2018	2017
Sales	Associates	<u>\$ 2,808</u>	<u>\$ 6,124</u>
Service revenue	Associates	<u>\$ 5,626</u>	<u>\$ 5,045</u>
Other operating revenue	Associates	<u>\$ 22</u>	<u>\$ -</u>

### c. Purchases of goods

Related Party Categories	<u>For the Year Ended December 31</u>	
	2018	2017
Associates	<u>\$ 82,826</u>	<u>\$ 70,074</u>

### d. Receivables from related parties

Line Items	Related Party Categories	<u>December 31</u>	
		2018	2017
Notes and accounts receivable	Associates	<u>\$ 4,261</u>	<u>\$ 1,603</u>

### e. Payables to related parties

Line Items	Related Party Categories	<u>December 31</u>	
		2018	2017
Accounts payable	Associates	<u>\$ 47,296</u>	<u>\$ 53,726</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 transactions with related parties

Line Items	Related Party Categories	For the Year Ended December 31	
		2018	2017
Service cost	Associates	<u>\$ 19,440</u>	<u>\$ 20,571</u>
Operating expenses	Associates	<u>\$ 1,764</u>	<u>\$ 99</u>

g. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 149,948	\$ 111,191
Post-employment benefits	<u>3,601</u>	<u>3,350</u>
	<u>\$ 153,549</u>	<u>\$ 114,541</u>

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

### 30. 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:

	December 31	
	2018	2017
Property, plant and equipment - buildings, net	\$ 212,693	\$ 221,999
Pledged time deposits - current (included in other receivables)	215,450	167,180
Pledged time deposits - non-current (included in other non-current assets)	54,487	51,421
The shares of the Corporation (Note)	<u>615,000</u>	<u>593,000</u>
	<u>\$ 1,097,630</u>	<u>\$ 1,033,600</u>

Note: Hanmore pledged 10,000 thousand shares of the Corporation as of December 31, 2018 and 2017, and it was eliminated on consolidation.

### 31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2018 and 2017 were as follows:

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

<b>December 31</b>	
<b>2018</b>	<b>2017</b>
<u>\$ 747</u>	<u>\$ 720</u>

- b. Outstanding sales contracts of the Group in the amount were as follows:

<b>December 31</b>	
<b>2018</b>	<b>2017</b>
<u>\$ 8,705,938</u>	<u>\$ 6,927,594</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, \$46,073 thousand, \$15,358 thousand, \$700,000 thousand, \$184,290 thousand, \$134,259 thousand and \$1,925,332 thousand, respectively. Ucom Shanghai provided endorsement for Systex China up to \$111,883 thousand. Systek provided endorsement for Systex China up to \$111,883 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, 2018, the Group’s assets in the trust account amounted to \$13,829 thousand (included in other receivables and other non-current assets).

- e. As of December 31, 2018, the Group had lease contracts for office premises, parking lots and warehouse with rentals paid monthly or annually, expiring between August 2019 and April 2025, and the refundable deposits for above lease contracts amounted to \$27,286 thousand (included in refundable deposits). Future rentals are as follows:

<b>Year</b>	<b>Amount</b>
2019	\$ 141,194
2020	96,924
2021	75,248
2022	46,630
2023	23,198
2024	7,137
2025	1,869

### 32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2018

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
RMB	\$ 27,135	4.48	\$ 121,439
USD	36,886	30.72	1,132,962
Non-monetary items			
Financial assets at fair value through profit or loss			
HKD	4,703	3.92	18,439
Investment accounted for using equity method			
RMB	130,820	4.48	585,461
USD	1,570	30.72	48,232
<u>Financial liabilities</u>			
Monetary item			
USD	9,808	30.72	301,239
RMB	77	4.48	343

December 31, 2017

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<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

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gains (losses) were \$(10,379) thousand and \$34,492 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.

### 33. 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>2018</u>							
Sales to customers	\$ 2,584,391	\$ 3,067,951	\$ 9,160,643	\$ 4,703,004	\$ -	\$ -	\$ 19,515,989
Sales to other segments	<u>294,520</u>	<u>175,637</u>	<u>983,889</u>	<u>569,657</u>	-	<u>(2,023,703)</u>	-
Total sales	<u>\$ 2,878,911</u>	<u>\$ 3,243,588</u>	<u>\$ 10,144,532</u>	<u>\$ 5,272,661</u>	<u>\$ -</u>	<u>\$ (2,023,703)</u>	<u>\$ 19,515,989</u>
Segment income	<u>\$ 349,508</u>	<u>\$ 351,394</u>	<u>\$ 403,401</u>	<u>\$ 52,429</u>	<u>\$ 462,921</u>	<u>\$ -</u>	\$ 1,619,653
Corporate general expenses							<u>(378,426)</u>
Income before income tax							<u>\$ 1,241,227</u>
Segment depreciation and amortization expenses	<u>\$ 31,685</u>	<u>\$ 27,659</u>	<u>\$ 26,057</u>	<u>\$ 22,276</u>	<u>\$ -</u>		\$ 107,677
Non-segment depreciation and amortization expenses							<u>29,102</u>
Total depreciation and amortization expenses							<u>\$ 136,779</u>
Segment assets	<u>\$ 2,648,943</u>	<u>\$ 2,184,709</u>	<u>\$ 4,202,137</u>	<u>\$ 2,834,162</u>	<u>\$ 7,265,414</u>		\$ 19,135,365
General assets							<u>844,098</u>
Total assets							<u>\$ 19,979,463</u>

(Continued)

	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>	-	(1,825,504)	-
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							(347,079)
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>

(Concluded)

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.

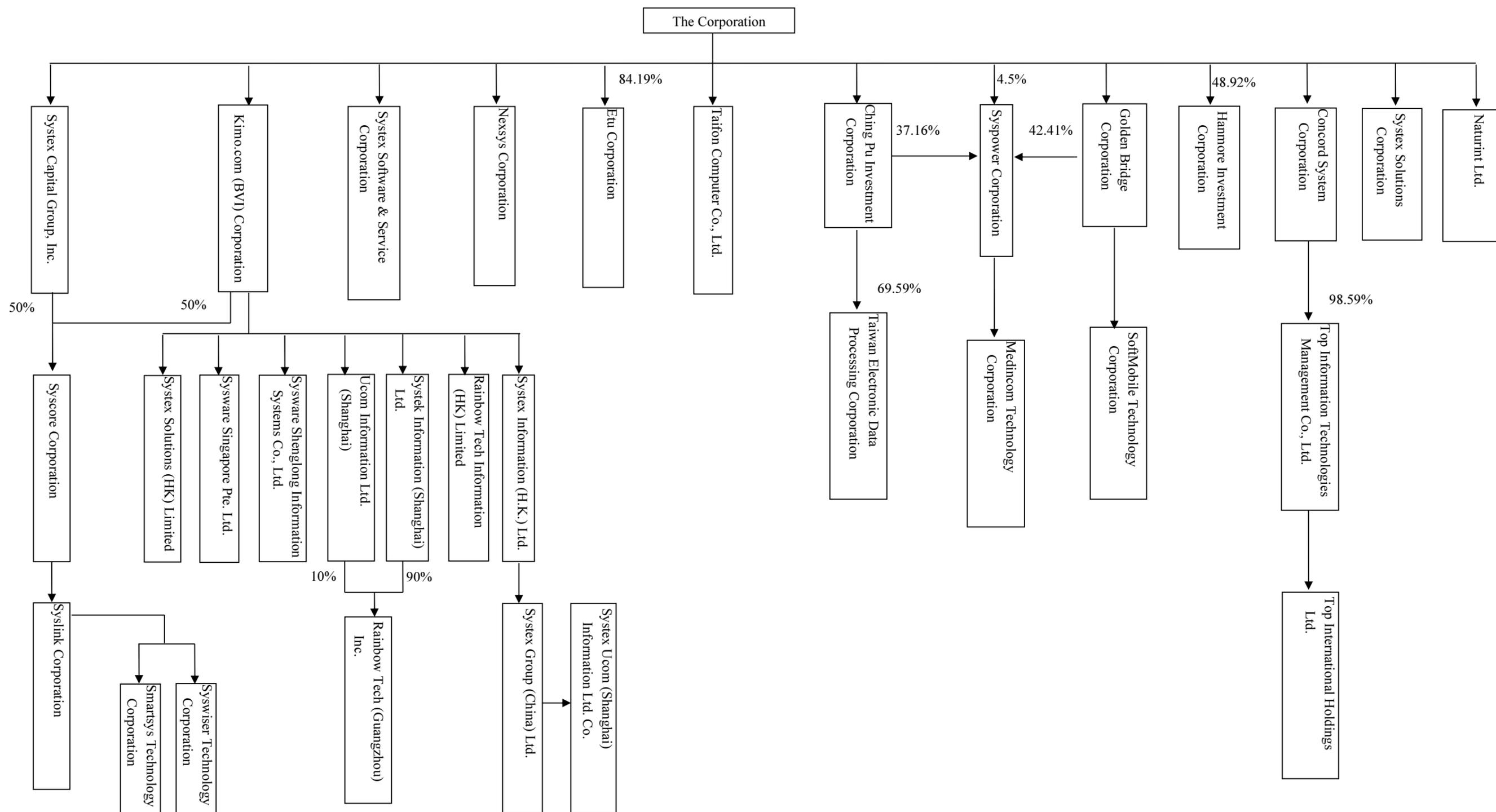
	Revenue from External Customers	
	2018	2017
Domestic	\$ 14,908,217	\$ 13,033,319
Asia	<u>4,607,772</u>	<u>3,840,960</u>
	<u>\$ 19,515,989</u>	<u>\$ 16,874,279</u>
	Non-current Assets December 31	
	2018	2017
Domestic	\$ 4,802,747	\$ 3,222,501
Asia	954,781	1,190,268
Others	<u>159,769</u>	<u>130,344</u>
	<u>\$ 5,917,297</u>	<u>\$ 4,543,113</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, 2018 and 2017.

SYSTEX CORPORATION AND SUBSIDIARIES

THE RELATIONSHIP AND PERCENTAGE OF OWNERSHIP OF COMPANIES IN THE GROUP  
DECEMBER 31, 2018



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	2018	2017	Difference	
			Amount	%
Current assets	14,062,166	14,821,057	(758,891)	(5.12)
Long-term investments	1,240,816	1,153,527	87,289	7.57
Fixed assets	1,913,330	1,940,525	(27,195)	(1.40)
Intangible assets	116,074	51,368	64,706	125.97
Other assets	2,647,077	1,397,693	1,249,384	89.39
Total assets	19,979,463	19,364,170	615,293	3.18
Current liabilities	6,492,370	6,766,494	(274,124)	(4.05)
Other liabilities	292,142	275,520	16,622	6.03
Total liabilities	6,784,512	7,042,014	(257,502)	(3.66)
Share capital	2,693,933	2,693,933	-	-
Capital surplus	6,729,035	7,363,072	(634,037)	(8.61)
Retained earnings	5,090,264	3,670,307	1,419,957	38.69
Other equity and Treasury shares	(1,387,471)	(1,456,956)	69,485	4.77
Total equity attributable to owners of the Corporation	13,125,761	12,270,356	855,405	6.97
Non-controlling interests	69,190	51,800	17,390	33.57
Total equity	13,194,951	12,322,156	872,795	7.08

Analysis of changes in financial ratios:

- Increase in Intangible assets by NT\$64,706 thousands mainly due to increase in Computer software by NT\$6,991 thousands, increase in Goodwill by NT\$26,703 thousands and increase in Other intangible assets by NT\$31,012 thousands.
- Increase in Other assets by NT\$1,249,384 thousands mainly due to increase in Financial assets at fair value through other comprehensive income - non-current.
- Increase in Retained earnings by NT\$1,419,957 thousands mainly due to increase in Legal reserve by NT\$117,775 thousands, increase in Special reserve by NT\$388,833 thousands and increase in Unappropriated earnings by NT\$913,349 thousands.
- Increase in Non-controlling interests by NT\$17,390 thousands mainly due to increase in profit from subsidiaries that non-100% own and increase in subsidiaries that non-100% own.

## VII. Review of Financial Conditions, Operating Results, and Risk Management

### 7.2 Analysis of Operating Results

Unit: NT\$ thousands

Item \ Year	2018		2017		Difference	
	Subtotal	Total	Subtotal	Total	Amount	%
Gross sales	19,556,369		16,960,462		2,595,907	15.31
Less: sales returns & allowances	40,380		86,183		(45,803)	(53.15)
Net sales		19,515,989		16,874,279	2,641,710	15.66
Cost of sales		14,481,778		12,340,551	2,141,227	17.35
Gross profit		5,034,211		4,533,728	500,483	11.04
Operating expenses		4,346,489		3,994,602	351,887	8.81
Operating income		687,722		539,126	148,596	27.56
Total non-operating income and expenses		553,505		761,034	(207,529)	(27.27)
Income before tax		1,241,227		1,300,160	(58,933)	(4.53)
Tax expense		191,055		127,042	64,013	50.39
Other comprehensive income (loss) for the year, net of income tax		37,855		(490,912)	458,767	108.99
Total comprehensive income for the year		1,088,027		752,206	335,821	44.64

#### 1. Analysis of changes in financial ratios:

- (1) Increase in Operating Income by NT\$148,596 thousands mainly due to increase in Gross profit.
- (2) Decrease in Non-operating income and expenses by NT\$207,529 thousands mainly due to decrease in Gain on financial assets at fair value through profit, net by NT\$321,613 thousands and increase in Gain on sale of investments, net by NT\$122,601 thousands.
- (3) Increase in Tax expense by NT\$64,013 thousands mainly due to increase in Current tax expense.
- (4) Increase in Other comprehensive income (loss) for the year, net of income tax by NT\$458,767 thousands mainly due to increase in Exchange differences on translating foreign operations by NT\$515,442 thousands and decrease in Share of the other comprehensive gain (loss) of associates accounted for using the equity method by NT\$64,665 thousands.

#### 2. Mainly reason of expected sales growing up in 2019:

In the face of different industries' needs to follow consumer behavior and undergo digital transformation, SYSTEX will assert leadership in the ecosystem, help companies use AI and other digital technologies to collect, analyze, and examine vast amounts of data, create data value, and adopt more macroscopic application strategies and decision-making, assisting corporate customers to create multi-faceted digital transformations for different industries, becoming the AI digital transformation partner for corporations.

## 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		
	2018	2017	Variance (%)
Cash Flow Ratio (%)	8.56	3.25	163.80
Cash Flow Adequacy Ratio (%)	51.06	50.89	0.35
Cash Reinvestment Ratio (%)	(4.85)	(7.73)	37.17

Analysis of changes in financial ratios:

- Increase in Cash Flow Ratio by 163.80% mainly due to increase in net cash generated from operating activities.
- Increase in Cash Reinvestment Ratio by 37.17% mainly due to increase in net cash generated from operating activities by 153% and increase in Long-term Investment by 58%.

#### 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
2,815,309	386,150	1,065,123	2,136,336	-	-

1. Analysis of change in cash flow in the current year:

Item	Cash Inflow (Outflow)		Variance		Remarks
	2018	2017	Amount	%	
Operating activities	\$ 555,955	\$ 219,643	\$ 336,312	153.12	(1)
Investing activities	446,877	242,036	204,841	84.63	(2)
Financing activities	(1,913,489)	(762,874)	(1,150,615)	(150.83)	(3)

(1) The Increase of NT\$336,312 thousands in 2018 was mainly due to the increase of NT\$321,613 thousands in Gain on financial assets at fair value through profit.

(2) The Increase of NT\$204,841 thousands in 2018 was mainly due to the increase of NT\$357,120 thousands in Proceeds on sale of financial assets at amortized cost, the decrease of NT\$110,012 thousands in Acquisition and Proceeds on sale of investments accounted for using equity method.

(3) The Decrease of NT\$1,150,615 thousands in 2018 was mainly due to the decrease of NT\$1,137,127 thousands in Short-term loans.

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 2018.

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) 2018	Policies	Reasons for Gain or Loss	Action Plan
Ching Pu Investment Corp.		617,262	(7,142)	Shareholding in other companies and reinvestment business	Losses in valuation of financial assets	To strengthen the management of investment
Golden Bridge Information Corp.		271,586	32,310	Shareholding in other companies and reinvestment business	Net profit from investment income recognized by the equity method	
Syscore Corp.		2,053,516	53,620	Shareholding in other companies and reinvestment business	Net profit from investment income from dividends of financial assets and recognized by the equity method	
Syslink Corp.		225,625	625	Shareholding in other companies and reinvestment business	Recognized profits from investments	
Systex Capital Group, Inc.		2,566,507	(46,759)	Shareholding in other companies and reinvestment business	Losses in valuation of financial assets	To strengthen the management of investment
Kimo.com (BVI) Corp.		3,760,715	432,262	Shareholding in other companies and reinvestment business	Recognized profits from investments	
Systex Solutions (HK) Ltd.		1,389,673	378,217	Shareholding in other companies and reinvestment business	Recognized profits from investments	
Concord System Management Corp.		310,457	32,268	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) 2018	Policies	Reasons for Gain or Loss	Action Plan
Top Information Technologies Co., Ltd.		162,638	18,941	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
Nexsys Corp.		328,189	49,216	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
System Software & Service Corp.		838,241	234,154	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
Taifon Computer Co., Ltd		239,361	(1,803)	Horizontal integration and vertical expansion in the industry	Losses in main business	Continued business integration and adjustment
System Solutions Corp.		306,693	43,967	Horizontal integration and vertical expansion in the industry	Revenue has reached economies of scale and generated profits for main business	
Syspower Corp. (Note 2)		374,606	58,208	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.		692,110	(12,130)	Developed overseas markets and distribution channels in Greater China	Recognized loss from investments	To strengthen the management of investment
System Information (Shanghai) Ltd.		267,234	22,342	Developed overseas markets and distribution channels in Greater China	After the business integration and adjustment, the operating conditions improved	
Ucom Information Ltd. (Shanghai)		139,339	4,168	Developed overseas markets and distribution channels in Greater China	After the business integration and adjustment, the operating conditions improved	
System Group (China) Ltd.		241,082	(6,255)	Developed overseas markets and distribution channels in Greater China	Losses in main business	Continued business integration and adjustment

## VII. Review of Financial Conditions, Operating Results, and Risk Management

Item	Remarks	Book Value (Note 1)	Net Income (Loss) 2018	Policies	Reasons for Gain or Loss	Action Plan
Systemex Rainbow Tech Inc.		228,803	17,495	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, 2018.

Note 2: Held directly and indirectly by the Company.

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
Crisis Management Team for Legal & Compliance Affair	Supervisor of Legal Division	1. Responsible for legal & compliance crisis management and control. 2. Affair: breach of contract, litigation, administrative sanction, trade secret, and serious fraud, Labor dispute etc.
Crisis Management Team for Disaster Response Affair	Supervisor of Human Resources Division	1. Responsible for disaster crisis management and control. 2. Affair: natural disaster, loss of asset, infrastructure failure, personal safety, and infectious disease etc.
Crisis Management Team for Business Continuity Affair	Supervisor of Business Unit	1. Responsible for business crisis management and control. 2. Affair: market upheaval, material breach of contract, loss of operating key resource, and computer facilities interruption etc.

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Crisis Management Team for Information Security & Personal Data Affair	Supervisor of Technology Development and Project management Division	1. Responsible for information security & personal data crisis management and control. 2. Affair: corporation information security, customer information security, test room failure, and breaches of personal data etc.
Crisis Management Team for Social Media Affair	Supervisor of Business Management Division and Spokesperson	1. Responsible for goodwill and corporate image crisis management and control. 2. Affair: negative reports from media, spread of negative comment on the internet etc.

### (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.
Technology Development & Project Management Division	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 Division	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.

### (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:

## VII. Review of Financial Conditions, Operating Results, and Risk Management

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).
Technology Development & Project Management Division	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 Division	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.

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

## VII. Review of Financial Conditions, Operating Results, and Risk Management

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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.

### 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 :

## VII. Review of Financial Conditions, Operating Results, and Risk Management

### (a) Interest rate

Unit: NT\$ thousands;%

Item \ Year	2017			2018		
	Amount	Percentage of Net Sales	Percentage of Profit from Operation	Amount	Percentage of Net Sales	Percentage of Profit from Operation
Interest income	48,528	0.29%	9.00%	40,237	0.21%	5.85%
Interest expense	32,359	0.19%	6.00%	30,513	0.16%	4.44%

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;%

Item \ Year	2017			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	34,492	0.20%	6.40%	(10,379)	(0.05%)	(1.51%)

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
Financial blockchain letter service with FISC	Planning	100	2019/06	Human Resources and Core Technology
Stock Picking Data export service	Planning	50	2019/06	Human Resources and Core Technology
Financial Working Station	Planning	80	2019/08	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	2019/08	Human Resources and Core Technology
eMIDST New Industry Overview	Planning	120	2019/10	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 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.

In response to the government's anti-money laundering and anti-terrorism policies, we will assist bank customers in building information systems and education training in compliance with relevant laws and regulations to build a comprehensive money laundering prevention network.

### E. Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

(a) 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.

(b) 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

## VII. Review of Financial Conditions, Operating Results, and Risk Management

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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.

(c) As for confidential data services, SYSTEX conducts risk assessments and relevant reviews every six months. For example, securities information services at computer facilities and bill printing services have been certified by ISO 27001. In 2018, risk assessments conducted in the previous years were adopted, and no high-risk items were found. Medium- and low-risk items were handled by relevant units in accordance with the determined control measures and adjustments and included in the follow-up tracking and reports.

### 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:

In 2018, invested NT\$150 million and acquired 98.59% interests of Top Information Technologies Co., Ltd. The main business of Top Information Technologies Co., Ltd. includes financial systems, commercial software and IT services. It is expected that the comprehensive effects of the investment in the company will include the open opportunities of the online banking business, the extension of the commercial software market, and the integration of IT business opportunities. After the investment, the existing service team and operation mode will be maintained. The Company also forms a work team to keep abreast of the progress of the work and the risks and benefits before and after the investment.

### 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, 2018

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	231,134 (Note1)	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	36,619	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.

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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.
Smartsys Technology Corp.	2018.04.18	Taipei, Taiwan	2,000	Design, installation, and maintenance of computer information and telecommunication construction, design and sales of computer system software.
Syswiser Technology Corp.	2018.04.18	Taipei, Taiwan	2,000	Design, installation, and maintenance of computer information and telecommunication construction, design and sales of computer system software.
Top Information Technologies Co., Ltd.	1980.11.18	Taipei, Taiwan	180,000	Sale of computer peripheral equipment and office machines, design of computer system and professional repairs services.
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.
Mendincom Technology Corp. (Note 2)	2009.03.06	Taipei, Taiwan	180,000	Wholesale and retail of medical equipment, retail of precision instruments etc.
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.

## VIII. Special Disclosure

Company	Date of Incorporation	Place of Registration	Share Capital	Business Activities
Systek Information (Shanghai) Ltd.	2000.11.27	Shanghai, China	USD16,300	Data processing services, IT supply services, IT software services, international trade.
Ucom Information Ltd. (Shanghai) (Note 3)	2003.03.26	Shanghai, China	USD14,800	IT software services, IT software wholesale, IT software retail.
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.
Systex 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.
Systex 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.
Systex Ucom (Shanghai) Information Co., Ltd.	2015.01.13	Shanghai, China	RMB2,000	IT software services, IT software wholesale, IT software retail.
Systex 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	600,000	General investment.

## VIII. Special Disclosure

Company	Date of Incorporation	Place of Registration	Share Capital	Business Activities
Golden Bridge Information Corp.	2011.08.25	Taipei, Taiwan	230,000	General investment.
Syscore Corp.	2017.10.25	Taipei, Taiwan	2,000,000	General investment.
Syslink Corp.	2018.03.29	Taipei, Taiwan	225,000	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.
Systex Capital Group, Inc.	2000.02.23	British Virgin Islands	USD4	Financial trust, shareholding and other investment businesses.
Systex Solutions (HK) Ltd.	2011.10.03	Hong Kong	HKD 136,000	Financial trust, shareholding and other investment businesses.
Top International Holdings Ltd. (Note 4)	1996.06.14	British Virgin Islands	USD3,350	General investment.

Note 1: Capital increased by retained earnings of NT\$28,917 thousands in March, 2019 and after the capital increased, the share capital is NT\$231,134 thousands.

Note 2: Merged by Syspower Corp. and dissolved on 31 January, 2019.

Note 3: The Board of SYSTEX on March 22, 2018 approved the merger of Ucom Information Ltd. (Shanghai) and Systek Information (Shanghai) Ltd., and Ucom Information Ltd. (Shanghai) is the dissolved company and Systek Information (Shanghai) Ltd. is the surviving company. The merger process is still in progress.

Note 4: Liquidation on 22 January, 2019.

## VIII. Special Disclosure

8.1.2 SYSTEX's Subsidiaries Chart (December 31, 2018): Please refer to page 174.

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, 2018

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	3,661,875	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		
Smartsys Technology Corp.	Chairman	Syslink Corp. Rep.: Lin, Lung-Fen	200,000	100.00%
	Director	Syslink Corp. Rep.: Liu, Kuan-Lin		
	Director	Syslink Corp. Rep.: Lin, Cheng-hsuan		
	Supervisor	Syslink Corp. Rep.: Cheng, Yuan-Yih		
Syswiser Technology Corp	Chairman	Syslink Corp. Rep.: Lin, Lung-Fen	200,000	100.00%
	Director	Syslink Corp. Rep.: Liu, Kuan-Lin		
	Director	Syslink Corp. Rep.: Chan, Yi-Cheng		
	Supervisor	Syslink Corp. Rep.: Cheng, Yuan-Yih		
Top Information Technologies Co., Ltd.	Chairman	Concord System Management Corp. Rep.: Fan, Jee-Der	17,816,000	98.98%

## VIII. Special Disclosure

(Note 1)	Director & President	Concord System Management Corp. Rep.: Tao, Ya-Kuang		
	Director	Concord System Management Corp. Rep.: Liu, Kuan-Lin		
	Supervisor	Cheng, Yuan-Yih	-	-
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%
Mendincom Technology Corp. (Note 2)	Chairman	Syspower Corp. Rep.: Lin, Lung-Fen	18,000,000	100.00%
	Director	Syspower Corp. Rep.: Chung, Chih-Chun		
	Director	Syspower Corp. Rep.: Fan, Jee-Der		
	Supervisor	Syspower Corp. Rep.: Cheng, Yuan-Yih		
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		
	Director	Ching Pu Investment Corp. Rep.: Cheng, Yuan-Yih		
	Supervisor	Chung, Chih-Chun	-	-
	President	Chen, Kuo-Chen	-	-
Systek 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		

## VIII. Special Disclosure

	Supervisor	Kimo.com (BVI) Corp. Rep.: Lin, Wen-Chou		
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		
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	-	-
Systex Group (China) Ltd. (Note 3)	Executive Director	Systex Information (H.K.) Ltd. Rep.: Lin, Wen-Chou	(Investment) USD10,000,000	100.00%
	Supervisor	Systex Information (H.K.) Ltd. Rep.: Chang, Mei-Yi		
Systex Rainbow Tech Inc.	Chairman	Systek Information (Shanghai) Ltd. Rep.: Cheng, Deng-Yuan	(Investment) RMB45,000,000	90.00%
	Director & President	Systek 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%
	Supervisor	Systex Group (China) Ltd. Rep.: Zhong, Qian-Fen		
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.	Director	Kimo.com (BVI) Corp. Rep.: Cheng, Deng-Yuan	2,000,000	100.00%

## VIII. Special Disclosure

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	60,000,000	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		
	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	100,000,000	50.00%
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Lung-Fen		
	Director	Kimo.com (BVI) Corp. Rep.: Lin, Pei-Fen		
	Supervisor	Systex Capital Group, Inc. Rep.: Cheng, Yuan-Yih	100,000,000	50.00%
Syslink Corp.	Chairman	Syscore Corp. Rep.: Lin, Lung-Fen	22,500,000	100.00%
	Director	Syscore Corp. Rep.: Liu, Kuan-Lin		
	Director	Syscore Corp. Rep.: Tang, Yin-Soon		
	Supervisor	Syscore Corp. Rep.: Chung, Chih-Chun		
Hanmore Investment Corp.	Chairman & President	Joray Co., Ltd. Rep.: Wu, Cheng-Huan	18,768	0.10%
	Director	Joray Co., Ltd. Rep.: Lin, Chih-Min		

## VIII. Special Disclosure

	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		
Systex Capital Group, Inc.	Director	SYSTEX Corp. Rep.: Huang, Tsong-Jen	3,550	100.00%
	Director	SYSTEX Corp. Rep.: Lin, Lung-Fen		
Systex 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		
Top International Holdings Ltd. (Note 4)	Director	Top Information Technologies Co., Ltd. Rep.: Wu, Ba-Shan	3,350,000	100.00%

Note 1: Be elected on April 26, 2019 and increased acquired 70,000 shares on April 29, 2019.

Note 2: Merged by Syspower Corp. and dissolved on 31 January, 2019.

Note 3: Be assigned at May 13, 2019.

Note 4: Liquidation on 22 January, 2019.

## VIII. Special Disclosure

### 8.1.5 Operational Highlights of SYSTEX's Subsidiaries

Unit: NT\$ thousands, except EPS (\$) As of December 31, 2018

Company	Share Capital	Assets	Liabilities	Net Book Value	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	EPS
Taifon Computer Co., Ltd	200,000	454,574	213,008	241,566	575,915	(3,733)	(1,803)	(0.09)
Systex Solutions Corp.	260,000	791,509	484,095	307,414	1,425,425	54,212	43,967	1.69
Concord System Management Corp.	202,217	648,091	336,438	311,653	713,450	22,962	32,268	1.60
Systex Software & Service Corp.	544,500	2,367,776	1,524,766	843,010	5,906,061	291,308	234,154	4.30
SoftMobile Technology Corp.	36,619	68,121	20,308	47,813	91,199	10,172	7,708	2.10
Nexsys Corp.	199,950	404,802	76,592	328,210	358,185	60,545	49,216	2.46
Naturint Ltd.	20,000	23,878	2,220	21,658	10,200	1,653	1,380	0.69
Smartsys Technology Corp. (Note 1)	2,000	2,077	63	2,014	0	(171)	14	0.07
Syswiser Technology Corp (Note 1)	2,000	2,042	50	1,992	0	(193)	(8)	(0.04)
Top Information Technologies Co., Ltd.	180,000	507,448	387,950	119,498	935,979	15,489	18,941	1.05
ETU Corp.	115,000	6,684	257	6,427	246	(683)	(661)	(0.06)
Syspower Corp.	200,000	576,255	128,740	447,515	528,331	64,343	58,208	2.91
Mendincom Technology Corp.	180,000	169,923	148,943	20,980	128,799	(14,445)	(15,770)	(0.88)
Taiwan Electronic Data Processing Corp.	258,537	55,886	1,505	54,381	1,416	(3,485)	(18,622)	(0.72)
Systek Information (Shanghai) Ltd.	568,684	366,257	99,024	267,233	86,985	(4,033)	22,342	-
Ucom Information Ltd. (Shanghai)	507,466	143,313	3,975	139,338	52,497	2,160	4,168	-

## VIII. Special Disclosure

Company	Share Capital	Assets	Liabilities	Net Book Value	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	EPS
Sysware Shenglong Information Systems Co., Ltd.	169,600	65,957	10,029	55,928	53,163	13,783	14,492	-
Systex Group (China) Ltd.	287,170	1,298,90	1,057,826	241,081	2,440,835	528	(6,255)	-
Systex Rainbow Tech Inc.	227,725	651,936	423,632	228,304	1,031,051	15,396	17,495	-
Systex Ucom (Shanghai) Information Co., Ltd.	9,109	118,110	108,896	9,214	443,623	(806)	(2,459)	-
Systex Information (H.K.) Ltd.	603,212	916,894	224,783	692,111	1,080,335	10,462	(12,130)	-
Ranibow Tech Information (HK) Ltd.	7,614	20,176	3,575	16,601	88,062	7,421	6,205	-
Sysware Singapore Pte. Ltd.	61,638	6,347	34,834	(28,487)	(545)	(1,344)	(1,993)	-
Ching Pu Investment Corp.	600,000	1,428,082	8,225	1,419,857	0	(503)	(7,142)	(0.12)
Golden Bridge Information Corp.	230,000	272,481	181	272,300	0	(151)	32,310	1.40
Syscore Corp.	2,000,000	2,059,953	6,436	2,053,517	0	(4,375)	53,620	0.27
Syslink Corp. (Note 2)	225,000	225,689	64	225,625	0	(174)	625	0.03
Hanmore Investment Corp.	197,065	1,342,281	73,065	1,269,216	0	(3,734)	43,645	2.21
Kimo.com (BVI) Corp.	848,160	3,767,223	3,683	3,763,540	0	(8,462)	432,262	-
Systex Capital Group, Inc.	106	2,568,569	407	2,568,162	0	(534)	(46,759)	-
Systex Solutions (HK) Ltd.	517,752	1,392,047	2,374	1,389,673	0	(279)	378,217	-
Top International Holdings Ltd.	102,895	1,796	0	1,796	0	(34)	616	-

Note 1: Incorporated on April 18, 2018.

Note 2: Incorporated on March 29, 2018.

## VIII. Special Disclosure

8.1.6 Subsidiaries' Consolidated Financial Statements: Please refer to pages 101-174.

8.2 Private Placement Securities in the Most Recent Years: N/A

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	N/A	48.9%	-	-	-	-	21,316,678 shares NT\$1,447,402 thousands	10 million shares (Note 2)	-	-
Ching Pu Investment Corp.	NT\$ 600,000 thousands	N/A	100.0%	2019.03.08 I 2019.05.13	-	985,000 shares NT\$67,120 thousands	NT\$43,865 thousands (Note 3)	11,996,476 shares NT\$814,561 thousands	-	-	-

Note 1: The amount held is the fair market value as of March 31, 2019.

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.

Note 3: Investment Gain (Loss) didn't include "Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income" as the disposal of the parent company's shares is transferred to "Accumulated profit (loss)" of NT\$2,249 thousands.

8.4 Other Necessary Supplement: None.

8.5 Any Events in 2018 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**

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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.

